The Economic Club of New York

116th Year
703rd Meeting

Lee Ainslie
Founder and Managing Partner
Maverick Capital

April 18, 2023

In-Person/Hybrid Event

Moderator: Nick Timiraos
Chief Economic Reporter
The Wall Street Journal

Introduction

President Barbara Van Allen

This is the 703rd meeting of The Economic Club of New York, and I'm Barbara Van Allen, President and CEO of the Club. The Economic Club of New York has been recognized as the nation's leading nonpartisan platform for discussions on social, economic, and political issues for more than a century. So it's wonderful to be here today continuing that tradition.

I'd like to extend a warm welcome to students from Rutgers University, Columbia Business School, the Gabelli School of Business at Fordham, who are joining us virtually today. We also have some members of the largest-ever class of 2023 ECNY Fellows – a select group of diverse rising, next-gen business thought leaders.

I'm really honored to welcome our special guest today, fellow member and Club Trustee, Lee Ainslie. Lee is the Founder and Managing Partner of Maverick Capital. Before founding Maverick in 1993, Lee was Managing Director at Tiger Management. In addition to serving on our board, he serves on the boards of the Robin Hood Foundation, the New York-Presbyterian Hospital, the Episcopal High School in Alexandria, Virginia, and on the Executive Committee of the Partnership for New York City.

He received a B.S. in Systems Engineering from the University of Virginia where he was a Westmoreland Davis Scholar and Thomas Pinckney Bryan, Jr. Scholar. And his MBA is from the University of North Carolina, my alma mater, and he was a Beta Gamma Sigma member.

The format today will be a conversation in which we're delighted to have Chief Economic Reporter for *The Wall Street Journal*, Nick Timiraos, doing the honors of moderating. As a reminder, this conversation is on the record. We do have media on the line and in the room. Nick, if you're ready, the mike is yours, if you could just come forward. Thanks.

Conversation with Lee Ainslie

NICK TIMIRAOS: Well, thank you all for joining us today. Lee, thanks for being here. I guess maybe the place to start is if you look back over the last 10,15 years, what have been, in your view, the most notable changes in the hedge fund industry? You know, if you were sitting here 10, 15 years ago, things you wouldn't imagine, things that have caught you by surprise.

LEE AINSLIE: Well, I'll answer from the perspective of long/short equities. That's what Maverick Capital has primarily focused on over the years. And now, of course, hedge

funds represent a lot of different investment strategies. But if you think about the world today versus 15 years ago, 15 years ago really being the midst of the financial crisis, at that point in time most long/short funds were rather concentrated, maintained relatively low levels of exposure, and indeed got through the financial crisis, still many losing money for the first time – it was the first time in our history – and yet doing a much better job of preserving capital than the mortgages did.

Well, you compare that to last year, most fundamental long/short funds actually performed worse than the S&P. Now some of that is due to some structural reasons, energy being the best performing sector, most long/short funds not having a lot of exposure to commodities including energy. Growth and quality were the two worst performing factors. Most fundamental funds tend to gravitate towards stocks that represent growth and quality.

But I think, most importantly, most long/short funds, a lesson since '09, thank you to the Fed, is to not be short, and to have higher and higher levels of net exposure, to have short exposure achieved through ETFs and index mechanisms as opposed to individual stocks. There is an exclamation point put on how hard it is to short individual stocks in January of '21. And so I think, as we walked into the challenging period last year, most fundamental long/short funds were simply not prepared for that type of environment and it showed in their performance.

And the other big change since that time is the rise of the POD model, one being Citadel, where they have many, many different investors investing in a rather limited way in terms of types of risks they're allowed to take, lever that up pretty substantially, run a center book, etc. and that's generated very steady returns, albeit not very exciting returns.

And it will be interesting to see in a world where you can get yield in a lot of different ways how those returns, especially because they're rather tax-inefficient, compare and therefore how that model does in the world today. But it's been an interesting period of time without question.

NICK TIMIRAOS: So let me go back a little bit. There's a story that you got into investing when you were in the eighth grade joining a high school investment club. People have talked about that as your start in this business. How did that come about?

LEE AINSLIE: So my father was the head of a school in Virginia, which interestingly enough, my brother now runs that school as the head. And back then it was a 7th grade to 12th grade school. Now it's 9th through 12th. There was an investment club that was being formed for the high school. As I became attuned to that, I asked if I could participate and they let me do so. And that was really my introduction to stocks. Again, my father was an educator. And even back then, I really found it to be interesting, fun,

informative, and so I kept a paper portfolio from 8th grade all the way through until I finally got through business school and paid off my loans from the first time I had an actual account. But I had probably more than a decade of trying to trade on paper.

NICK TIMIRAOS: But you got your degree in college in engineering, so how did you end up, how did you get pulled into finance?

LEE AINSLIE: I think about halfway through my second year of college, what I recognized about engineering is I did not want to be one. And yet at this point I was already committed to that path; it would have been hard to change my major. And so I did a minor in management in what they used to call MIS, Management Information Systems. That's a term that's faded by the wayside over the years.

