Pat Grady & Alfred Lin, Sequoia on Uncapped Pod w Jack Altman

9th Dec, 2025
https://www.youtube.com/watch?v=fq33ylz7IMc
SPW: Enjoyed this podcast episode, which was the first one Pat Grady and Alfred Lin did on becoming Stewards at Sequoia. Extremely interesting podcast for anyone in venture investing. I found the stats they shared on coverage and loss ratios interesting - it is not often that you get to see such data. The most interesting part to me was the discussion around how polarising voting records are likely better signals for investing than all negative or positive votes (likely because these polarising voting decisions led to more dramatic outcomes), the importance of the mid-funnel decisions (that is, what leads to a certain company being taken to the Investment Committee meeting, or not), and finally the 40 psychological traps they have identified as impeding good decision making.

Note: Listed below are excerpts from the transcript I found interesting, and catalogued under relevant heads. I haven't specified below who of Pat or Alfred said what. This is because I used Turboscribe to transcribe the video as Uncapped doesnt publish a transcript. Turboscribe's output does not allow identification of speaker. Bummer. I don't have the time to look at the video and ID each speaker. Hence, you won't know which one of Pat or Alfred said the below. Sigh.

Link to the transcript.

Inputs at Sequoia

Inputs for each partner at Sequoia is going to be different because they're different and they're outliers in different ways. So you could have someone who's very, very thematic and their input is going to the whiteboard with founders and thinking about the future and whiteboarding the landscape and figuring out where the white space is and building a company from that.

Or you can have someone who is going to just be out there meeting as many founders as possible, trying to be opportunistic. Those are going to be very different inputs. And that's Jim who loves going to the whiteboard and landscaping things, and that's Doug who loves just dialing people up, intermediaries or founders, the smartest people he knows and is like, okay, what's going on? What can I learn from this person? Those are very, very different inputs.

And if you saw a blank calendar on Doug's day, you would be worried, but not for Jim. And if Jim's calendar is full and full of meetings, that's probably a bad day for him. And so he's like, okay, I'm meeting all these companies, but I'm not actually having time to think.

So think about one way to frame it is freedom within frameworks. So we do have frameworks that people can use as guidelines, so it's not pure chaos.

We have a partner in Israel named Dean Meyer. Dean has been very explicit about mapping out the talent nodes in Israel and getting to know the most brilliant former operators and the most brilliant academics, researchers, whatever the case might be. And just kind of mapping those nodes and using that as a leading indicator of where the world is going.

Or for example, our partner, Charlie. Charlie is much more high volume. He's out there in the market meeting a ton of people.

He's going through a bunch of lists. He's doing a bunch of cold outbound companies, much more of a high volume, build the funnel and then work your way through it sort of approach. And so different people have different approaches that are kind of authentic to who they are.

Sequoia's core values

Different teams have different values inside of Sequoia. **Sequoia itself has the two primary values of performance and teamwork**, but there are certain values that we expect people to adhere to.

Measuring performance at Sequoia

I think you have to realize in venture, the outputs are like 10 years into the future. So you have outputs that look like they're outputs, but those can be mirages too, markups can be mirages.

So we don't really measure that as much as the inputs and what people do. So sourcing, there's inputs, how many quality companies have you met or how many quality companies do you want to bring to a Monday? For picking, it's the quality of your memo. Did you get to the first order questions? Did you answer them? Did you call the right people? It's not about having a long memo, it's about getting to the right points.

And so for the growth team, to make it a little bit tangible, every June we review people based on values. So we have four core values for the team, aggressive but humble, strong under scrutiny, high give a shit, zero bullshit, and demanding and supportive. Every June we all get reviewed on those values and literally rated with color commentary. I'm like, to what degree does your behavior adhere to these values? Every December we get reviewed on capabilities, sourcing, picking, winning, harvesting, and building.

To what degree does your capability in those different areas reflect the level that we want it to be at? And so those are values or behaviors are one kind of input, capabilities are another kind of input. Over time, we expect those inputs to translate into outputs. And if they're not translating into outputs, then we get to go back and inspect and say, okay, well, what's the broken link in the chain?

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In other words, can I only judge how my sourcing in 2025 was by 2026 or can I know in real time? We look at true positives, false positives, true negatives, false negatives.

So we bucketed into the four quadrants. We keep a running list of what we think is what. We update it as new data emerges so that you can get higher confidence in your ex post assessment of like, did we make this decision correctly? And so we have that as a running thing that we do.

