Oral History with John L. Vogelstein

NVCA-Venture Forward Oral History Collection

This oral history is part of NVCA-Forward Oral History Collection at the Computer History Museum and was recorded under the auspieces of the National Venture Capital Association (NVCA). In October 2018, the NVCA transferred the copyright of this oral history to the Computer History Museum to ensure that it is freely accessible to the public and preserved for future generations

CHM Reference number: X8628.2018

National Venture Capital Association
Venture Capital Oral History Project

John L. Vogelstein

Interview Conducted by
Carole Kolker, PhD
February 5, 2013

This collection of interviews, *Venture Capital Greats*, recognizes the contributions of individuals who have followed in the footsteps of early venture capital pioneers such as Andrew Mellon and Laurance Rockefeller, J. H. Whitney and Georges Doriot, and the mid-century associations of Draper, Gaither & Anderson and Davis & Rock — families and firms who financed advanced technologies and built iconic US companies.

Each interviewee was asked to reflect on his formative years, his career path, and the subsequent challenges faced as a venture capitalist. Their stories reveal passion and judgment, risk and rewards, and suggest in a variety of ways what the small venture capital industry has contributed to the American economy.

As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 21 percent of US GDP and were responsible for 12.1 million American jobs and 2.9 trillion in sales. These figures, while significant, greatly understate the collective accomplishments of the venture capital industry.

I'm pleased to have initiated and given my early support to this project, which received support from NVCA, and is now funded by the Harvard Business School. I believe these oral histories will advance the understanding of the venture capital industry. This collection, along with Paul Bancroft's Bay Area oral history project at the Bancroft Library at the University of California, Berkeley, and Paul Holland's Silicon Valley project for the Western Association of Venture Capitalists, will add significantly to a growing body of venture capital memoirs available to the public sector.

A special note of gratitude goes to each interviewee who generously gave of his time while candidly sharing his memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry.

Charles W. Newhall, III

2013

VENTURE CAPITAL GREATS

A Conversation with John L. Vogelstein

John Vogelstein joined E. M. Warburg & Co., Inc. (later Warburg Pincus, LLC) in 1967. Over the course of the next forty years, John and Lionel Pincus built Warburg Pincus into one of the largest and most successful full-line private equity firms in the world. In 2002, John stepped down as president of Warburg Pincus as part of a plan to pass control of the firm to the next generation.

John began his career at Lazard Fréres & Co. in 1954 and became a partner in 1964. Presently, he is chairman of New Providence Asset Management, LLC and Senior Advisor to Warburg Pincus, LLC.

John has been involved in his community as chairman of the Board of Directors of Prep for Prep; vice chairman of the Board of Overseers of The Leonard N. Stern School of Business at New York University; trustee of New York University; chairman of Third Way; chairman of Christie's Advisory Board; trustee of Temple Emanu-El; trustee of The Jewish Museum, and director of Flamel Technologies.

John attended The Taft School, and Harvard College.

The following is an interview with John Vogelstein of Warburg Pincus and Chairman of New Providence Asset Management. This interview is taking place at Mr. Vogelstein's office in New York City. Today's date is February 5, 2013. This interview is being conducted for the Venture Capital Oral History Project of the National Venture Capital Association and Harvard Business School. My name is Carole Kolker.

Carole Kolker: *Okay, Mr. Vogelstein. We're going to get started. First, I just want to thank you for setting aside this time.*

John Vogelstein: Happy to do it.

EARLY DAYS

CK: *I know you were born in 1934, in New York City. How did it happen that your family was living in New York? Was your family involved in business here?*

JV: My father was involved with a company called The American Metal Company, which later became AMAX, and then was basically not liquidated — it was basically broken up and sold off in the 1970s, I think, maybe even the 1980s.

CK: *And your father's name?*

JV: Hans Vogelstein.

CK: *And your mother, what was she doing?*

JV: She was a housewife.

CK: *Those were the times, right, if you could afford to be. And your mom's name was?*

JV: Ruth.

CK: *Any sisters or brothers?*

JV: No, I'm an only child.

CK: *So what kind of a kid were you? Were you a reader? Were you a tinkerer?*

JV: I was a reader, I was a baseball fan, and an okay student when I was younger.

