



PODCAST TRANSCRIPTION SESSION NO. 88: HARDEEP WALIA

Welcome to the Lend Academy podcast, Episode No. 88. This is your host, Peter Renton, Founder of Lend Academy.

Peter Renton: Today on the show, we have someone quite different to the typical Lend Academy podcast guest, but I'm delighted to welcome Hardeep Walia. He's the Founder and CEO of Motif. Now Motif have nothing to do with marketplace lending, at least directly, they are disrupting a different area of finance, they're disrupting equity investing.

As you'll find in the interview, there's actually a lot of similarities. I think their investor profile would be very similar to the investor profile of the typical Lending Club or Prosper investor. So the thing that's different about Motif is that they allow investors to invest in equities based around a certain theme. Now we get into that in some depth in this show. We also talk a lot about the challenge of scaling a business of this kind, whether to go focus on retail investors, whether to focus on institutional investors and we talk about profitability; we talk about IPOs and all sorts of other things. It's a fascinating company and I hope you enjoy the show!

Welcome to the podcast, Hardeep.

Hardeep Walia: Thanks, Peter, thanks for having me.

Peter: My pleasure, so why don't we get started and give the listeners a little bit of background about yourself and what you did before you started Motif.

Hardeep: How far back do you want to go? (Peter laughs) I guess...I have an undergrad from Yale in engineering and economics. I then jumped off and entered the consulting world. I was a consultant at the Boston Consulting Group for a number of years and then when kind of circa Netscape happened there was a lot of excitement in the Internet so I jumped into the software space. I worked at a number of startups but to be honest none of them did really well and so to take my vengeance, I joined Microsoft (Peter laughs) where my first job was buying distressed startups.

I worked on a lot of emerging businesses, I was in their Corp Dev Team and after that I was General Manager of their Enterprise Services business. So made it...didn't hit the seven year itch, my itch I guess was six and a half years at Microsoft and then took a leave of absence and during that time came up with the idea for Motif.

Peter: Okay, so just tell us a little bit about that. Firstly, what Motif does exactly and why you started it?

Hardeep: So everyone's got kind of their own eccentricity. One of my eccentricities is when I go through tough times, I like to trade stocks (Peter laughs) and people go... isn't that exactly the point when you're not supposed to be. For me it forces a state of zen and calm, nothing like coldhearted calculus and numbers and it gets your mind off things.



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So during my time off and it was due to my wife not being well at the time, I wanted to invest in things I understood and really the first problem was I wanted to invest in the mobile internet and I do what any Wharton grad does is I pick up the phone, call my friends on Wall Street and say....how do you invest in the mobile internet and I wasn't very pleased with their answers. It was typically buy Google, buy Apple and it was circa 2008/2009 so iPhone had come out earlier, but it really didn't give you true exposure to the mobile internet.

When I went to my friends on Sand Hill Road...how do you invest in the mobile internet, you know, their notion was well we've got all these private investments, but as an individual investor trying to figure out how to invest in the mobile internet was actually quite hard. Most people didn't come up with things like the cellphone tower companies that do well, whether Apple or Google wins the handset war, the chip companies, the touch companies.

And really to get true exposure to something like the mobile internet, you needed at least 30 securities and to try and buy them at a traditional online broker...you know, at \$10 a trade at the time...that was a lot of money. But the big 'aha' actually had nothing to do with the mobile internet, the big 'aha' was people naturally think conceptually about investing and they can then express to different degrees of complexity, what it is they want to do. The hard part was acting on those expressions and the expressions can take a couple of forms. They can be thematic and we've built a good reputation in that area.

I live in Silicon Valley, I've got drones flying over my house every weekend, I know the drones are coming, I want to invest in drones, but I don't know how. That's a traditional thematic expression. They can be trading models. I like to buy beaten down stocks because I believe when people panic sell that's kind of a good time to go look at an individual stock, but I don't have time to track the market so wouldn't it be great if someone out there could just go buy beaten down stocks for me. So that's more of a trading expression or they can be completely passive.

I want to emulate the investing behavior of my old professor at Yale David Swensen who is having another great year running Yale's endowment, I don't know anything about investing, I just want to emulate what he does.

So what we do at Motif is we allow people to act on these expressions by turning them into what we call a Motif and a Motif very simply is a thematically weighted basket of up to 30 stocks built around one of these expressions. You can purchase a Motif in a single click for the cost of a single stock transaction so \$9.95 to buy a basket of 30 stocks in real time. So our customers think of Motifs as kind of customizable no fee ETFs, but unlike an ETF you actually own the underlying securities and so you can buy one of our Motifs, you can build your own Motif, in fact we have a royalty program.