And then we look at it about once a quarter when we go into offsites. But it's hard because by the time the decision, by the time it is obvious what the right decision is, you've long since forgotten why you made the decision that you made. So in the moment, we also try to really crystallize like, why are we making the decision that we're making?

Which could be somebody does a cycle on a company and recommends that we pass, doesn't bring it into a partner meeting, but they actually send out a memo that's just a page and a half.

Hey, here's what we learned. And like, here is the rationale for passing. This is interesting enough to do a bunch of work.

Let's do the last 5% and just codify that so that when we look back on it six months from now, we remember exactly why we decided to pass. And then the sort of process by which we do that is rolling. Like we get more information.

It's like updating your priors. You get some information, you make a decision, you have to get new information, you have to update your priors. And we're constantly doing that.

Coverage Metrics

Our coverage for the growth business tends to be about 70%.

There's a list of 30 or 40 other investors that we say, okay, if they make the investment, they look at things similar enough to what we look at, that if they make the investment, we probably should have at least seen it. And we tend to see about 70% of the things that other people end up doing. 70% is probably about right.

I don't think we want to be 100% because that incremental meeting probably gets into CYA territory as opposed to net multiple money territory.

For seed, we probably cover 50 to 60% of what is done by a competitor that we believe we should be tracking. And in venture, we probably do see 60 to 70% because we have the information from seed funds that a seed fund invested in them.

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We don't track individual metrics for what it's worth.

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There's a notion that Luciana came up, which is false coverage. So to Pat's point about like calling your friend and you saw that you had a call, we can like just go and see a bunch of companies because we went to Demo Day for a variety of places and saw a lot of companies. That doesn't actually get to the point of finding- A substantive engagement.

A substantive engagement. So like, okay, to Pat's point about like investing your time, you saw all the Demo Day presentations. They were one minute each, very efficient use of time.

Okay, what are the five companies out of that Demo Day that you're going to spend time with? Yeah. And so you can, the decision quality there is actually fairly important. And so that is measurable.

Second-order effects of incentives

Summit has this really kind of elegant and brilliant system where everything is incented for output. And so the funnel is very granular and individualized. And the problem that you would run into is if you're a crazy competitive 21-year-old, as I was, and you were not number one in the call metrics, you'd pull out of your back pocket the three founders who you knew would pick up the phone that you're never going to invest in, and call them to pad the metrics.

And so there's just like weird behavior that ends up occurring. And so we've never had individualized metrics because we don't want people to... We don't want them to think about hitting the metric. We want them to think about the ultimate goal, which is partnering with the most important founders of tomorrow.

Yeah, which includes seeing many companies. And the judgment that you have to use, the first leading indicator of good investment judgment for a new investor is how they invest their time. If you can figure out how to invest your time to get to that end goal of partnering with the best founders, chances are you're going to end up being a pretty good investor.

Sequoia’s CRM system

In 2007, when I joined Sequoia, the primary way that you learned about a company was you cold called them and you talked to the founder. Now the amount of information that our CRM system produces when you just put the name of a company into it is more than the amount of information that we had when we were making a final investment decision 15 years ago. So there's an enormous amount of information that you can get. And so one of the failure modes for young investors is to think of their job as my job is to meet founders.

No, your job is to generate net multiple money returns. Meeting founders is one of the things that you can do to do that. But reading about their company online is another way.

Go spend 15 minutes in our home grown CRM system with all the data science signals and everything is fabulous at this point. Go spend some time in that system, beat it up a little bit. Don't just meet whatever company somebody told you are inflecting.

Go figure out what we know about them before you decide whether it's worth spending 30 minutes of your time. And what you know about them that has nothing to do with meeting some other partner. It's truly just information from the internet.

It's information from the internet, but it's also information from a bunch of other sources, some of which are paid, some of which are proprietary. There's data that we create to feed into the system so that we have the most holistic possible view of these companies.

Imagine you found some great VP of engineering and you did a favor for that VP of engineering. And now that VP of engineering says, I love Jack. Jack's the best.

I'd do anything for Jack. It happens all the time, honestly. Well, it wouldn't be crazy if you went back to that VP of engineering and you're like, hey, VP of engineering.

You owe me. Any chance you could tell me who your five smartest and most respected VP of engineering friends are? I never do that. And I think that might be, I truly never do that.

And I just can't make myself and I think I should. But imagine if you did that. And imagine if you started doing that more than 10 years ago.