CK: *Is that how you would describe yourself? Were you outgoing?*

JV: Reasonably. I think I was a perfectly normal grammar-schooler in New York City.

CK: *And how about the values in your home, towards education or success, a work ethic? Was there anything you picked up?*

JV: My father was an extremely erudite man and was a very successful businessman and worked extremely hard.

CK: *So you got a message of —*

JV: Yeah, I did.

CK: *Did he tell you, "The way to get ahead is to work hard," or did you just —*

JV: I think it was just generally understood that effort, both in school and in business, was extremely important, there was an image there of a very hardworking businessman. So that was always part of my basic philosophy that you had to work extremely hard to get ahead.

CK: *And were there any particular expectations of you in the home?*

JV: I was expected to do well in school.

CK: *You went to the Taft School at thirteen. How was that experience for you? It's a boarding school.*

JV: It was initially very difficult, and then as I grew up and began to understand how an institution like that functions I did extremely well.

CK: *Was it difficult being away or the academic transition?*

JV: The academic transition was quite easy. It was difficult. It was an atmosphere that I didn't understand when I got there. I had grown up in a sort of comfortable, New York City way, and this was an extraordinary severe New England boarding school.

CK: *And you're meeting kids from all different —*

JV: Correct. I didn't know — frankly, I didn't know people like that existed.

CK: *So what impact do you think this had on your life?*

JV: Extreme. I learned to understand what I had to do and how to do it. And, as I say, it was a very difficult first couple of years, and then I came into my own as I grew up. I was one of the top students in my class. I was not a great athlete, but I did succeed in getting my varsity letter in wrestling. I became editor-in-chief of the newspaper. So I had an extremely successful career there.

CK: *Have you stayed in touch with any of the students?*

JV: I have a couple of friends from there, just a couple, but I did later become a trustee and chairman of the board, and I gave them a dormitory. I've probably been the major contributor to Taft in its entire history.

CK: *So then it meant a lot to you.*

JV: It did.

CK: *You put down your father as an influence or important person. In what way?*

JV: Well, I told you.

CK: *His work ethic. Were there any particular teachers at Taft or anybody who —*

JV: Yeah, there were several teachers that made an impact on me.

HARVARD UNIVERSITY 1952-1954

CK: *What were you planning to do when you finished there? When you were finishing high school, what were your plans?*

JV: I didn't know. I went to Harvard. At that point, you don't really know what you're going to do. Although I had spent the summer of 1952 at Lazard Frères, in Paris, when I was seventeen. And I apparently made an impression on them, and as a result was able to go back there for the summer in 1953.

CK: *How did that come about, that position?*

JV: My parents were friendly with the senior partner. My mother wanted to go to Europe, and I wanted to go to work, and he said, "I'll give him a job."

CK: *Had you ever worked prior to that? In high school, did you ever earn money in the summer?*

JV: I don't believe so.

CK: *And why did you pick Harvard, other than the obvious?*

JV: It was picked for me.

CK: *Okay. And what was your major?*

JV: I was going to be an English major.

CK: *That's interesting. What was your goal as an English major?*

JV: I didn't have a particular goal as an English major. But, as I said, I had been editor-in-chief of the newspaper. I had become extremely interested in Shakespeare. I wrote very well. And it just seemed like a natural thing to do.

CK: *Was there anything as Harvard that you were learning that was exciting you, outside of English?*

JV: There was nothing at Harvard that excited me at all, which is why I left.

CK: *So you left after two years. And what were your plans?*

JV: I had been informed that Lazard Frères would give me a job if I didn't like college, so I decided to take it.

CK: *Well, that's an interesting message to send.*

JV: I had obviously made an impression on them as a very smart young man, and that message came to me. I think my parents regretted giving it to me, because I decided one day I would take it.

LAZARD FRÈRES & CO. 1954 - 1966

CK: *So you were at Lazard for twelve years?*

JV: I went there in 1954. I left the end of 1966.

CK: *You were only nineteen years old. What were your responsibilities?*

JV: Well, you don't have any when you're nineteen years old. You went up basically as a trainee. I learned very quickly and made an impression quite quickly and did very well.

CK: *And you became a partner when you were twenty-nine. What were you learning about yourself during this period?*

JV: Well, I learned that I had the capacity to work very hard, far harder than most of the others in the firm, or that I came across in business. And I learned that I had a real aptitude for finance.