And then my first job was as a consultant. And I was working in a firm that grew through acquisitions in that period of time. I ended up working a lot of those deals and that was my introduction to finance. Got to business school, was asked to work with the board on a couple of things. Julian Robertson was on the board and he and I got to know each other through that. And we used to talk about stocks a lot. Again, at the time, I still had a very active paper portfolio, and I recognized, you know, this is sort of like talking about basketball to Michael Jordan. This was just an unusually wonderful opportunity.

And I had accepted a job to go to Goldman Sachs and a week later Julian asked if I would think about going to Tiger instead. And at the time, Tiger managed $470 million and had a handful of employees so it was sort of a different world, but again the thought that someone was going to pay me to do my hobby was pretty exciting.

NICK TIMIRAOS: And so you were there for three years, and you left in 1993 to start Maverick. I imagine that it was difficult to leave but walk me through that. They tried to talk you out of it. You decided to stay. How did that go?

LEE AINSLIE: Oh, in between getting really mad at me and trying to get me to stay, it was an interesting back-and-forth there for about a week. But I had no intention of leaving. I was treated extraordinarily well. And there was a group that wanted to start a new fund and approached me to lead that effort and I said no two or three times. And every time I said no, they came back with something that was more attractive. And I did finally conclude that the odds of someone really having the complete discretion and having a portfolio and a track record that they took ownership of, at Tiger was never really going to happen, that's just not the way. Julian made every final decision. By the way, he was pretty good at making those final decisions so there wasn't a lot of motivation to change that model.

And I had some trepidation. It was pretty clear to me I was not really prepared to take

on that kind of responsibility, but the more I thought it through, I concluded, but wait a minute, two, three, four, five years from now, when you do want to take on this challenge, the odds of finding something as attractive as these folks are putting together for you is going to be really slim. And so I made the decision to make that change and had some interesting interaction with Julian at the time and we weren't on very friendly terms for a few years. But by the late 90s, probably '97, '98, Julian very calmly reached out and we started spending a lot of time together and once again became very close.

NICK TIMIRAOS: So shifting gears, Maverick has done a lot in tech. Over the last 20 years, there was a view that software is king, hardware was a commodity, not as much room for value-add. And the question here is about AI. How does AI change this picture? How does it fit into this picture? Does it change that narrative? Does it reinforce that narrative?

LEE AINSLIE: So you're correct, it really has been a lesson over the last 30 years, I would argue, in technology investment that software is king. And there were a few drivers of that. One, switching costs. If I walked into Maverick tomorrow and said, hey, we're not going to use Excel anymore, we're going to use Google Spreadsheet. People would be up in arms. They would have no idea how to use Google Spreadsheet. Network effect, the reason Facebook made it and MySpace didn't is because of that network effect. And then, of course, just in terms of the capital that needs to be

deployed relative to hardware. Software is just a far more efficient model. So the value-add has been in software for a very long time, and I do believe that AI is going to flip that around for the first time in my investment career.

NICK TIMIRAOS: What do you mean by that?

LEE AINSLIE: So right now, OpenAI has gotten obviously a lot of the press, but there are actually five different private companies that do have their own models that are, we've actually spent time with each of the five. And even the ones you haven't heard of are really quite impressive. They're not where OpenAI is, but they're not too far behind. And of course, in addition to that, you have Google, which has gotten a lot of press. Meta has two different models. Huawei has a model. Nvidia has a model. Amazon and Apple probably do. They haven't really said anything about it. So there a lot of these efforts.

And what's quite clear is the constraining factor in developing these further is computing power. OpenAI thinks it will use ten times the computing power in 2024 than they used in 2022, and that's just to develop the models. To use the models, so if you get to the point where customers are now buying Tweet, a customized, specialized version of these models to do different tasks, that will also take a huge demand.

And it was telling, Microsoft – this was probably like about three months ago – announced internally that they were going to ration time on their AI efforts because they simply didn't have the capacity to meet the demand just internally. Right now, Nvidia has a rather significant lead in the type of computing, their GPUs, that is required to do these types of computational tasks in a very efficient way. AMB has an effort which is pretty far behind and yet the demand is so great they also are starting to see a pretty significant tailwind.

And so I think at least for the next several years, that's going to be problematic. That's going to be where the value-add really is because some of those drivers to the value-add being driven by software changes this world. So switching costs, well, you can talk to one of these just as easily as you can talk to the next one. There's no training involved. Network effect, there's some network effect, but even versions that are pretty far behind OpenAI, for most tasks you would not be able to tell the difference. So in this world, actually maybe being 80% is good, it's good enough, because it's still pretty amazing.