If someone else buys your Motif we can pay you a royalty and so what it's done is it took our team a year to build I think 100 Motifs in our first year and our customers built 85,000 Motifs. I think to date there are over 320,000 Motifs built and these are all people thinking about



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investing in a very conceptual, a very natural almost human way of thinking about investing. You'd be amazed at the amount of ideas that you see on our platform.

Peter: Yeah, I was poking around there yesterday in preparation for this interview and like there's one Motif, the Future of Fintech, which is obviously something that I'm very interested in. It had a whole range of different companies in there and I could obviously go and follow that or I could actually go and use that Motif and purchase it.

So I guess I'm curious about how you decide...say for the drones, for example, because not every company is going to have drone in their name and not every company is going to be obviously into drones. So you type in drones, how do you decide what companies to present to your investor?

Hardeep: So think of Motif as kind of a Peter Lynch meets a Jack Bogle, right, so we don't pick individual names, we build indices around each concept. So in the notion of a drone, we would actually go in build an index of more than 30 companies, it could be 50/60 companies that have exposure to drones, and depending...each model is done very differently. In the case of drones, we would look at like what percent of a company's revenue is really derived from drones and then we might revenue adjust the market cap.

If we had a Shale Gas Motif, for example, we would weight it by the reserves in the ground because that's what you're really trying to get exposure to.

If you're doing a buyback Motif, we would weight it by the buyback yield so each weighting methodology of the index is really designed to give you exposure to the underlying theme. And a Motif really is a sample of up to 30 stocks that track the risk return behavior of the bigger index that we manage. So we build these master indices and then a Motif is a sample that tracks the risk return, much like when you buy a Russell 3000 ETF, you don't always own 3,000 stocks, you own a sample of stocks that (inaudible) is tracking with the index. We've got a very similar model and so it really is kind of an index approach to thematic investing versus trying to pick winners and losers so we've got a top down approach versus trying to guess which each stock will do.

These indices are not static; we rebalance them, we update it, there's a new company going in or all of a sudden a particular company gets greater exposure to a scene. We adjust those periodically, typically quarterly, but we have some trading models for example, buy the dips, for example, that might rebalance weekly as it looks to find more opportunities. So we really are about this concept-driven investing so we do have passive models, we have asset allocation models, but we do also have a pretty large universe of thematic models.

Peter: Just so I'm clear, let's just use the drone example, the drone Motif. People who want to buy that, are they all getting the same 30 underlying stocks or are you taking like random sample, I mean, how does it work?



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Hardeep: No, they're getting the same 30 stocks. So if you own the benchmark Motif, everyone owns the same product and we do allow you to tweak it and customize it. So if you have a different view on Amazon's role to play in the drone world and you want to weight it more, you can go do that and that's when we go back, we think of these as kind of like customizable ETFs. That's where the customization...and in that case you have a custom version of our drone index, for example.

And for certain ideas that don't have a good selection of stocks, we don't always put them out there so we don't have a drone Motif right now, for example, but there are ones in the community that are built where you have certain people taking a view on a certain sector of stocks. We like to build index models that give you good coverage and good exposure versus trying to pick a handful of stocks.

Peter: Right, right, so having said that, you're allowing people to do it...because I'm just thinking about like the Future of Fintech Motif that I was looking at and some of those companies if I was to invest in it I'd say I wouldn't want that company in there, I don't think they've got a good future and others that weren't in there I would want to add so in which case...so you really have a couple of different ways of doing it.

You can use sort of this index approach which is what you've been talking about or for the very self-directed investor who says...you know what, I want my Future Fintech's Motif and I want exactly these 30 stocks and that's what I'm going to create. So either way is totally fine, they're both like \$9.95, right?

Hardeep: That's correct and then I think one of the interesting things that we released last year is basically...and we're pushing natural search pretty aggressively. So now if you go and try to build a Motif prior to the middle of last year, you actually have to do some homework. You'd have to go out and do some homework, research which fintech companies or which drone companies you wanted to put in your respective Motifs.

Now you can actually type in search, you can type in something like virtual reality into our search box and it'll literally scour the web and pull up the most relevant stocks and you can very quickly, in a matter of seconds, actually build your Motif using search and it's a pretty powerful search tool and it allows you to take out some of the complexity you build.

That was a request from our customers saying, you know, I'm spending a lot of time building a Motif, is there anything you can do to help us discover stocks that we may not have thought of so we've got this. It's in beta, but it's pretty accurate so you can type in a concept, an idea and then actually try to build a Motif on the fly right down to even thematically weighting it for you.