CK: *Aside from the aptitude, was there something about finance that excited you?*

JV: Absolutely.

CK: *You loved English, and now you've kind of taken —*

JV: Well, I was always pretty good at math as well. The ability to create with numbers I found very intriguing. And the ability to do that — and in those days you did it with a slide ruler, and a book of compound interest tables, and a book of bond tables.You did have adding machines, but you didn't have calculators. The ability to understand numbers very quickly, and the ability to express myself on paper so that my superiors could read and understand what I had concluded enabled me to progress very rapidly.

CK: *That's a nice combination of skills. You also mentioned that your partners at Lazard, Albert Hettinger and André Meyer, were both important figures.*

JV: Well, they were my bosses. Albert Hettinger was my — well, indirect first and then became my direct boss. He was a much older man. He was older than my father, actually. He took a liking to me. He decided he would train me to some degree. He was one of the great investors of his time, a very unusual man.

CK: *Was there something that you learned from him that you felt —*

JV: I learned an awful lot about investing. Many things I learned from him about the stock market and how investments function I have used all my life.

CK: *And Mr. Meyer?*

JV: He was the senior partner of the firm and a very, very difficult boss.

CK: *Well, you must've learned a lot from that, too.*

JV: Basically, what I did learn when I became a senior person in my own firm, I did learn that the way you run a business is to do exactly the opposite of what he would've done. I've sort of had that as a mantra. I think about what he would've done and I do the opposite.

CK: *Well, I guess he did influence you a lot.*

JV: It certainly did.

CK: *And what kind of contacts were you making during this period of time?*

JV: Not enormous ones, because the way Lazard functioned in those days, if you worked there you were supposed to work internally, not reach out. The contacts were reserved for the very senior people in the firm.

CK: *Oh, so you weren't developing a network that you would take with you.*

JV: I was really not.

CK: *So why did you leave Lazard?*

JV: I had a fight with the senior partner, and I woke up one day and I said, "If I stay here, he will turn me into an automaton," which is what he did to most of his partners. And I decided that I just couldn't live that way.

CK: *What do you think has given you your self-confidence in making these decisions? You've made some big decisions at a young age.*

JV: Yeah. And I've continued to make them all my life. Thank goodness most of them have been correct. I don't actually know.

CK: *Fair enough. Well, maybe it'll come out as we progress. So you left Lazard in —*

JV: The end of 1966.

E. M. WARBURG & COMPANY. (WARBURG PINCUS, LLC) 1967- 2002

CK: *Did you have a plan at that point?*

JV: I didn't. When I decided to leave, I did not have a plan. Before I left, I came up with a plan. Well, my friend, Lionel Pincus, — we became friends in 1954, basically — it was amusing. We met at Vassar, which was a female school at the time, but we were both taking out girls at Vassar. We met and became good friends and stayed good friends. And he had left a Wall Street firm and gone out on his own, and then had made a deal to take control of what was then called E.M. Warburg & Company. So when I decided to leave Lazard, I called him and I said, "Look, you're the only person I know who had the courage, or the foolishness, to leave a significant Wall Street firm when he was young. I want to talk to you." So he said, "Sure." So we had lunch. I still remember where — the King Cole Bar at the St. Regis Hotel. And we talked about it. And as we left, I said to him, "I'm not quite sure what you're doing with this firm you've just moved into as president, but is there a role for me?" And he said, "Probably." So that's how it started.

CK: *How **did** Warburg Pincus get started?*

JV: Well, Warburg Pincus is a direct outgrowth of E.M. Warburg & Company. The new name I think was adopted in 1971. It was a seamless transaction.

CK: *When you joined, did you and Lionel have a philosophy for your firm, or a vision?*

JV: Not really. We had been successful on our own, at the firms that we had been at. We assumed that a couple of smart, young guys with a vehicle behind them (i.e. a small firm) would find a way to prosper. And we did. It took us five years to figure out what we were going to do. We learned pretty quickly what we were going to do, but it took us five years to put it in place. That was how the firm got going.