And so I really think it's going to be more challenging over time to drive a lot of value through the software. And we've known Sam Altman for a very long time, we were an investor in his first startup, Loopt, and we were one of the early partners of Y Combinator. They ran for a while. So we've looked at OpenAI for years. And they also

have sort of a strange, because it started as a nonprofit obviously and they've tried to find this blend of being a nonprofit and yet get enough funding from Microsoft and others that are for-profit. But they have a very, as part of that, a very strange return on capital model where as an investor you participate in distributions of profits but nothing else. And so the enterprise value actually is not even relevant to you.

But anyway, so we ended up not investing in OpenAI, but in part because we concluded there were going to be a lot of really successful approaches and it was going to be more challenging for one to be so dramatically better and the other gold standard that I think is going to be around is technology tends towards standards. There's a reason that everyone uses Excel, the reason everyone uses Google, and I think that gets changed a bit as well just because the differentials between the different efforts are going to be difficult for most people to even detect for most tasks.

NICK TIMIRAOS: So what differentiates one platform or one of these AIs from the other if they're going to be...what's the value-add if you don't have the one that's the farthest along?

LEE AINSLIE: We actually spent some time looking at playing with ChatGPT-4 as well, and I will say the difference is remarkable. Now it was trained on 80 times as much data or inputs so it should be better. But as has been widely reported, ChatGPT-3 will make

some mistakes from time to time. In our experience, it happens much less often. It's a little less robotic if you play with Chat-GPT-3. Most responses start with some form of, while it's difficult to render an opinion, here's what some people think, here's what other people think. ChatGPT reads a whole less stilted.

Having said that, if I were a high school student trying to get my homework done through AI, the answer from ChatGPT-3 is going to be really good. It's going to be good enough. And so again I think the differences between the best efforts and the B efforts are going to be small enough that most people who are, you know, not if you're trying to decode a protein, but if you're trying to write a song in the style of Taylor Swift, they're both going to do a very good job.

NICK TIMIRAOS: So are these tools going to come for white collar jobs? Will there be applications for finance? I mean how can a hedge fund harvest some of this computer brain power?

LEE AINSLIE: So I'll give you a couple of quotes that made me think, and these are paraphrasing. These aren't exact. Henry Kissinger called AI the most important innovation in human thought since the printing press. The CEO of Google said he believes over time AI will become regarded as more important to human evolution than fire or electricity. So these are, you know, if that's even partially true, those are powerful

statements. And to your point, it really, in my lifetime at least, is the first job destroyer of white-collar jobs and will impact finance. It will impact everything.

I was actually at a dinner last night, and the founder of, Rob ___ happened to be there as well, and he wants to get a committee together with the board to figure out how we're going to use AI. Should it be writing grant proposals? Should it be reviewing grant proposals? You know, how do we, and I think for most things we're all thinking about for the next several years, there actually will be a productivity gain, it will make people more efficient. So, arguably, the lowest hanging fruit is coding and there are certain types of structures that you need and codes that are used consistently repeatedly that now they can just pull down and have AI write them for them. So does that mean those jobs go away? Eventually. But right now most major corporations have development backlogs of six months up to even like three years sometimes you hear. And so those programmers are going to be far more efficient using AI tools.

Likewise, I have a friend who is a realtor and she uses AI now to write the description. It's a four-bedroom house with great light....and she'll take that description and tweak and edit it. But she told me she used to spend an hour or two writing these things herself. Now it takes her about 10, 15 minutes. So I think initially we'll see throughout many different industries just a huge, I mean if you're a radiologist, you're going to get a screen saying the computer thinks there's a 93% chance it's this, a 4% chance it's that.

And you're going to look at it and go, okay, check, right, next. And so you'll get, I'm making these numbers up, but you'll review a radiology photograph every ten minutes instead of every half hour.

So I think in almost every industry the initial impact will be a huge pickup in productivity, but at some point – it'll be different obviously for different roles – there will be a tipping point where, wait a minute, we don't need any more productivity, my development backlog is zero. And actually now I just need less coders. And again I think we start to get to that point at different times in different industries, but the skill sets, and frankly, I'll be certainly retired and probably dead by the time this really happens, but my children won't be. I have a 27-year-old and a 24-year-old. In the middle of their careers, whatever, they do two very different things, but each of them are going to have to use AI as a tool and have strong critical thinking skills, be able to use some human creativity. But if you're a paralegal or you write for a newspaper about last night's game, you are unlikely to have a job. And so that's the world that the younger generation is going to have to adjust to.

NICK TIMIRAOS: That's really confidence-inspiring. I cover the Federal Reserve and we're always reading...yes, the computers can't figure out the FOMC. The FOMC statement comes out at 2:00 and they all just run it through ChatGPT and analyze if this is a hawkish or dovish Fed statement. So I have a few years to figure out what comes

after that replacement.

You know, 20 years ago there was a lot of excitement around alternative data, data scraping, you know, Big Data, that would allow you to have a more timely and accurate read on sectors of the economy, different industries that weren't available. And I assume this has gotten better over time. Are there techniques you've been able to use, alternative data sources that you've found have actually provided some sort of leg up that wasn't available ten years ago?