And imagine if you tracked all the responses for more than a decade. And imagine if that all lived inside of a CRM system that has a talent map of Silicon Valley. Not just the founders who are about to pop out of a lab, but also engineer number 37 in some growth stage company.

So imagine that you could go... And so what are you asking? You're saying who are your five smartest people? It's page rank for people. It's the same basic thing. And you have the whole firm's doing this.

We have the whole talent team doing this. We have all the investors doing this. And we've been doing it.

We had a former partner named Brett Reckard who came up with this idea more than 10 years ago. So we've been doing it for a long time. Yeah.

And it's not like something that you could just say, oh, that's a good idea. I'll just do it. Because it also requires actually helping people.

And that's it. You can't be transactional about it. You have to make sure that people, that they're actually feel good about helping us do this.

In fact, if you make it transactional, they'll just give whatever response to get you off the phone.

Loss-ratios and fund performance

So in a fund, a venture fund, and probably a growth fund too, we have about 45 to 55 shots, of which we need six to basically be a 10x or more. Of which, of those three of them out of the six, we need them to be $100 million gain or a billion dollar gain.

That's what makes for a good fund. And we look historically at all the Sequoias funds, and there's a high write-off rate. So when you say picking, are we actually that good at it? Our best fund is Venture 12, which includes Airbnb, Unity, and Dropbox.

All three of them were billion dollar gains. But there were also 10 companies that were $100 million gains. That's crazy.

So that is a good fund. The write-off rate there was like 50%. So when you think about picking, you have to be half right.

But your point is that good picking isn't not losing money. Good picking is a high enough inclusion rate of asymmetry. So the point here is we're in the business of risk-taking, and you have to be able to take risks on things that will run.

And then the other thing that we've learned about picking is you can't just have things run that you put a small amount of dollars in and have low ownership, like put a million dollars into this investment in a venture fund of $400, $500, $600 million. It's just not enough. If you don't own enough, it's just not enough.

You have to actually have conviction. And so when you have conviction and you focus on the right companies, you're going to be wrong half the time.

Voting records

We've been tracking, we've been recording the number that everybody votes on every investment for more than a decade now.

Our internal data shows that consensus versus non-consensus does not matter at all. It's just not a factor.

Presence of conviction is what matters. And so if everybody is a six, we vote zero to 10, no fives, so six and above is positive, four and below is negative. If everybody's a six, probably shouldn't make the investment.

It's consensus, but nobody has conviction. Strong yes, strong no is much better. If three peoples are nines and three people are one, we should probably make the investment because the presence of the nines is a much more powerful signal than the presence of the ones.

Paying up

The people we hire are these competitive overachievers.

Most of them got straight A's their whole lives. And so one of the interview questions that is most uncomfortable for them, but most important for us is, what's your biggest mistake? Like, what's the biggest failure you've had in your entire life? And you usually get some, you know, BS one and you kind of have to keep pushing until you get to a real one. But a lot of these, a lot of the people that join our team haven't had much failure.

And so we kind of have to help them get comfortable with it because otherwise we're not going to get the outlier wins. To do this business well, you really do need courage. You need to be able to, hey, you know, in both extremes, if you're going to pay a ridiculous amount for a company that you saw and passed a month ago or two months ago or a year ago, like Pat did with Snowflake, you have to have real courage.

He could have invested a year ago in Snowflake when he decided to pass and he's like, it's to swallow his pride and actually say, okay, I made a mistake. I'm going to pay up for this round, even though it sounds ridiculous, I'm going to do it. Or the other extreme where you're like, nobody likes this company anywhere in the world except you.

But it's a really good company. And by the way, this courage thing is like, it's the type of thing that always strikes me as very tidy and nice sounding in a historical story. You know, you tell a story of, we did this DoorDash round, the Snowflake round, everybody thought we were stupid.

And then look what happened. But in the moment when you do something where everybody thinks you're stupid, it's like, I'd have to be like, hey guys, let me tell you about this deal I did. And you guys walk away and you're like, Jack's actually stupid.

Like, in the moment, it doesn't feel good when everybody around, like your partners disagree with you, your peers at other firms are like, you're not like stupid in the cute, like this turned into Snowflake way. Like we actually just think you're bad at the job. And like, you have to sit with that.

I think that's really hard for people. I think you're right that it's really hard, but it's also like the two fears, fear of missing out and fear of looking stupid are the two fears that prevent people from making the right decisions. And you kind of have to block out those fears.