CK: *And what was this vision for what you wanted to do?*

JV: Well, initially, the first thing we understood was that there was no ability for a firm of our size, with our backgrounds, to play a role either in the underwriting business or in the institutional brokerage business. Both of those, which were highly profitable businesses at the time — far more than they later became — were monopolized by the major firms, and there was no way we were going to be able to break into them. We understood that. So we understood that we had to find ways or businesses that the major Wall Street firms, of which there are now only two, but at that point there were probably fifty — I'm just guessing, I can rattle off names — businesses that they weren't really interested in. There were three, basically, that we came up with. The first and most important, of course, was that both of us had been involved in what in those days were called principal transactions, i.e. where a few firms — and there were very few — actually put their money into transactions. It was a forerunner, not of the venture capital business but of the private equity business.

Those firms: Lazard Frères did quite a lot of that; Lehman Brothers did some; Loeb Rhoades did some; Allen & Company, of course, was involved in it. But there were just a handful of firms that were prepared to risk their own capital in those kinds of businesses. Lionel had been at a firm called Ladenburg Thalmann, which was a much smaller firm, but it was quite capital rich, and they had participated in some of those transactions. There were not a lot of them. So we both had a taste for that and liked that business and thought that we could find a way to get into it. Then we decided that there was a consulting business available to us, whereby we could market ourselves as independent, non-conflicted consultants to corporate businesses or to small, foreign governments, in return for fees that typically ran $5,000 a month, which is not an awful lot of money. And then, finally, the third thing that we understood was that there was a business in money management, as distinct from brokerage. And actually, E.M. Warburg & Company had a very small money management business, and we thought that there was going to be a way to expand that, if we could find the right people to bring in. So that's essentially what we set out to do. It took us a while to figure that out and then several years to put it all in place.

CK: *And what was your relationship with Lionel?*

JV: We were very close friends. We were partners. He was the senior partner. I was the number two partner.

CK: *But you became the managing partner.*

JV: He was always the senior managing partner. We didn't have titles, but I basically became the chief investment officer.

CK: *And how were decisions made as time went on, in terms of adding partners?*

JV: He and I would talk about it and decide who of the younger people we would add, or whether we needed to bring somebody in from the outside, which we did very rarely.

CK: *So what was your philosophy, having been at another firm, in managing partners and various egos in the firm? How did you handle that as your firm grew?*

JV: It actually wasn't that difficult because he and I pretty well dominated the place. We did control what happened. When people started to play politics, we just stepped in and stopped it.

CK: *You make it sound maybe easier than it was.*

JV: Well, it was not that difficult. Every now and then people would try to manipulate something and we would just say, "Hey, stop it." If you're fairly direct about it and people know that you're serious, it isn't that hard. As firms get bigger, it gets more and more complicated, but when we started, when we put our first fund together in 1971, there were thirty-three people in the firm, and that included clerks and bookkeepers and so on and so forth. So, starting on that base, it wasn't that hard to see to it that things were controlled. And then, as you bring people up through the firm, or every now and then bring somebody in from the outside, you make sure that they are of a personality and of a nature that isn't going to disrupt what you have.

CK: *And how did you organize the compensation in the firm?*

JV: For the first ten years, it was as little as we could pay, (laughter) because there wasn't any money to go around. After that, it became fairly simple. People were paid a significant salary and, of course, they had an interest in the profits. And we tried to make the latter, the interest and the profits, the most important.

CK: *Because?*

JV: Well, we were in the investment business. We were in the private equity business. And we felt that the way you make good investments is to make sure that the people responsible for them have an interest in their outcome.

CK: *So was any of your past experience at Lazard helpful? How were you able to apply that to what you and Lionel wanted to do?*

JV: Well, my investment experience was extremely helpful. As I said, Lazard had done private equity kinds of transactions, and I had been involved in a few of those. My observation of how those were done also made a significant contribution to my thinking.

CK: *They talk about the culture at Warburg Pincus. Were you trying to build a culture?*

JV: I guess the answer to that has to be yes. And we did.