LEE AINSLIE: Yes and no. So to put it in perspective, as you mentioned earlier, between engineering, I actually kind of worked my way through college by building systems for small businesses and so I was always comfortable with the data-driven approach, even though we're known, and rightfully so, as a fundamentally-oriented investor. Back in 2006, we started a quantitative research effort initially just to support that fundamental effort and try to make us more efficient, more consistent, recognize discrepancies in our views and what a traditional quant approach would suggest. But that prepared us pretty well for the world of alternative data and went down that path starting in 2015.

And at first, it was incredibly productive. Really up to about the middle of 2018, something changed. And the something, I would guess, is D.E. Schaw, Two Sigma,

Renaissance, etc. started focusing on some of the things we had already been doing. So initially I think we had a lead because we were taking a very fundamental approach to these data sets and trying to put forth the economic hypothesis and seeing if we could prove those, if they were relevant to stock prices, etc.

And so today it's a bit of a mixed, you know, pros and cons, in that the amount of data, we now look at things that touch every industry. I mean forever people thought of it as is retail going to beat or miss the quarter judging by credit card data and how much of their business is credit card, etc. That stuff is almost of no value because it's so easy to do it. But now we have data sets that touch upon every single industry in which we invest and increasingly are helping us understand margin structures as well, not just from new trends. So that's good and that, I would argue, helps us reduce our fundamental mistakes. But at one point in time we could use those as alpha signals early, create around those.

And again, AI again is I'm sure impacting us, or machine learning. Those alpha signals are more muted than they used to be. Even if you get the fundamentals right, by the time you get it right, it has already been absorbed into the stock price. So I mean we're talking about minutes when a data point that's released, how quickly it is reflected in the stock price. So it's really hard to take advantage of it from that perspective.

NICK TIMIRAOS: So earlier on you were talking about last year being a tough year for long/short, and I realize Maverick, you're not a macro fund, you don't have to have a view about what core inflation is going to be at the end of this year. But nevertheless, a lot of questions right now around financial conditions, the big bank stress event after the two runs, the two mid-sized bank failures last month. How meaningful do you think this is all going to be for the economic expansion this year?

LEE AINSLIE: So I was chatting with someone before we walked in, and I'm going to preface this with I am not uber-bearish, but it's going to sound like I am. You know, net exposure at long/short funds right now is the lowest it's been in years. Other market indicators are about as overly bearish as they can be, which is in part why I think over the last month, the market actually performed fairly well in the face of a lot of tough news. I think it's really, and to your point, this is not really what we do, we actually maintain rather conservative exposure so that data doesn't play a big role in our return streams.

But having said that, I think it's probably the most challenging time I can recall in that there's so many different cross-currents that all are important, all are at work at the same time. So going back to some of the issues you raised, so right now, or as of yesterday, the market was giving an 88% chance that we'd raise a quarter point in May and over 50% chance there would be a 50-basis point reduction from there by the end

of the year. We'll see how that plays out.

So on the one hand, we have the view that inflation is going to be a little stickier than people realize. Certainly Covid, Ukraine, Russia put the pedal to the metal on inflation and we poured our fiscal response to those issues. But even once that calms down, as is already happening, my thinking is that the baseline inflation underneath all this has actually continued to march upwards. Decarbonization, deglobalization, people miss, just the aging of our population, the active workforce is shrinking. That's part of wage inflation. And so I do think particularly wage inflation maybe a little stickier.

On the other hand, I feel that people are underestimating the longer-term impact of the banking – I won't call it crisis, but stressful events. So in March, you had $178 billion come out of regional banks and $100 billion go into the major banks and 78 realized, wait a minute, I can have a money market fund and earn a pretty good yield and not have these rates. But that seems to have calmed down over the last couple of weeks. Actually the regional banks have had inflows, probably related to tax refunds. But I think people are sort of feeling, okay, well, we got through that and that's behind me, let's not worry about it.

In reality, I would argue the response from all that works on a delayed mechanism. So all that money that flowed from regionals, well, first all, the money left the banking

system altogether, so it's not going to be available to the economy in terms of loans. Secondly, the capital that went from regionals to the big banks, well, the big banks used their balance sheets far less aggressively. They make loans on far more conservative terms. And then even the regional banks, whether it happens through regulation, which I think is likely to some degree, or happens just through the recognition of, wow, I need to run my balance sheet in a far more conservative, thoughtful manner than I used to, either way, that capital is going to be used in a far less aggressive way.

So I do think there's sort of this long-term contraction driven by what's happening in the banking system, and part of my concern is, and the Fed can't really control that. They can't control fiscal policy. So their one tool of monetary policy has become a smaller part of the overall equation and, therefore, the odds of, you know, a soft landing, I don't think are tiny, but are certainly shrinking. So again, as we put this all together, we're pretty happy that we don't need to be too dependent upon data just because I think there are some really challenging cross-currents to understand.