40 psychological traps they have identified

We do a lot of introspection, post-mortems, post-parades on decisions that we got right or wrong. Just kind of looking at the outlier decisions one way or the other and saying, like, we've got this one really wrong. Why we got this one really right? Why what's interesting about the ones that we get really wrong.

Every single one of them, if you play the five wise game, like why, why, why, why, why every single one of them comes down to some psychological bias or emotional trap. Totally. None of them come down to an error in calculations.

Yeah. All of them come down to these background effects that were clouding your judgment. Yeah.

And you know, we cataloged them, you know, we have a list of 40 of these things so that we can kind of like use the common vernacular and be able to be able to kind of get in front of them so that we can have a conversation before we make that mistake. Like, Hey, do you have separation of church and state here? What separation of church and state? Well, letting the thrill of the chase bleed over into your clinical decision-making. Yeah.

Right. The thrill of the chase is a very passionate, emotional thing where you're falling in love with the founder, but then you have to come back and put your emotions aside and clinically assess all the merits and risks and make a good decision. And so it's pretty natural to co-mingle those two things, but that can lead you down the wrong path.

What they look for in growth investments

And Alfred mentioned earlier that we have a spec. We have a spec for seed investing, venture investing, growth investing, expansion investing.

The spec is just a shared language. And the shared language for growth specifically is emerging market leader, unique and compelling value prop, sustainable competitive advantage. And if you map those onto a set of financials, the emerging market leader piece basically says this will be the most important company in a market that is important tomorrow, which implies high revenue scale.

The unique and compelling value prop piece, unique suggests that you're going to have good gross margins because you're not having to compete on price. Compelling suggests that you're going to have good operating margins because you don't have to spend a lot of money on sales marketing to get people to adopt your product.

And then sustainable competitive advantage says that the free cashflow produced by those nice margins on that nice revenue scale is going to be around for a while.

Those are the characteristics we're looking for in a business.

Mid-funnel decisions and why they matter

We realized a long time ago that the most important decision is actually not the final decision that happens on a Monday. The most important decision is the mid-funnel decision that determines what gets to a Monday.

By the time it gets to a Monday, we're pretty good at making the decision. Our biggest misses are the things that don't even make it to a Monday. Because you looked, but you didn't spend real time on something that deserved it.

And so having better hygiene around those mid-funnel decisions, we used to just go back to back, meeting to meeting to meeting to meeting to meeting. Now, you can't have a meeting if you don't save time afterwards for a debrief so that we can have a concrete conversation about what did everybody think about this meeting? What are the pros and cons? What's the thesis? Where do we go from here? And similarly, back to our CRM system that we have, every single meeting you take, you put a rating in the system. You're rating it on quality of the opportunity.

Zero to 10, no fives. And so we just have this kind of... By the way, none of that is perfect. None of that guarantees that we're going to make good decisions.

It's just trying to get a little bit better every day so that over time, hopefully we end up with more wins than losses. We believe in consistent compounding. So just doing this over and over and over again, adjust, adjust, adjust, adjust.

Because the debrief thing we didn't have probably five years ago. Yeah. Yeah.

It's a really good idea. Yeah. I mean, it makes sense.

I mean, I was like, wait a minute, why didn't we have this before? So I just run between meetings at the end of the day, you can't remember what happened. Yeah. Yeah.

Yeah. And then if you don't write down exactly what you thought, maybe you want to still sleep on it. At that moment, what were your impressions? We want to be able to marry thinking fast and thinking slow.

Passing, the Sequoia way

I don't know if you remember this, and this was like a positive thing, but you passed on one of the early lattice rounds and it was the most gracious, high quality pass that I got in my life. And I got hundreds of passes and I still remember that you called me and explained exact details of like what you were thinking and what the risks were and limitations and whatever.

And it was just like clear that you had thought about it more than anybody else. And I was like, that is like the gold standard pass. So I guess it can't be faked because you have to do the work along the way to do that.

Passing, I guess, well, is really important for you all because like, you know, if you're me, it's like, if I miss the A, I don't have been like, I'm not going to do it. You always want to be in business with a great company. And so I'm guessing on this, you know, picking thing, the way that you pass has to be like excellent in general.

Like you need to pass in ways that keep the relationship healthy. Yeah. I think the way we talk about it is it's maybe not now.

It's not that we're passing. We're just not investing at this point in time.

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We learned from previous partners on how to pass. And, you know, one way is to show a lot of love.

One way is to show a lot of work and being diligent and telling you why as a founder, like maybe you should work on these things. This is what we found in your diligence. And hopefully we make your company better even when we're passing.