Peter: Right, I just want to be 100% clear here. You said it's \$9.95 and then you could own this Motif for five years and there's no annual fee, is that correct? Obviously with an ETF or a mutual fund there's a fee that they're going to take out every year so I just want to make sure. If you own this for a number of years...obviously, you are buying and selling inside that Motif to reflect the underlying index so is there any other cost after the \$9.95?



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Hardeep: So there is a \$9.95 to buy the Motif. If you decide to make changes to the Motif it will cost you \$9.95 and there is a \$4.95 if you elect to rebalance. So if you left a Motif static, it will be \$9.95 and you're done, but if you decide to...and if you built your own Motif it's \$9.95 and you're done. If you decided to follow one of our rebalances that are typically quarterly there's a \$4.95 charge, however, we have a subscription model where for \$10.00 a month you can invest in as many Motifs as you like, as frequently as you like and it will only cost you \$10.00 and that includes all of the rebalancing, all of the automatic investing.

For people who are building wealth and want predictable costs, we launched a subscription in November of last year called Motif Blue and then you're not in the more transactional model, you're in the, I'll pay a subscription and I want predictability and now you can actually, for \$10.00 a month invest regularly in anything you want, including your own models.

Peter: So why did you choose the 30 limit? Was that arbitrary or is that something...I imagine it wasn't arbitrary, but what was the reasoning behind keeping it at 30?

Hardeep: The honest truth is the first Motif we built just happened to be 30 stocks.

Peter: (laughs) So it is arbitrary.

Hardeep: So it started from that and then as we did usability studies we realized if you put 50/60 stocks people start to lose interest.

Peter: Right.

Hardeep: If you put ten stocks, you're not really diversified enough and so it was kind of like Goldilocks, 30 felt right and then we built the economic model around the 30 stocks and nothing stops us from going in and we've thought about opening that limit, but really, most people are buying multiple Motifs to fulfill a wealth strategy or a goal and so 30 seems to be about right.

Peter: Okay, so then who are your investors? Are these typically young professionals, I mean, who do you find coming onto your platform?

Hardeep: Our early adopters, I kind of got this wrong, were ultra high net worth retirees. I thought our early adopters would be millennials.

Peter: Right, so would I.

Hardeep: So now we've kind of branched away. It was a good problem to have by the way, I think now our median age is kind of high 30's of our customers. We call our customers Motifers, we've got over 300,000 now and I think they fall into a couple of distinct segments. We've got a group that just likes to trade stocks and what they like about our platform is you can trade stocks for \$4.95, but you can also dollar invest in real time so if you wanted to buy exactly \$5,000 of Apple, you can do it on Motif where you couldn't do it at a generic online broker because they force you to buy whole shares and hundred lots and so just that intuitive nature...we've got a big segment there.



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But the majority of our segment are do-it-yourself investors that want to do their own investing, want to build their own wealth models and they don't typically like a robo model for example, where they give you one asset model and that's pretty much it. Here on our platform you have lots of different asset models so even if you're building a wealth model and you want to keep it simple, we give you choice and we give you the ability to customize it as well and so that tends to be our big segment. Then we have some ultra high net worth investors who like to put their play money on our platform and those are kind of the three big segments for us.

Peter: Okay, interesting, interesting. So then can you share like total assets that is going through your platform now or is that private information?

Hardeep: We keep it private. Some of it is governed by NDAs because we've got some partnerships so we've just kept that private for now. We do release our number of Motifers and we have right now 300,000/320,000.

Peter: Right, okay so then...

Hardeep: And this is our retail business.

Peter: Right.

Hardeep: We do have an institutional business that we launched last year.

Peter: Yeah, I was going to get to that.

Hardeep: What we do there is...our focus is thematic models and rebuild more sophisticated global indices partnering with large financial institutions and then we work with them to sell it to their clients and their partners. We announced a deal with Goldman Sachs, for example, where we partner with them to build Motifs, but we embed them in structured notes issued by Goldman Sachs and then Goldman will sell it to their partners and their clients.

We just launched in November of last year a deal with Global Atlantic where we manage three variable annuity mutual funds for them and, again, these are thematic models. That's our expertise and everything we do...our magic is making investing more intuitive using technology and using thematic models so everything we do on our institutional side is thematic.

And even with US Bank...they're a client of ours in their SMA models for their ultra high net worth group, Ascent. I think their minimum account size is like \$100 million or \$200 million so this is like the ultra high net worth investor. We build thematic models for them and we deploy it in their SMA accounts.