NICK TIMIRAOS: So the Fed wants to slow the economy down when they raise rates, but I compare it to hitting the glass ketchup bottle. You keep hitting it, nothing comes out. And then you hit it that one time and everything comes out. Is there any hope, do you think, you mentioned a soft landing, of achieving a meaningful disinflation without a recession? I mean if wage growth is sticky, if companies have rediscovered pricing

power, do you have to scare them into preserving market share with a downturn?

LEE AINSLIE: Yes. I would argue the odds are very low. I mean it could happen, but as you just said, the tackiness of the tools the Fed has at their disposal is shrinking. To really get, and again given what I just discussed and the underlying currents that will be driving inflation higher, really to get it to the point that's anywhere near their targets is really challenging when you see that happens without a recession.

And one of the challenges, you know, we started with comparing today to 15 years ago, and I think Maverick is pretty typical, the vast, vast majority of our investment team is under the age of 40. And so they have not lived through inflation, they haven't lived through higher rates, haven't lived through a recession. They think, you know, the stock market decline over the past year has been this amazing once in a lifetime thing. Well, to put it in perspective, from peak to trough, Nasdaq was down 35%, S&P down 25%. Well, '00 to '02, Nasdaq was down 83%. And in the financial crisis, the S&P was down 57%. So what they view as this, you know, once in a lifetime really challenging period, they don't get it.

So at Maverick, myself and some of the other old guys are spending a lot of time trying to make sure people really think through the persistent higher rates and what that does to multiples, think through what a recession can do to earnings, revenues of different

businesses. There is no such thing as a recession-proof company. Maybe a recession-resistant. But I think you're seeing that play out across most fundamentally-oriented firms where they just don't have a historical context that would help them during this period of time.

NICK TIMIRAOS: So we've had 15 years of fairly, of historically low interest rates. And notably, I think, in 2020 and 2021, the message was maybe getting through, the Fed was saying they thought interest rates would be lower for longer, that the neutral rate of interest had declined. And so I wonder, to what extent were financial decisions, business decisions made based, predicated on this idea that, you know, short-term rates would maybe top out at 3%, but that we wouldn't see something like high 4s, now 5%, and that we wouldn't stay there for very long if we got there? Are there, you know, what parts of the economy or the financial system do you worry about if we're actually going to be in a higher for longer interest rate environment or a more volatile interest rate environment?

LEE AINSLIE: I think both would probably be the case. So, you know, Silicon Valley Bank was really the headline event of a management team that clearly was not thinking through the ramifications of a very different rate environment. And I think we're much more in the mentality of making sure they meet all the regulatory requirements. Yes, we did, okay, we're good. And indeed they were not. And I do think that's been a wake-up

call to different industries.

It's also very interesting as you get into the private side, you can now see in hindsight certain firms recognize, wait a minute, I could raise this much money at this valuation. That's essentially free money. Yes, let's raise as much as we can. And certain firms, oh, I don't really need the capital, I don't want to loot people, and we'll wait until we need the capital. And that second group is regretting some of those decisions since you look at private companies today, they're sort of the haves and have-nots.

Companies that raise enough money that they won't need, you know, they're burning cash at a rate that they don't need to raise money for, in some cases up to like three years. And then you have others that are recognizing, wait a minute, I'm going to have to raise money, and even though these valuations are far below anything I would have imagined a year or two years ago, I have no choice. I need to raise more capital. And so in that world, you're really seeing this dichotomy. But I think for the larger firms, you know, larger corporations, many more are taking advantage of cheap financing, recognizing that would probably not persist.

Now, I think most people are surprised of where we are today, but, you know, a lot of money was raised at very cheap rates. And going back to the long-term contractionary impact of the banking crisis, you know, when these roll over is when you're really going

to see. So again, it's a delayed response. Barry Sternlicht told me that 70% of all commercial real estate loans are from regional banks. Right? So when those roll over, it's going to be a very different world when you see that, I think, throughout many different industries.

NICK TIMIRAOS: Now some hedge funds have increased their private investments over the last few years and it's been a rough time for some crossover funds that invest in public and private companies. How viable do you see that crossover strategy going forward?

LEE AINSLIE: Well, longer term I think it will be, not only viable but I think really important that you have a strong understanding of public markets if you're going to be a late-stage growth investor, just because you'd need to understand that comparable set. It would be a world that now, this is stated information, at one point we had over 1,200 unicorns. My guess is we're probably like at 800 or something today. But nevertheless, these are large, substantial companies that are direct competitors with many public companies. And so I think that the crossover model is going to be an important one.

Having said that, near-term, you know, a lot of people that I respect and am friends with put to work an astounding amount of money very, very quickly, were very valuation-insensitive, and in some cases sort of due-diligence insensitive. It wasn't unusual, hey,

Maverick, you've known the company for a long time, you've always said you wanted to be involved. Well, good news, we're going to raise a new round and we need your answer in 48 hours. Well, time out, 48 hours? And so we, you know, missed those opportunities. We just don't have a process that would allow us to do sufficient work in that kind of time frame. But hindsight is pretty clear, a lot of other people weren't doing the work and yet still put the money to work.

