



SEASON 4 EPISODE #5

**AFZAL M. TARAR**

QUARTUS CAPITAL  
PARTNERS LLC

**Announcer:** Welcome to the Rainmaker Podcast, with your host, Gui Costin. The goal of this podcast is to give listeners a unique look into sales strategies from top industry executives. We introduce you to the heads of sales and heads of distribution, who will help you understand the inner workings of the successful sales organizations, from philosophy to execution. This podcast is essential for sales professionals seeking wisdom from the best in the field. If you're not familiar with Dakota and their Dakota Rainmaker content, please check out [dakota.com](https://dakota.com) to learn more about their services.

**Gui Costin:** This episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediate database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases, websites, form ADVs, and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit [dakota.com/dakota-marketplace](https://dakota.com/dakota-marketplace) today.

What is up, everybody. It's Gui Costin, founder and CEO of Dakota. Welcome to the latest episode of the Rainmaker Podcast. I'm so excited to be joined by Al Tarar of Quartus Capital. Al Tarar is the Founder and Managing Partner of Quartus Capital Partners, LLC, an AI and technology investment firm with partner presence in New York City, Miami, Silicon Valley, and Asia. The firm is led by AI pioneers, technologists, and seasoned operators. Al studied AI in the mid-1980s and early 1990s, and has since practiced, advised on, and advocated for the effective and ethical applications of AI in business and society. Quartus Capital Partners with growth stage ventures with proven business models, meaningful commercial revenue and high growth potential. With our deep expertise in growth and performance improvement, we help turn growth stage ventures into market leaders poised for long-term success. Before founding Quartus he was a partner at PwC, where he gained extensive experience across their China, Hong Kong, and New York City offices, helping clients navigate complex markets and cross-border investments. With over 25 years of experience, he has led and advised on a broad range of ventures and M&A opportunities in industries such as financial services, wealth and asset management, real estate, business services, and technology, with a particular focus on the US, China slash Hong Kong and Asia-Pacific regions. He spent a total of 14 years in China over two seven-year periods, 1982 to 1989, and 2005 to 2012, gaining first-hand experience and deep insights into the country's economic, regulatory, and social developments, as well as its cross-border investment flows. He is also an active member of the National Committee of US China relations. Al, welcome.

**Afzal M. Tarar:** Thank you, Gui. Pleasure to be here with you.

**Gui Costin:** Yeah. Thrilled to have you. So the exciting part today about AI, he really has a fascinating venture private equity firm, more venture, as we get into it, AI, healthtech, edtech. So this is going to be a deep dive into really what's going on in that end of the market. He has incredible experience and I'm so excited to have him on. And AI, just kick it off. Just give us your background. I know you just told me you lived in China for 14 years. So walk us through the beginning, where you grew up, the whole thing, and how you got to founding your firm.

**Afzal M. Tarar:** Gui, so I will give you a Reader's Digest version, because otherwise it will be very long. I grew up in Pakistan, got a national scholarship to study abroad. So I chose to study in China. This is in mid-80s. So I'm aging myself by telling you this. And I studied Chinese in Beijing, and then I went to the MIT of China. It's a university called Tsinghua University. For some of the audience, this is a school the Chinese president actually went to as well, and many famous Chinese leaders. So that's where I ended up studying computer engineering, computer science in mid-80s. And it just so happened; my school used a curriculum from MIT. And I also studied AI, earlier form of AI. I had no idea at 18, 20 that 30 years later or 25 years later I would be talking about AI. But that's what I did. So my school graduation paper was on natural language processing, believe it or not, at that time. Speed forward, I came to US for graduate school. I went to Case Western in Cleveland. You may know them.

**Gui Costin:** Yeah, of course.

**Afzal M. Tarar:** And I was hired by KeyBank, which used to be called Society Bank as the first Head of AI. This is '91.

**Gui Costin:** Oh my gosh.

**Afzal M. Tarar:** I was the head of the AI department. And all of my peers were about twice my age, as you can imagine, head of different departments. So that's how my personal professional DNA is formed. And then after that, I spent 25-plus years in management consulting with a series of firms from Deloitte to IBM Business Consulting to KPMG consulting to PricewaterhouseCoopers. So I was a partner with PwC, based in Shanghai, Hong Kong, and also in New York.