CK: *Do you want to talk about that a little bit?*

JV: Well, the culture was one of — let's call it "fair play." You treated your partners and ran the firm on a basis that took into account everybody's contribution and ability to contribute, and rewarded them accordingly. You dealt with your outside investors with the minimum of possible conflict, and I'll get to that in a minute. You dealt with the companies in which you invested with the same kind of evenhandedness — there was a conscious lack of rapaciousness, is I guess what I would say — that you could make fine investments. You had to be tough and you had to be strong, but you didn't have to be outlandish in dealing with people. And some of the criticisms that I think are leveled at the financial industry is that there is some pretty high-handed behavior. There are some things that went on in the last boom/collapse that I looked at some of my successors and I said, "You know, we never would've done anything like that." The firm never has done stuff like that. This concept of putting together — I'm sure you've read about this, where people put together mortgage packages that they knew were going to fail and then sold them. That's the sort of thing. It may not have been illegal, but in a million years we never would've done that.

The other thing is we decided early on that our model would be that we took a fee from managing the funds that we had, as does everybody, to pay the overhead, and we had a twenty-percent interest in the profits, and that was it. We never took a director's fee. We never took a monitoring fee. We never took a financing fee.

We never took a merger and acquisition fee. We never took a closing fee. We have never taken — this still goes on — five cents more than the basic management fee and the profit's interest. That's the way this firm has always run. And the reason is very simple. We decided very early on that if you got paid for putting an investment on your books, how could you be clear-headed about what you were doing? In other words, if I know that when I make this very large deal I get paid a sizable fee for making it, what happens to my investment judgment as to whether I should do it or not? And we decided early on that we would never put ourselves in that position, which makes us entirely different than anybody else in the industry.

CK: *So this is a process. This is culture that you're talking about. And it became the Warburg Pincus process of investing. But you've grown enormously. How do you scale this? You have how many partners and you're in how many countries?*

JV: I think there are sixty-five partners now, and I guess we're probably in eight or ten countries. We invest in eight or ten, but we have offices in New York, California, Hong Kong, Shanghai, Beijing, Bombay, London, and I guess Frankfurt. I think that's where we have offices. But we've invested, of course, in many other countries, several other countries.

CK: *How do you manage globally?*

JV: Remember, I haven't been active for ten years.

CK: *But how did you? You were at the center, from what I understand, of the investments.*

JV: Mm-hm. Well, it has become, as I observe it from a distance, much more complicated because the firm is much bigger, which makes it more difficult. When I was active, it was not that hard because the firm — I forget how big it was, but it was far smaller. You just had to understand who the key people were, what they were doing, and you had to keep yourself informed about the investments that were on the books. And you had to keep yourself involved in the investment decisions — both making them and selling them — that were being made. Until I stepped down, I was involved in every significant investment decision that was made.

CK: *I'm going to move on because I want you to elaborate on this and talk about how you've gotten to an investment, what guided your investment philosophy. How would you vet a company that you were going to invest in? What were you looking for?*

JV: We were looking for a good investment.

CK: *And how were decisions made about whether to make an investment?*

JV: Well, again, it's sort of an amorphous process. Somebody in the firm would come up with an idea or a possibility, and then it would be decided whether that was worth trying to do. And then often that person, but sometimes another person, would lead a team of two or three people and study the company and the industry in which it was involved. And as things went on, the interface between that team and myself and myself and Lionel Pincus was a continuous process, so that when it became time to make a decision to invest or not to invest, we didn't have a meeting and everybody sat down. Essentially, we knew. Because there had been an interim process as we went through it, we knew whether we were gonna do it or not. It became almost self-executing. There was never a time when somebody rang the bell and said we're gonna do this or we're not gonna do it. It just evolved. You get to a certain point and it would become quite obvious that you want to try to do it. Or it would become quite obvious that you don't want to try to do it.

CK: *And who makes that decision?*

JV: Well, it almost became self-executing.

CK: *And how'd you go about raising the funds?*

JV: Well, Lionel was the principal fundraiser. It was essentially a marketing process.

CK: *Was there a network of people?*

JV: Of course. Early on, we had had formed a fund in - I guess it was 1970, maybe it was ’69. It was twenty million dollars, and it was essentially private individuals. And Lionel himself, who had quite a lot of capital, was a significant capital investor in it. As I say, it was private individuals. We then realized that there was, in fact, an institutional market for this, because a couple of people had raised institutional money. So we recast that fund in 1970-71, and with the help of Solomon Brothers raised $41.5 million, of which $26.5 million was new money, and fourteen million — I missed a million dollars somewhere — was rolled-up money from the previous fund.