And we build models that are just hard to come by where you need a lot of technology to build them so these are not traditional models. I'll give you an example that they've made public, for example, the Reurbanization of American Cities. How do you invest in that? What we're trying to do is build models that are just very unique, very differentiated because it is a competitive



marketplace and we build them predominantly using technology versus teams of analysts and that's kind of our expertise, and that's what we bring to our institutional business.

Peter: Okay, so then who do you see as your main competitors because...it's not like you stumble across many companies doing the exact same thing you are. I don't know of any, to be honest. So who do you see as your main competitors?

Hardeep: Well there are a lot of clones of ours, especially in China, for some reason.

Peter: Of course.

Hardeep: One of them was called MotifInvesting.net (Peter laughs) that actually had my picture on their homepage (Peter laughs) so that was a long story on how we had to get that one shut down.

Peter: Yes.

Hardeep: But outside of that...I mean, we are an online broker, but we're more of a specialty store versus a supermarket.

Peter: Right.

Hardeep: So we focus on our Motifs, on making investing intuitive and we don't try to do everything because you can get very lost in a traditional online broker. We are a registered broker/dealer or FINRA registered dealer so for us, obviously, other online brokers would be a competitor set for us.

And then, you know, to the extent that your alternative is kind of an ETF, this is kind of almost how the next generation of ETFs will play in. So we kind of play in that intersection of the online broker and the ETF world and we do use ETFs. We use fixed income ETFs on our platform, you could buy any ETF so we're not directly competitive, but our main competitors set would be in the online broker space.

Peter: Right, right, okay, interesting. So then I also read about something that you did with JP Morgan on IPOs. Can you tell us...I think it was just a few months ago...so you're helping people now participate in IPOs, can you tell us a little bit about that service?

Hardeep: Yeah, again, the theme of Motif is how do we use technology to make investing more intuitive and we also try to make investing accessible, accessible by having a lower price point. To buy a Motif at a traditional online broker would cost you \$300 and you couldn't dollar invest so we bring down the cost and as you pointed out earlier, there are no ongoing bps that eat at your returns like a traditional ETF model.

Peter: Right.



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Hardeep: And we took that approach to the IPO market which we wanted to open it up, make it more accessible and our friends at JP Morgan also have the same goal of doing that. What we do is we allow people to participate in an IPO, but we take a lot of the complexity out so we walk you through the process of what it takes to participate in an IPO and then we allocate shares.

So we did our first one in December, Trivago, and we've also started to offer Reg A+ IPOs and our goal is to make investing accessible and it really is about giving people access to products they might not be able to get through the traditional model.

We partnered with JP Morgan, we'll be partnering with other underwriters later this year to give people access, but not just giving them access but making it very easy to go through an IPO process and get shares allocated.

Peter: Okay, and so...

Hardeep: And even there you can dollar invest for an IPO if you wanted to participate in an IPO. You could dollar invest and we walk you through all the paperwork that you need to do to participate so you could dollar invest and we actually don't charge you commissions on that so you get to participate and you get in at the IPO price which is pretty exciting for some investors.

Peter: Yeah, yeah, that sounds great. You mentioned fixed income ETFs just a little bit ago and I wanted to talk about the fixed income side. A lot of the listeners are fixed income investors. Do you participate in like publicly traded fixed income securities as well as equities?

Hardeep: No, it's on our radar, there is some work we have to do on our end. I mean, one of our goals is to actually offer fixed income Motifs as well. Today, we use ETFs, but we use them with a kind of a management overlay. So for example we have a fixed maturity ladder Motif that you can look up and we use fixed maturity ETFs...but just like we talked about customization, you can actually tweak the portfolio pretty easily if you wanted to change the duration of that fixed income portfolio or if you had a credit portfolio of fixed income and you wanted to change the risk model on that.

So we do some interesting things even when we use ETFs as building blocks...that's something we're focused on doing and as we do that we'll start to think about bond issuers and things like that. That's not something we offer right now.

Peter: Right, okay, okay, interesting. So then you've raised \$126 million I see and you've actually got many of the same investors that the marketplace lending space...like Foundation Capital, I saw Charles Moldow is one of your investors, Norwest, Renren, these are companies that have all invested in the marketplace lending space as well, you've also got Goldman and JP Morgan. I've got a couple of questions here, firstly, where are you on the path to profitability? I mean, you've been going a few years now, are you profitable? That's my first question and what are your IPO plans?



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Hardeep: The whole profitability question depends on, you know, how quickly you want to grow and do you want to keep driving further? So we're thinking about taking parts of our business international, but those questions are always hard because it really depends on what path are you on. We're on a path to really optimize around growth versus profitability at this point.

Peter: Okay.