**Gui Costin:** Oh, wow. And so good advice and strategic consulting were you giving, what types of companies, and then how did it lead to your company, your firm today?

**Afzal M. Tarar:** Again, to sum it up in few words, I advise financial institutions, and within that wealth and asset management businesses. I actually helped

set up several wealth and asset management business unit within large financial institutions.

**Gui Costin:** Wow. I know it's not the subject for today, but we could have a second podcast to walk you through that. OK. That's incredible. Because that's obviously my world, right, of all the wealth management, wealth management, distribution, everything. Ok. Talk to us about the founding of the firm and what the investment strategy is.

**Afzal M. Tarar:** So at my tender age, I realized I'm missing something in management consulting career. So I thought to combine management consulting, performance improvement with capital together. So that was the genesis of Quartus Capital Partners. So I launched the firm. Right. So we've been around for about 10 years. We have done a few different things in the first five years, but the second five years we are exclusively focused on AI and technology venture capital investment.

**Gui Costin:** Gotcha. And what sectors do you focus on investing in?

**Afzal M. Tarar:** We look at investment in this venture space through the prism of AI and technology. So we are very open to sectors. It just so happened in our fund one, we have nine portfolio companies. Four of them happen to be in health tech. We have one company that is in edtech, education and learning technology. We have supply chain, physical and cybersecurity, et cetera.

**Gui Costin:** Nice. And it sounds like you have a really accomplished team. Can you talk about your team a little bit?

**Afzal M. Tarar:** We are very small.

**Gui Costin:** Ok.

**Afzal M. Tarar:** There are five people in my firm, ok, four partners and one...

**Gui Costin:** For a venture firm, that's not small. It comes down to the intellectual, you know, abilities.

**Afzal M. Tarar:** But that's the team.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** So I do most of the plumbing work.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** Front office, investor-facing stuff, portfolio management. And I have very capable partners who I work with.

**Gui Costin:** One question I always like to ask investors is... and really the operative question is, what gets you excited to come to work in the morning?

**Afzal M. Tarar:** There is so much opportunity out there for investment, given what we have gone through, COVID and so forth. So there are a dearth of opportunities out there where capital can be deployed if we know, or the investor knows what to invest in, what to avoid. So that's what excites me about our business. Fundraising, however, has been challenging.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** But on the investment side, we have been very blessed. We have very, very deep pipeline of opportunities. So we are saying, if we can invest in five, 10, 20 companies that are using AI very effectively while they are solving some very complex problems in business or society.

**Gui Costin:** Could you... I want to come back... ok. Could you give us a few examples of that, of what sort of problems that are being solved right now that you're seeing that's really exciting?

**Afzal M. Tarar:** So one company that we talk often about, because it is pretty much impacting everybody that we talk to, and that is using AI to address the chronic disease management. So this company is called uMethod Health. They're based in Raleigh-Durham. They are using very large medical model, LMM versus LLM. So they created this large medical model to focus on early dementia and memory loss. So pretty much all the people I know, they have somebody in their family who have dementia.

**Gui Costin:** Yeah. It's real.

**Afzal M. Tarar:** And the chronic disease is also the single biggest budget item for US federal government.

**Gui Costin:** Ok. What has AI taught you and taught the company about dementia and what's the root causes?

**Afzal M. Tarar:** So what they're doing is, they're not doing diagnostics. They are helping doctors, helping patients improve their condition. So what they're doing is, they're using DNA, bloodwork, prescription medicine, history, lifestyle questionnaire of a single patient and running through this very large medical model to come up with a personalized care plan. So Medicare is actually paying them to generate this personalized care plan for each Medicare age patient twice a year.

**Gui Costin:** Wow.

**Afzal M. Tarar:** That opportunity is \$300 to \$500 million a year opportunity.

**Gui Costin:** That's incredible.

**Afzal M. Tarar:** So that's what this... but they are not there yet. They are at a very early stage. So we are investing in them to help them scale.

**Gui Costin:** How much does... don't laugh too hard, because I'm asking a very rudimentary question. How much does diet play a role in dementia, according to kind of what...

