



# Hidden Forces Podcast 246 - The End of the Beginning | Michael Anderson & Vance Spencer of Framework Ventures

Jun 10

♡1



Primer: Michael Anderson and Vance Spencer of Framework Ventures return for a second time on the Hidden Forces Podcast. They shared what's new at Framework, the changes that they have experienced, and their thoughts on blockchain gaming.

## Context

- Michael and Vance were on the show 2 years ago
- They were one of the earliest venture fund to invest in DeFi
- They discussed about Chainlink, Synthetix, and other protocols
- At that time, they were about to launch Framework Labs

## What's New?

- They went from a firm that focused exclusively on DeFi middleware and leading those rounds to building Framework Labs
- Today, they manage ~\$1.4 billion
- Focuses on mainstream use cases, gaming content and commerce today
- Have raised half a billion dollars
- Have 22 employees now

*"Our perspective is that crypto is gonna allow us to leapfrog the incumbents in our industry, just like our portfolio companies are doing to FinTech games, and commerce."*

- Vance Spencer

## Framework Labs

- Is a side company to their venture fund
- Most of the people that work at Framework Ventures are engineers
- Within Framework Labs, they are participating through software tooling and on-chain engagement
- They are one of the larger infrastructure providers for networks they invested in, such as Chainlink and The Graph
- They are also participating in new non-DeFi initiatives such as gaming content,

commerce, etc.

- Is able to connect their portfolio companies together:
  - Is a Chainlink node runner to provide price feeds for most of their portfolio companies
  - The Graph services all the frontends for their portfolio companies

## Concept Of Network Capital

- In Web2, when VCs back social media companies, they are giving them capital and sitting on a board
- In Web3, everything is open source and on-chain. VCs can interact with their portfolio companies by:
  - Being the largest borrower in a money market
  - Being the largest trader in a derivative market
  - Plugging in one of their guilds so that games will have a ton of players
- This helps the outcome of a VC's portfolio companies
- In Web3, there's no IP and everything is open source. The priority is to get the flywheel spinning quickly

*"Compare us to a traditional Web2 VC who's just gonna sit on the sidelines. We're just going to add so much more value through auditing your smart contracts, using your protocols, connecting you to your customers and other upstream suppliers that you need. And that's really the power of network capital."*

- Vance Spencer

## Successful VC Firms VS Legacy Firms In The Value They Provide

- Notable venture firms like Kleiner Perkins and Sequoia implemented similar strategies at different eras of their development
- Don Valentine from Sequoia saw what was going on with the personal computer revolution and invested in Apple in the 70s. That led to a number of investments in software companies
- In the 90s, Kleiner Perkins had this Japanese concept called *Keiretsu* where everybody is working together
- Application of these 2 concepts led them from Chainlink to Synthetix to The Graph — network investments which they used to build intuition around
- Their investment strategy is to be early-stage, tripling down on the teams they are working with in contrast to legacy firms that have been on the sidelines

## Their Value Proposition

- Have a track record in this area:
  - Setting up a DAO
  - Launching a token

- Deciding which markets to go after
- Building something vertical or horizontal in DeFi
- A traditional VC firm would not be able to advise on the above
- They have done 75 deals and have led 80% of these deals
- Traditional venture firms are going through a generational change and are passing the baton to the next generation

## Conversations They Have With Founders

- Most of them are Web3 native
- Some points of conversation that they would have:
  - What's your history with Web3?
  - What communities have you been a part of?
  - What were you doing in DeFi Summer?
  - How is it that you're thinking about building this and how can we participate as well?
- This ensures that their perspectives are aligned

## How Do They Source Deals?

- When they started, they were basically asking people to take their chances with them (e.g. Stani Kulechov, Kain Warwick, Sergey Nazarov)
- They started with the idea that they were only going to lead rounds
- In return, they repay them by being good stewards of their network
- Now, they see 2000-3000 deals a year. However, they only pull the trigger for a percentage of them
- Their focus has transitioned from DeFi and middleware to games, cross-chain, infrastructure
- They do not invest in base layers as, over the longer time horizon, the application layer accrues more value
- Will be focusing 200 million on gaming

## How Did They Adjust To The Change Where People Come To Them?

- Nothing has stopped them from going out and finding new opportunities
- They are taking warm leads from other founders that they've backed or from people that they know in the space
- Their team has grown to handle the inbound
- To scale, they build their team to focus on different categories
- Number one success criteria: how maniacally competitive the founder/founding team is

*"Does the founder want to win? And if they do, they'll be able to figure it out."*

## What Does Hitting The Pavement Look Like For Them?

- A good example is backing Illuvium in January 2021
- In Illuvium, you are dropped on a planet and need to mould the planet back to health. In the process of doing so, you discover characters called Illuvials, which are like new age versions of Pokemon
- All characters, lands, and items are NFTs
- There is no company, bank account, or foundation. It's just a large DAO with a multisig governance Treasury that is building this game
- There's 250 people working on the game and it is worth ~\$6-7 billion
- Vance spent a few months travelling around Europe and Asia trying to figure out what the indie gaming landscape look like
- Learned that most indie gaming studios were going broke and selling their titles to major studios
- A lot of game devs have the desire to build a blockchain game because of the opportunities
- A lot of it is spending 12 hours a day on Twitter looking at fringe accounts to see what alpha/new ideas they have

## What Does It Mean For A Game To Have Elements Of Crypto?

- Evolution and history of gaming:
  - Buying and putting a cartridge/disc into consoles —> free to play games —> people earning as they play
- Historically, gamers connect their consoles/laptop/phone to a client server that serves up the game
- Now, the client server is moving to a client server-blockchain, where:
  - The client server is still serving up the majority of the gameplay itself
  - The blockchain with all the marketplace elements
- With the blockchain, an indie developer is able to originate a business model for their indie game that doesn't require them to sell their title to a large publisher
- The trend they are seeing is that blockchain is a necessity for indie game developers

## Growth Of The Blockchain Gaming Industry

- The industry is maturing:
  - There are more games that are launching within the next 6-12 months that will have high fidelity and entertainment value
  - The game design will be based on skill rather than chance
- Play-to-earn will shift to play-and-earn

# How Does Games Fit Into The Larger Thesis Of The Metaverse?

- A lot of people believe that the Metaverse is a VR universe
- Building a game where a billion people can make a living wage is more likely to be the ground for the Metaverse
- As it's built on a blockchain, users are self-sovereign and have strong property rights

“And for us, that's what the metaverse is about, it's being able to find employment on-chain.”

- Vance Spencer

*All information presented above is for educational purposes only and should not be taken as investment advice. Summaries are prepared by The Reading Ape. While reasonable efforts are made to provide accurate content, any errors in interpreting and summarizing the source material are ours alone. We disclaim any liability associated with the use of our content.*



Like this post



Comment



Share



Write a comment...



## Ready for more?

Type your email...

Subscribe

© 2022 TheReadingApe • [Privacy](#) • [Terms](#) • [Collection notice](#)



Publish on Substack



Get the app



### Our use of cookies

We use necessary cookies to make our site work. We also set performance and functionality cookies that help us make improvements by measuring traffic on our site. For more detailed information about the cookies we use, please see our [privacy policy](#).