So I do think you're going to go through a protracted period of time where those models are challenged. You know, the parallel of the financial crisis, and I sit on a few different investment committees so I'm seeing this in real time, but the investment committee has decided we want a 15% allocation to privates. Great, we're at 15% and, yes, we have some capital call obligations, but those would be offset through distributions so I don't need to worry about that. Well, all of a sudden, the denominator declines, like you saw in '08, well, that 15% which did not decline, sort of not marked down, becomes 17%, 18%. And all of a sudden you're not getting any distributions and yet they're still expecting to fulfill all these capital calls so then include that as debt, 18%, 20%, 21%, 22%, oh, no, I'm way over 15%.

And as a matter of fact, and this is public record, you know, Stanford went out in late '08 and hired a banking firm to help them solve about a third of their venture portfolio. Well, then the Fed comes to the rescue and the denominator goes back up and by the fall of

‘09, wait a minute, we’re back on target. It’s fine. Stanford actually did not fulfill, didn’t use that banker and didn’t sell any back. The difference this time is there’s no Fed to the rescue.

NICK TIMIRAOS: You don’t think so?

LEE AINSLIE: I don’t see how they possibly could at this point in time. And therefore, this is not something that’s going to be manageably solved over the next six or twelve months. And if you look, again, institutional investors who are overweight, their reaction is going to be either, A) I can’t make any new commitments, B) I’m going to argue, do I really need to fulfill these capital calls, and, C) should I sell some of this portfolio altogether? So the supply-demand is going to be quite different in the next two or three years than we’ve looked at in a long time. And the good news is if you do have capital, I think there are going to be some really, really rewarding opportunities, but a lot of the funds that have put a lot of money to work very quickly, I think they’re going to have a much, much more difficult time raising capital than they ever have.

NICK TIMIRAOS: So just to be clear, what do you think crossover managers do with stakes in private companies that now look years away from going public? I mean are you expecting a rash of selling from these firms on the secondary market?

LEE AINSLIE: So, the secondary market, and this may change, but right now, again supply-demand mismatch, the valuations are well less than half of last round typically. It's not true across the board, but it's a generalization. And most of us are refusing to accept those kinds of valuations, so you really don't see a lot of liquidity. There's not that many transactions of size actually happening. I don't think you will see that the crossover investor or even the venture investors are sort of forced to sell.

What is going to be the interesting dynamic is watching, as we talked about earlier, is sort of the bifurcation of private companies that have enough cash to last a while versus those that don't and those that don't being forced to come back to the market. Now typically they're trying to claim, you know, the headline is it's the same price as last round but underneath that are massive dilution provisions. In reality, things are being done effectively at 40% down from the last round, which is a lot when the company's growing often over 50% a year. So the real valuations people are getting today are dramatically different than what was happening.

But you see the same thing in the public markets. All the big banks have these different indices that look at the performance of high-growth, revenue-multiple, break-even, losing money type companies. And the peak and trough for those was sort of 75% to 80%. Now it's, from peak to today it's down more like 60%. So it's exactly what you've seen in the public markets and yet private investors just don't want to, either don't

appreciate that reality or don't want to accept that reality.

NICK TIMIRAOS: Right. So after 2008, there was a lot of soul-searching among policymakers to figure out how do we avoid the kind of drawn-out, unsatisfying long recovery from the early part of the financial crisis. You know, this time around, the Covid truck hits, a lot of money is dropped to try to preserve incomes, build that bridge to whatever the other side of the pandemic was going to look like. What lessons do you think policymakers should have learned or will learn from the experience of these last two years?

LEE AINSLIE: I hate to say it, but probably not much. I think understandably so policymakers are going to look at Covid as something they won't have to face again. Hopefully that's correct. Obviously it could be wrong. I say probably not much because I would argue the lesson should be that massive fiscal stimulus was rather short-sighted. You know, while there were some advantages and it helped people get through some very difficult situations, which I appreciate, at the end of the day our economy, in hindsight, didn't really need that. And again, maybe we were going to be in Covid lockdown for five years, and so hindsight is 20/20. And, of course, Ukraine and Russia, again sort of accelerates those inflationary trends.

But I would argue politicians, if they do face a similar crisis looking forward aren't going

to be focused on what was prudent and what was wise, they'll be much more focused on what will help me get reelected. And indeed, if I look at, and I'm not blaming one party or the other, I think on both sides, the trend has been rather consistently to maximize fiscal spending. I mean the whole movement from the Republican party a few years ago about balancing the budget and Newt Gingrich and all that has just sort of disappeared. You know, Paul Ryan retired for a reason.

And so, you know, I hate to say it, but I do fear that, again it goes back to the Fed and why they're just less able to be as effective as they once were, because you used to have a lot more stability on the fiscal side than you do today. And again those decisions are not being made out of logic or prudence but are being made for very different motivations.