**Afzal M. Tarar:** Very significantly. So this technology is based on what they call... Quest Diagnostics is one of their clients, by the way. So they say in their public announcement that this company is using science and facts in their analysis. So there's no hallucination in this case. So they are relying on that patient's DNA, that patient's prescription medicine history, lifestyle questionnaire saying you should avoid eating this. Instead eat that or avoid taking this pill versus taking another pill of a similar in nature to improve your memory situation. So that's what this company does.

**Gui Costin:** Well that's amazing. I could go down a pretty long... because, I mean, I know a lot of people that have it. And then you think about nutrient deficiencies and stuff. And, again, I'm not Dr. Huberman or...

**Afzal M. Tarar:** I'm not a doctor either and we are not a health care specialist. We are an AI investment firm. So we invested in this company because we got or we get what they're trying to do.

**Gui Costin:** Sure. OK. So making investments is an extremely hard job, public companies, private companies, venture, kind of at the hardest end of the market. Can you walk me through... because making decisions, like, how you make a decision to invest. Can you walk us through that thinking? So you could pick any company. Like, when you assessed it, when you first heard about it, what gives you confidence? What is your process for establishing confidence that we're going to make a decision to invest in this company?

**Afzal M. Tarar:** So in answering your question, I will probably step back a bit and tell you why we are doing this sector or this segment of the investment. So we spent a couple of years studying whether we should do early stage, mid-stage or late stage. We looked at Cambridge Associates' detailed paper on growth equity. You might have read it. In that research they studied data over 25 years. They concluded in their paper that growth equity is the best risk adjusted return strategy across venture, growth, and buyout.

**Gui Costin:** Ok. Let's just take a pause there. Because I think the listeners really want to... so it's the Cambridge Associates research paper on growth... or on private equity investing?

**Afzal M. Tarar:** I believe the paper title is called... it turned out it's "All About Growth." That's the title of the report.

**Gui Costin:** Cambridge Associates, "All About Growth."

**Afzal M. Tarar:** Yeah. It's in our pitch material. In our TIA sheets, we actually footnote this.

**Gui Costin:** Ok.

**Afzal M. Tarar:** That study inspired us to launch our AI and technology venture strategy.

**Gui Costin:** Ok. So let's get back to the why behind that. Why do you think, in your personal opinion, professional opinion, why do you think that's the case that growth equity presents the best risk adjusted return?

**Afzal M. Tarar:** One is these companies are now too early. They have gone through some most difficult part of the early stages. Second is, they are very lightly capitalized. The ones we invest in particularly, they have very little debt, if any. And if they have debt, that will be convertible debt. And they have already achieved certain scale. So it used to be a million or so dollar ARR. And now we are moving the guidepost further to the right with \$5 plus million-dollar ARR.

**Gui Costin:** So you're starting now, your investment criteria, you want to start investing in companies that already have \$5 million in...

**Afzal M. Tarar:** Commercial revenue. Yeah.

**Gui Costin:** Commercial revenue.

**Afzal M. Tarar:** Yeah. And that actually takes out very significant portion of venture out of the view.

**Gui Costin:** Right. Ok. If we park the conversation right now, can we just move just one question about venture?

**Afzal M. Tarar:** Sure.



**Gui Costin:** We're seeing venture... a lot is being written about venture starting to look more and more like private equity. And there's just a lot being written about it, open-ended funds, Sequoia, like, the whole thing. What is the why behind that sort of move?

**Afzal M. Tarar:** I think that major trend is going to continue, and we are no exception. We actually have been wired to think like a private equity firm, although we are venture capital firm. So when we invest in ventures, we're thinking about exits. We're thinking about... we're not investing in companies because they're blingy and they're good to look at. Right. They are not based on quick, rash decision. So we're always thinking, when can we have an exit? What is the M&A possibility? So we are wired that way, although our investment is minority investment, and with significant board and other consent rights. So we are thinking that way. However, we remain a venture capital firm today. And we might have adjacent strategies over time that will take us to perhaps what is deemed to be private equity.

**Gui Costin:** So if I just did a very quick general synopsis of venture, a venture capital firm would make 10 investments. And then there's all variations, but one's kind of the big one. And maybe there's the number two that's a slightly big one. Then everything else might not do as well. It doesn't sound like that's your program. It sounds like...

**Afzal M. Tarar:** No, it's not.

**Gui Costin:** Because you're going in day one thinking about M&A. So you're investing in that company saying, hey, this could really fit with these types of companies, and you probably assess that and that's your TAM so that there's more and more companies that could acquire that company.