Hardeep: And for us it really is about...really we launched our institutional business late last year, we want to get that out. Our IPO business kickstarted in December, we want to keep scaling that business so I think we're pretty early on. We've raised a lot of money, thankfully we haven't spent a lot of money (laughs) so we're well capitalized right now.

I never know about the IPO question, we end up talking with a lot of issuers because they want their product on our platform, but we're just focused on kind of scaling the business and we'll figure that out when we go in. I think we've picked our investors by design.

When we started the company in 2011, fintech kind of ebbs and flows in terms of excitement, but when we started it wasn't excited and we wanted to find notable investors and board members that had taken companies public as you mentioned. You know, our investors took Financial Engines public, Lending Club public, Envestnet public so we wanted to find investors that really knew the space, but we also wanted to bring in people who really understood the regulatory complexity of this space because it is really hard to innovate in a regulated industry.

Peter: Sure.

Hardeep: Your product just doesn't go viral like an Uber does, you really got to spend time, especially if you think about an international play, for example, to go in. So we're very proud of the group of investors we've brought together because they've got a lot of experience, they help us think through a lot of the familiar issues that translate, whether you're in the lending marketplace side or in our case, when you're on the asset management side.

Peter: Right, right. So then where do you see your future? Is your future going to be more and more individual investors...you talked about early adopters and obviously you've got 300,000 plus investors. I'm thinking about where is the mass scale going to come from because we've had this conversation in the marketplace lending space which has lots of similarities here as far as the life cycle of where you've come from. So do you feel like scaling the individual side is really your future or is it more of the institutional type deals like the one you did with Goldman, with US Bank; where is your future?

Hardeep: I think the easiest path to scaling your business is definitely on the institutional side, especially in the US. The answer is different in other parts of the world so that is going to be our focus in terms of scale, growth and all. We're growing our retail business, it just takes time and it's expensive as you can imagine.

Peter: Yes.



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Hardeep: Acquisition costs in this space are high. We've found interesting ways to bring down those costs that are pretty exciting for us and, again, we try to do things that are very well differentiated. I wake up in the morning making sure everything we do at Motif can't be easily cloned because this is an industry where the big incumbents are fast followers and if they can replicate what had taken you years to figure out, in months, that's just not a business you want to be in.

Peter: Right.

Hardeep: Part of it is really partnering with the industry on things we can do pretty well. I think our institutional business will scale at a very different rate than our retail business. That said, there is a lot of synergies between the two so our underwriting and selling group business...for example, we offer those shares to our retail customers and I think what you will see is the best business models in fintech really have to optimize around the cross sell. It's really hard to be a single-featured product and get the economic model to work, you really need multiple revenue streams to go in, because it is also a very cyclical market.

You know, we're coming out of one of the worst IPO markets, for example, so if that's all you did, you'd be in big trouble if that was all you did last year. So part of it is there are different market cycles associated with them, but they do go together very nicely in that a lot of the products we're building for institutions, for example, we want to put on our retail platform and as our retail platform gets bigger, we start to be a distributor not just a manufacturer on the institutional side.

Peter: Right, that makes sense. Okay, so we're just about out of time, but I'd like to sort of finish up with sort of the more immediate future. What are you working on right now, what are your plans for 2017 that you can share?

Hardeep: Well you'll have to come to LendIt to find out, because we're going to be there, but I think we've touched on some of it...we're going to continue to offer products that are very differentiated and that can't be replicated. Our institutional business and our IPO business launched late last year...obviously, we're going to be growing those businesses especially with the institutional side we're going global very quickly so expect to hear some news around us now not just being US-focused. We're going to Europe, going to Asia, we're going to take that business global very quickly so you will see that in the news pretty soon.

Peter: Well that's fascinating. You've got a really interesting business, Hardeep. I really appreciate your coming on the show today.

Hardeep: Thanks for having me.

Peter: Okay, see you.

Hardeep: Bye.



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Peter: One of the things that struck me in this interview was that Motif is actually going through some of the same challenges that many of their fintech cousins in the marketplace lending space are going through or have been through; the challenge of scaling a retail investor business versus scaling an institutional business that is going to really be a lot less costly and potentially provide a faster path to growth. It's interesting that that is the path that Motif is going down as well.

As Hardeep said in the interview that he's going to be at LendIt, he's going to be making an announcement there, I'd like to take this opportunity to let everybody know that. Go to LendIt.com if you haven't bought a ticket yet, you should do so as soon as possible; prices are going up shortly. LendIt will be on March 6th and 7th in New York City. I'll be there, Hardeep will be there and pretty much every leader in the fintech world will be there and I hope to see you there.

On that note, I will sign off, I very much appreciate you listening and I'll catch you next time. Bye.

(closing music)