NICK TIMIRAOS: So during the pandemic another big shift was you moved down to South Florida. A number of other, of your peers, have done the same thing. How is that working out? What are the pluses and minuses of being in a warm place where you don't have to step into a pile of dirty snow water in February versus having everything that New York has to offer?

LEE AINSLIE: Yes, as basically a lifelong New Yorker, and as was pointed out by Barbara in the introduction, I've been involved in a plethora of things here in New York

and the city has been a really amazing experience for me, I'm worried. And the only good news is I think New York is in much better shape than Chicago or San Francisco, etc. But some of the trends which have driven the migration, not just to Florida but to Texas and Nashville and even Wyoming, I think are with us for a while.

And so concerns about crime, concerns about the quality of education, a willingness or a desire to be more efficient from a tax perspective, and yeah, the weather is pretty good too. All those things. So for me, I've enjoyed some of those advantages. The flip side is our largest investment office is in New York. The second largest is in San Francisco. And as much as I can live on Zoom and actually try to get up to New York every other week for a couple of days, it's not the same as being face-to-face. A few members of the investment team moved with me; the large majority chose to stay put here in New York.

And as I mentioned earlier, it really is an apprenticeship business. So, one, that part becomes less effective, but even more importantly I would argue just sort of the culture and the relationships and the bonds you form just doesn't happen on Zoom. You don't chit-chat for ten minutes and how was your kid's soccer game and all that, and you don't realize, at the time you don't think it's really important, but over time you recognize that is part of what creates the fabric of our firm. So there are no perfect solutions.

NICK TIMIRAOS: Yes, Zoom, it was useful there, but it's highly transactional once you get into the meeting room. I want to save time for questions from the audience. But before we get to that, and maybe for some of the students who are joining us online, for someone starting out in this field, what have you found, what would you say are the most important values or habits that would serve someone best if they already know finance is where I want to go?

LEE AINSLIE: Well, this may sound a little corny. I apologize. But I would start just with the importance of integrity and ethics. Once you make a poor decision in that regard, you will be tainted with that decision forever and it will be, no matter what field of finance you're in, it will impact your career. I think people lose sight of the fact that what we do is not rocket science, unless you're in the quant world, then it actually is rocket science. But, you know, doing a DCF is not that challenging mathematically. And so being much smarter than everyone else is not really the difference maker. It's more thinking strategically, evaluating people, being dedicated.

You know, we tend to hire people that are really competitive, that really want to win, are willing to put in the hours. Not meaning we want to watch who got in first and who leaves last, but more are they using their time efficiently, effectively, and are they getting things over the goal line. And then lastly, if you're fortunate enough to be in a place where there are senior people that you respect, take advantage of that and try to

soak up as much knowledge from their experience as you possibly can.

NICK TIMIRAOS: We'll go ahead and see if anybody has a question. State your name and affiliation.

QUESTION: Thank you. Shaia Hosseinzadeh, OnyxPoint. You made a comment earlier about decarbonization and deglobalization being inflationary. And I wonder, just given your successes in tech and the great benefit that the industry has realized from cheap energy prices of $1- $2 trillion a year, as we transition to this new paradigm of higher for longer, do you see an opportunity, a relative opportunity opening in commodities and how is your firm positioning for that?

LEE AINSLIE: So we've never been active in commodities just because I don't think it really lends itself to our strengths. You know, really much more driven by different macro considerations. And we tend to focus on industries where having a better understanding of the competitive dynamics, thinking about secular trends that will persist allow us to have, make decisions that we hope will be more persistent than what you find in the world of commodities. So trust me, there are several points, especially the last couple of years, or even the last couple of decades where we've missed things. I mean last year we did a little bit of energy, thought about doing a lot more and didn't, and probably should have. We just have always been shy to be involved in an area

where I don't think we have the same meaningful advantages we have in other areas.

NICK TIMIRAOS: Anyone else? If not, I'll resume. Oh, there's one over here.

QUESTION: Hi. Paul Michalowski from Zweig-DiMenna. Just maybe can you just talk a little bit about your thoughts over the past couple of years around shorting. You talked a lot about the influences of algorithms and other influences on the market and your risk tolerance and how you may be thinking about that going into this next cycle.

LEE AINSLIE: So as I mentioned earlier, we have a quant business where we looked at alpha signals that we could get from alternative data. And part of the exercise, why we focus on there, is if we can predict revenues are going to be better than people think or earnings, etc., what is the correlation between that and how the stock performs? And that's become more challenging. But just to use, putting our quant trading aside, just in general looking at the market and again the correlation between strong fundamentals, so basically earnings or revenues beating or missing and how the stock price reacts, that correlation was at an all-time low during Covid. No one really cared that they beat the quarter or missed a quarter because we're not going to have a quarter like this ever again.

That changed, really about July/August of last year, so we've now had six, eight months

of a strong correlation between fundamentals and stock price performance. And that's in both the long side and short side. And we, and I think other investors that are fundamentally-oriented, had decent periods of performance.