**Afzal M. Tarar:** Yeah. So referring to the Cambridge Associate paper, again, we're riding on their coattails in this case. They concluded the risk profile of this growth equity, which is what we adopted...

**Gui Costin:** So let's do this, just so the audience can know. How do you define growth equity?

**Afzal M. Tarar:** We define growth equity very similar to how Cambridge Associate defines it, which is basically saying, these are mid stage ventures. They are not too early. So it's not seed. It's not A. Many of them are B, C, and D, right. And they have...

**Gui Costin:** But the bottom line is... what you're saying is, they have more than enough revenue and they have momentum, and they have visibility in the pipeline and ARR growth.



**Afzal M. Tarar:** Yeah. So their risk profile is such that we expect most of our portfolio companies to be successful. The difference is some will be more successful than we expected. Some will be less successful. The idea of them going sideways is possible, theoretically, but we don't expect that to happen. If it happens, it will be very little. So the capital loss ratio of growth equity strategy is comparable to buyout.

**Gui Costin:** Yeah. Because I've invested in some venture funds, then I've invested in growth equity. And, man, the venture that you don't do is really uncomfortable. Because seeing all these bets on all these businesses... and then if they make the bet and they don't do the portfolio management well and they give it a 25% weight and it goes to \$0, I mean, that's A, bad for management. That's really painful.

**Afzal M. Tarar:** Yes.

**Gui Costin:** Right.

**Afzal M. Tarar:** So we are avoiding that, because that's not what we want to do.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** We are seasoned consultants and operators in our background. So we like to invest in a concentrated portfolio of mid-stage, late stage ventures. We are talking about 8, 10 companies per fund, maybe 15 top. And then we get hands on with them, help them improve. And we expect all of them to be successful.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** As I said, some less, some more.

**Gui Costin:** So, 25 years as a business consultant. You have a lot of skills and a lot of experience. And by the way, I want to circle back to AI and one thing that you said earlier. When I've been studying AI and the usage of... I think of life experience and domain expertise is going to give you such a leg up in terms of utilizing AI and the models and everything. Could you just comment on that?

**Afzal M. Tarar:** Yeah. So we try not to get carried away with this. But that is the depth of experience that my partners and I have. And my partner is quiet, and I call him... he has a quiet power, and I talk perhaps more than he does. But two of us, when we were talking to portfolio companies, we are thinking about what could happen in two years, three years, four years, five years. What can we do for this company from strategy, finance, technology, risk

management? These are all the functions that I have worked in over the years. Right.

**Gui Costin:** Sure.

**Afzal M. Tarar:** So AI is a very, very complex space. I studied earlier form of AI in China and at Case Western in Cleveland. Speed forward, many of those same core technologies exist in what we are referring to as LLMs. Right.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** Faster, better. But, for us, this is the early innings of this phase of AI. This is not the end. This is just the beginning of AI. Huge potential, but also huge risks.

**Gui Costin:** Of course. And so, let's get back to the \$5 million ARR and then the business consulting that you provide to these companies. Because it's obviously a huge value add. When you're going through the due diligence process and looking at a potential investment, how much... and I know you do, but I just want to get a sense of how much the management team will value you being able to give advice and guidance and what a big part of the reason they would go with you versus someone else from a capital perspective.

**Afzal M. Tarar:** So I think in our short history, out of the nine portfolio companies that we have invested in, six, seven came to us, their CEO, the founders.

**Gui Costin:** Wow.

**Afzal M. Tarar:** They said, we heard about you guys or we understand that you know what we are doing. You should look into investing in us. That's the basis on which I'm making this statement. So we actually say so many no's than we can say yes. One, we are constrained by capital. The other is, we have a very high threshold. Again, we are not investing in hot and blingy companies saying, if you don't invest in two weeks, they're going to go away. We might miss some opportunities, but we are not doing that.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** So we're taking out time to review, study, and work with these founders to assess. So that's the process.

**Gui Costin:** That's an incredible... number one, having people call you because of your reputation and people have heard about you is significant. What would you say when you look at any one of these companies. Is there a

through line that these founders either lack something along the way? Not that they're not intelligent or they're not motivated or what have you. But is there something that's common characteristic that you kind of see as somebody's tried... Because a lot of these founders, maybe this might be the first time they're growing a company. And as I know, a founder too, I've been through it. I mean, you definitely need different skill sets as you're going through.