CK: *So were there other partners, people you would go to, outside of Warburg Pincus, when you were raising these funds, other venture capital firms?*

JV: Funds were raised from institutions, pension funds, universities, wealthy individuals.

CK: *And then how were these investments managed? Who was managing the fund?*

JV: The firm was.

CK: *If you're going to sell something, how do you make a decision to sell it?*

JV: Well, the same way you make a decision to buy it. You decide that it has developed far enough and that the future is less attractive or maybe is no longer that attractive, or you've made so much money in it, you decide that the time has come to get out.

CK: *I think you've probably told me what distinguished Warburg Pincus from other firms. You mentioned your compensation structure. If you had to answer: What's distinctive about Warburg Pincus?*

JV: We have always regarded ourselves as investors, and I think some of the other firms— Venture capitalists regard themselves as technologists, primarily, and many of the other private equity firms regard themselves as leveraged buyout specialists. We did leveraged buyouts, and we did venture capital startup, but we basically regarded ourselves throughout as investors who sought the best possible place to invest money at any given time.

CK: *And were successful in doing that.*

JV: We were successful.

CK: *You retired from Warburg Pincus. I did want to ask you, is there any one investment, or any couple of investments, that stand out in your mind as being either difficult or challenging or memorable?*

JV: Well, there are an awful lot of them.

CK: *You mentioned Mellon Bank. Is there a story there that's illustrative?*

JV: Well, I guess the basic story is it's the first billion-dollar profit that the firm ever made. And the other story is it was an exceptionally complicated, extremely imaginative kind of a transaction because the institution, when we got involved with it, was worth about \$750 million, and they had to raise about \$500 million not to be liquidated. And we figured out a way to do it.

CK: *That was complicated.*

JV: That was complicated.

CK: *How did you handle the stress of this? Was this a stressful —*

JV: Well, the entire business is stressful.

CK: *How do you handle stress?*

JV: You just handle it.

CK: *It goes with the territory?*

JV: Yeah.

CK: *As you're expanding and things are changing, are you maintaining all this involvement in all these companies?*

JV: Obviously, it began to get diluted, but I did up until the time that I stepped down. I was pretty well involved in everything.

CK: *Globally, across all these sectors?*

JV: Mm-hm.

CK: *So was it difficult to let go of this?*

JV: Well, no, because I realized when I got to be — my realization that you needed a younger generation coincided with my becoming sixty-five years old. What happens is you recognize that the physical energy needed to do what has to be done in a business like this belongs to younger men.

CK: *Then how were you able to pass on this philosophy, this culture?*

JV: Well, we turned it over to two men in their late thirties, early forties. And they had basically grown up in the firm.

CK: *There was no concern that things would change?*

JV: We didn't think so, and they haven't.

CK: *So you didn't scale back, by 2002 — is that when you retired?*

JV: Well, we made the transition over a couple of years because we didn't want to jolt the firm.

CK: *Both of you were letting go?*

JV: Right.

CK: *Did you discuss this between the two of you?*

JV: Oh, sure, of course.

CK: *So what was your hope for Warburg Pincus, in terms of a legacy?*

JV: Well, we hoped that the firm that we had built would continue after us, rather than being dissolved and going away. And we were successful at that.

CK: *Can someone learn to be a good venture capitalist or private equity person? Is this something that can be taught?*

JV: Up to a point. In other words, you can learn how to do everything that needs to be done, but — and I've often compared this. People ask me that question a lot.

People that used to come to work here would ask me that question. I compare it to an artist. You can be taught to draw. You can be taught to paint. But you cannot be taught to be Picasso. You can be taught to do the private equity business. You can be taught to make investments. But you cannot be turned into a great investor. You have to be born with that talent.

CK: *It's an art more than a science?*

JV: It is an art. You have to learn how to do all these things, but the ultimate judgment, the ability to judge whether it's going to be a great or not great investment, is an art.

CK: *I know you've worked globally, but you've also worked East Coast/West Coast, and I'm wondering if there's a cultural difference between how things function on the East Coast in your field.*

JV: Well, the West Coast tends to be technologically involved, and the East Coast tends to be — let's call it "deal oriented." That's the big difference.