The short side, in particular, is the least competitive data that it's been in 20-some years. As I mentioned earlier, most hedge funds, all the exposures are back down over the last couple of decades. Net exposure tweaked up. How I create short exposure, especially after WallStreetBets and all that, the lesson for many was, oh, my gosh, I'm never shorting an individual stock for the rest of my life. This is too risky, it's too hard, and therefore I'm using ETF's, I'm shorting futures and creating other ways of negative exposure. But, of course, they don't provide any opportunity for alpha. By definition, shorting futures is your short exposure will fall in line with the markets.

So we really have doubled-down our effort on the short side. That's part of why our exposure is pretty low because we see a lot of really interesting opportunities. And I think it's going to be a very productive time, and not that this is really the driver of returns, but it is relevant, it's the first time since the late 90s where you actually get a positive yield on the short quote, right, get a positive carry. That makes it easier. So I think, on the long side as well, but I think especially on the short side, for the first time in a long time, it's going to be a much easier experience. And I think the odds of another WallStreetBets are quite small because that was driven by this hyper-speculative

environment that I don't think is with us nor will be with us anytime soon.

QUESTION: Hi. It's Steve Looney from E3. You sit at a unique spot, having come up through an education system and now you're looking at all these AI tools. What do you think the implications are of AI on learning and education and ed tech?

LEE AINSLIE: Well, I think – and I'm the board of a school, a high school as well – I think the biggest, and I think this is actually happening pretty quickly, is the recognition that we need to be teaching different skills than we've been teaching the last 100 years. Knowledge will be ubiquitous. And you can argue Google started this, but it's very different googling something, getting six websites, clicking the website, is that what I was looking for? No, that's not what I was looking for. Let's try the next website. Versus asking a question and getting an answer.

And again part of this is just the growth of infrastructure throughout the world, but the thought that in a few years virtually anyone is going to be able to pick up a device and has a question and get a really smart, informed answer. So in that world, what is the value of memorizing every moment in history? What is the value? And instead, how do you prepare young people for a future where depth of knowledge is not the driver of adding value and success and recognizing that using that knowledge as a tool more effectively than those you're competing against is the skill set we need to be developing.

And then in the shorter term, in the day and age of, hey, over the weekend, please write this term paper, that's gone. And all, ChatGPT and others are trying to build in, sort of watermarks where you can tell, and I know that schools actually already used some of that effectively to recognize. But once you have four or five of these, and I don't know to what degree people play with it, it's pretty amazing. You know, write...and I want every word to contain the letter "I". I want every third word to have two syllables. I mean you can make up so many framers and it just responds, you know, no problem.

And so I think you're going to be back in the old school of you walk into the test and Johnny's given some paper and a pencil, go write your essay by the end of class. So it's going to be those kind of near-term changes as well. But if you're an educator and you're not really thinking about how this impacts what you want your young men and women walking out from your institution and what skills they need, you're not doing them a service. It's a different world.

PRESIDENT BARBARA VAN ALLEN: So we do have a question from someone online, which was how do you think the Inflation Reduction Act will affect the economy?

LEE AINSLIE: So this is not an opinion unique to me, but I would argue that term is an oxymoron and indeed, you know, it was yet another example of a short-term response that has, longer-term I get the argument that you could argue for just suspending but, in

the first two or three years without question, it's another fiscal stimulus at a period of time where we didn't need the fiscal stimulus and it just works against the efforts of the Fed. But that's the reality of our political system.

PRESIDENT BARBARA VAN ALLEN: Well, why don't we wrap it up there. That was just outstanding. Many thanks to you both.

I just want to give a quick rundown of our schedule for the Club going forward. We have the CEO of Merck, Robert Davis, virtually on April 25th talking about the future of biopharmaceuticals. I'm sure he'll talk about the acquisition over the weekend. April 26th, we have our complimentary Prospective Member Event. That will be here at the Club for qualified candidates to come meet Club leadership. May 3rd, we have Daniel Huttenlocher, the Dean of MIT Schwarzman College of Computing, and he will be talking about AI. On May 9th, John Williams will join us for a luncheon here, our Chair and, of course, the Head of the New York Fed. Oksana Markarova, the Ukrainian Ambassador to the United States, will be joining us May 17th. And then, of course, Henry Kissinger, we're going to all celebrate his 100th birthday, and he's also going to do a fireside chat with Marie-Josee Kravis. That will be May 23rd, a Signature Luncheon. We have a number of members that are hosting peer exchanges and so keep your eyes out for those. This is a new program where members can suggest topics and then host other members in their boardrooms or in their homes or other venues, and we organize

them here at the Club.

So finally, we always like to take a moment to recognize members of the Centennial Society joining us today as their contributions continue to provide the financial backbone of support for the Club. So thank you all that attended virtually. We'll say goodbye for now. And for those in the room, please enjoy your lunch. And everyone, we hope we'll see you soon. Thank you.