**Afzal M. Tarar:** Fortunately, all the founders that we're working with, they are not the first-time founders. They're the second, third, fourth time founders. But they still make mistakes. They still have certain things that are lacking in their DNA profile. I'm talking about professional DNA.

**Gui Costin:** Sure.

**Afzal M. Tarar:** But they are also very aware where they need help. So we are not forcing ourselves on them, but we're saying, how about this? How about that? For example, in a couple of companies we are saying, you need to beef up your AI stack. Your AI stack is dated. And in this current marketplace, younger, newer companies are going to come from behind with this high speed third party AI stack that could replace you.

**Gui Costin:** For the audience, could you also unpack that just a little bit more, and just give a frame of reference to the audience that wants to know, hey, what does it really mean that if you're a 15-year-old business, kind of in a technology world, you have a technology stack, and along the way you might just might be saddled with some legacy systems and processes. What are the challenges companies face with not having a modern technology stack?

**Afzal M. Tarar:** It's not very dissimilar to what you are doing at Dakota, how you guys are using AI to bring forward the CRM, IRM technology, investor relationship management technology to the future or present. Right. Very similar. So saying, are you using the state-of-the-art AI foundational technologies tools to help you do things faster, help you do things better, have access to more comprehensive data, et cetera, complementing human resources that you have. So at a very basic level, that's what we're trying to tell them.

**Gui Costin:** Right.

**Afzal M. Tarar:** Which vendor to pick, what services to use to do what you're doing. So this is, at a very general level, this is what we are helping them do.

**Gui Costin:** Right. But so the fun part about having you in the game is you have this business consulting and this real-world experience over such a long period of time. And so probably, even if you were to break down sort of the common characteristics that you see, it's so innate, right, in your DNA...

**Afzal M. Tarar:** Yeah.

**Gui Costin:** as a... right.

**Afzal M. Tarar:** And by the way, we don't do this for them ourselves. That would be wrong of us. We actually introduce them to the people who can do this. We are matching them with a third-party service provider who has the depth of expertise in upgrading their technology stack and saying, meet Joe. Joe can help you do this.

So we're doing that. So we understand this side. We understand that side, and we are bridging the gap.

**Gui Costin:** Yeah. It's the old Picasso line when he's sitting at a restaurant and a woman comes up to him and he's older in age and she gives him a piece of paper and said, paint me an illustration. And he goes, OK. Hands it back to her. She goes, how much? He goes \$30,000. She goes, no, it took 10 minutes. He goes; it took me a lifetime.

**Afzal M. Tarar:** I think that's exactly the point. Sometimes people ask, how did you do this? So this is the genesis of a lifetime of knowledge and experience and travels of what we do.

**Gui Costin:** Because what I'm doing is I'm unpacking your differentiation and your competitive advantage as a firm, which is clearly this, being able to be involved with founders who want the help, and then be able to make introductions. Skipping... you basically could be skipping years of mistakes, but they could just be little mistakes where they might just have missed that one train. But that train is a lot faster than the other trains that could have gotten on. You know what I mean? And it also comes down to people. I mean, I've seen it in our company. You also bring one person in you didn't think so much about it, right. And also that person comes in and it completely transforms that division and the whole product and the company. But if you just miss that person, you wouldn't be where you are. And so that's really what I'm talking about, like the Picasso and what you're able to do is really short circuit and miss all these landmines and get them to the result faster.

**Afzal M. Tarar:** Yeah. The other thing that we do, Gui, for some of our portfolio companies is helping them expand into global markets. So this is another differentiation.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** So we are globally minded, globally experienced executives. My partner worked for Hitachi for 18 years. He lives in California, Serial startup guy, multiple exits. The last company sold to Hitachi. Spent 18 years

working for Hitachi in corporate VC. My background in Asia, China, we talked about that. So we help these companies saying, can we help you get new clients? Can we help you expand into new markets, particularly in Asia? So that's what we do as well. So we're talking about very, very large institutional buyers or clients some of these companies could secure with our help.

**Gui Costin:** Yeah. So before this podcast started, we were talking about the word rainmaker. And you said to me, hey, consider me a smaller...