CK: *And the challenges of operating globally, in terms of cultural differences, had to have been —*

JV: It's very difficult.

CK: *What's the most difficult part of that?*

JV: Well, you touched on it. It's culture. There are severe cultural differences, or significant cultural differences, between the American way of thinking about investing and the American way of thinking about transactions and the way of thinking about them in other places. It's just different. You have to be able to adapt to the differences in these cultures. The significant way to do that is primarily to populate your non-U.S. firms with local people rather than, in effect, exporting people from here. That's what we did.

CK: *Can you export your philosophy to another culture?*

JV: To our firms in another culture, yes, I think so.

CK: *And you have been able to?*

JV: We have had no problem doing it.

CK: *I know you went through a financial market collapse in '74, but I'm curious how Warburg Pincus fared during the bubble and the burst of the late twentieth century.*

JV: Well, as I say from a distance, they did fine. They obviously suffered in 2008, as everybody did.

CK: *I'm talking about '99/2000, because you were involved.*

JV: Lionel and I made a decision in '99 and 2000 that we would get out of everything that we could get out of. We saw what was coming very clearly, and we decided that now was the time to liquidate as many assets as we could liquidate, and we did. We gave back to our limited partners approximately half of the assets that the firm had under management.

CK: *How were you able to see this?*

JV: Well, that's the business we're in.

CK: *Everybody in your business didn't have that foresight.*

JV: We were pretty good at seeing things like that.

CK: *What did Warburg Pincus learn? Did you change your strategies in any way after this?*

JV: We didn't learn anything. We knew. We knew that markets were overheated. We knew that the dot-com boom had gotten ridiculous, we knew that the valuation placed on the S&P 500 was nonsense, and we knew we had to get out. So we got out.

NEW PROVIDENCE ASSET MANAGEMENT - Founder - 2003

CK: *You started New Providence Asset Management in 2003. What is your mission?*

JV: We are what we call an outsourced investment office, which is to say we don't buy stocks. We pick managers. The theory is that modest-sized institutions and wealthy families cannot basically manage their assets intelligently, because they cannot afford to bring in full-time investment talent; it's too expensive. Therefore, they tend to be run by family committees or by institutional committees, and these committees don't work. There's an old saying that when the devil decided nothing could be done, he formed the first committee.

CK: *I've never heard that.*

JV: So these committees try to make investment decisions and they don't succeed and they don't meet continuously. So we reached the conclusion that there was a business to be built out of, in effect, saying: We will be your investment committee. We will report to you, but we will pick the managers and we, with you, will decide on asset allocation. Then we will pick the managers and we will decide when a manager should be changed. And if we think asset allocation should change, we'll come back and tell you. And so on and so forth. And that's proven to be a real business. It's a very slow sell. In other words, getting people to turn their affairs over that way is very difficult to do, but it's a real business.

REFLECTIONS

CK: *What continues to excite you about this industry?*

JV: I like to invest money. I always have. I've been doing it since I was nineteen years old, or eighteen when I made my first investment. I've been investing professionally, certainly, since I was nineteen years old. I like to invest money. It's something I enjoy doing.

CK: *What part of it do you like the most?*

JV: I guess it's the puzzle of understanding when and what to invest in, both a question of timing and a question of selection.

CK: *Do you like the research, the learning about different sectors?*

JV: Remember, we're now delegating that to managers that we choose so that we don't actively study companies anymore. I don't actively study companies anymore. But when I was here [Warburg Pincus], the understanding of businesses and what made them click, and why they were attractive to invest in was, of course, the challenge and the excitement of what we did.

CK: *Would you see investing or venture capital as a romantic quest in any way? You love literature. Chuck Newhall sees it as a romantic quest.*

JV: I don't see too much romance about it.

CK: *Okay. Are there any venture capitalists, particularly, that you admire or have admired over the years?*

JV: Well, I had a venture capitalist as a partner. His name was Bill Janeway. He did a remarkable job. He was one of the few people we brought in from the outside. I brought him in. He's a brilliant guy. We made some remarkable investments here. We became close friends and have stayed that way.

CK: *You mentioned two other influences, attorneys that were friends of yours. I don't know if you have some reason that they've influenced you or have been important in your life? Jack Nusbaum, Martin Lipton?*

JV: They're just very intelligent, wise men, who have been great advisors to me over the years.

CK: *That's a compliment. Do you ever stop and think you would've enjoyed doing something else?*

JV: Not really. Every now and then, I thought, "Maybe I should go off and try to run a company." But the opportunity never presented itself.

CK: *What do you feel is — you're going to have to toot your own horn here— What's John Vogelstein's legacy here at Warburg Pincus or just as an investor?*

JV: I have no idea.

CK: *I guess it's pretty self-evident in your success and in the philosophy that you've imbued this company with.*

JV: I think the people who succeeded us think that I had a major influence on them. I know that because they hung my picture on the wall.

CK: *Because you did kind of professionalize this —*

JV: I did.

CK: *As you said, it was something that nobody else was doing, the way that you ran your company.*

JV: I think that's correct.

LIFE BEYOND WORK

CK: *What do you do when you're not investing? What do you do to take a break?*

JV: I play bad golf. I was, for four years, chairman of the New York City Ballet. I'm involved in several charities. That's basically what I've done. I like to collect paintings.

CK: *What period of art?*

JV: Basically what's called "modern," which starts at the beginning of the twentieth century and basically stops with the Abstract Expressionists. I'm not much of a contemporary collector.

CK: *That's an exciting time in art.*

JV: It is. Actually, I'm chairman of the advisory committee of Christie's.

CK: *You're involved in the Stern School at New York University?*

JV: I've been on the board for a long time. I'm not particularly active.

CK: *And The Third Way?*

JV: Yeah, Third Way is something I'm quite interested in. It's a centrist, democratic think tank. It's of real interest because that's where the Democratic Party should go. That's where the center of the country really is. It's a way to try to have some influence because of what I consider to be very positive things to happen. Washington is a very hard place to get anything done, but we can try.

CK: *And you have two children?*

JV: My oldest son is fifty-one, so they're hardly children.

CK: *(laughs) They're always children. That's Andrew?*

JV: That's Fred.

CK: *Oh, okay. And Andrew, what is he doing?*

JV: Andrew works with me at New Providence.

CK: *Hans, is that —*

JV: Hans Alfred, he's known as Fred. That was my father's name, Hans Alfred Vogelstein. So Fred is Hans Alfred Vogelstein the second.

CK: *And what is he doing ?*

JV: He's a journalist. He's currently writing a book.

CK: *Oh, so he picked up where you left off?*

JV: Sort of. He lives in California. He has been focused on the high-tech industries, and he's writing a book about that.

CK: *I look forward to that.*

JV: I do, too.

CK: *Is there anything that I didn't ask you that you'd like to add?*

JV: I don't think so. Let's read what comes out.

CK: *As I said, Felda [Hardymon] was very interested in hearing from you about your years at Warburg Pincus and how you professionalized investments and institutionalized what you were doing. Am I right?*

JV: Absolutely, but it was not, in a sense, a conscious decision. It was the way you build a firm, the way you make investments, and the way you organize yourself. It was never a statement that this is exactly how we're going to do it. You build a business by building it. You don't build a business by thinking about it. You build a business by doing it. You have a basic philosophy within which you operate and you understand that, as far as I'm concerned. You have to treat people fairly and well. You have to treat your employees fairly and well. You have to treat your clients, if you will, fairly and well and with a minimum amount of conflict, so that your interests and theirs are as aligned as possible.

I think that one of the weaknesses that has developed in the financial world is that — maybe of necessity, but the financial firms have evolved to a considerable degree, to the point where they're in the business of exploiting their customers and clients, rather working with them. When I started, one of the things I learned at Lazard Frères is that your client is key, and you have to treat him right. You have to deal correctly with people. And I think Wall Street has, to a considerable degree, lost track of that.

CK: *So this sense of fairness came out of that experience?*

JV: Well, I think maybe it was just ingrained, but it's certainly the way Lionel and I grew up and what we always believed. Certainly, it's what we inculcated in everybody that was here. It has survived us, which is nice.

CK: *Well, I think that's a real compliment. Thank you very much for this time.*

JV: Nice to see you. I hope it ends up being helpful.

CK: *Oh, I think this will be very helpful. I'll get back to you shortly. I thank you for Harvard Business School, for participating in this. I'll be in touch.*

JV: Happy to do it.