**Afzal M. Tarar:** Baby rainmaker.

**Gui Costin:** ...baby rainmaker. The baby rainmaker. That's the first on the set. Well, you truly are the rainmaker, right, because with what you're describing right now is you're connecting all the dots, again back to... as Steve Jobs once said, once the iPod came out and was a smashing success he goes, yeah, it's amazing how you can be, in 25 years, be an overnight success.

**Afzal M. Tarar:** Since we're talking about baby rainmaker, the other term that we use often is baby agents, versus big, hairy agents...

**Gui Costin:** Yeah.

**Afzal M. Tarar:** ...in AI. So that's a different topic. But yeah. So rainmaking... sometimes people use this term to describe a success in a particular arena. So in my own space, I've done that for serving some of the world's largest financial institutions in the US, in Asia, helping them set up wealth and asset management businesses and so forth.

**Gui Costin:** Well, it's a really significant point of differentiation and competitive advantage when you can do that for a company doing \$5 million ARR and growing. So they've gotten out of that stage. And then you're actually investing in them where you can provide maximum value. Right. Because maybe it wouldn't land in ARR when there's some uncertainty. All those relationships and thoughts that you could do, you need them to be a little more mature.

**Afzal M. Tarar:** Right.

**Gui Costin:** Right. So they're a little more in prime time. So that's another... I mean, and I'm sure that's obviously why you did what you did. Because your ability to add value to a company that's established and has momentum is far greater than somebody who's trying to spend the next three or four years getting it from one to five.

**Afzal M. Tarar:** Yeah. So M&A is another space. So out of these nine companies, three, four, maybe even five are in active conversation with

different groups, some through us, some directly for possible M&A. Other companies are coming to us saying, you invested in that company. You should also invest in my company because we do similar things. Perhaps we can combine the two businesses together. So this earlier question you asked from VC to private equity trajectory. This is where things will make a ton of difference.

**Gui Costin:** Yeah. That's great. So you're having the knowledge of the VC world. And so those might be not \$5 million ARR if they're doing M&A.

**Afzal M. Tarar:** Yeah.

**Gui Costin:** It could be... some of them could bolt on doing less.

**Afzal M. Tarar:** Yeah.

**Gui Costin:** You find a home.

**Afzal M. Tarar:** Yeah. So our target is \$5 plus million. So in our current portfolio, more than half of the companies are \$8, to \$9, \$10 million revenue already. One of them is \$25 million revenue.

**Gui Costin:** Goodness.

**Afzal M. Tarar:** Yeah. Danish company.

**Gui Costin:** That's great. What do they do?

**Afzal M. Tarar:** So they use AI to make any learning content into adaptive learning.

**Gui Costin:** And what is adaptive learning?

**Afzal M. Tarar:** Adaptive learning is like two of us or four of us learning the same thing differently. You might like picture. I may like equations. Other people may like stories to learn the same concepts. So this technology company called Area9 Lyceum, started by three lawyers... medical doctors and one lawyer. They sold their previous company to McGraw-Hill and Carlyle for \$750 million.

**Gui Costin:** What was the previous company?

**Afzal M. Tarar:** Same thing.

**Gui Costin:** Same thing.

**Afzal M. Tarar:** Same thing. But they were focused on medical school students. Right. Speed forward, five year non-compete later they launched a new company, and that's the company we are investing in. And their clients are who's who in the world. I'm talking about American Express, Citibank, my old firm, PwC are their clients. And that company is doing \$25 million revenue.

**Gui Costin:** Oh, that's incredible. So, I mean, yes. I see the connection here. Like, more private equity venture mindset and...

**Afzal M. Tarar:** We have small investor, but we are on the cap table with the Danish sovereign wealth fund...

**Gui Costin:** Right.

**Afzal M. Tarar:** ...for that company, European investment bank.

**Gui Costin:** Yeah. I still come back to your depth of experience in your career and your partners, right. That you were able to see things other people can't see. And that's such a massive competitive advantage. And you were kind of teasing on yourself about dating yourself and stuff. But I actually see that as a massive competitive advantage. Because you've just been through so much over time and you've seen so much and so intuitively you just know things.

**Afzal M. Tarar:** Correct.

**Gui Costin:** Right. It's really pretty...

**Afzal M. Tarar:** We are blessed in that way. Yeah.

**Gui Costin:** So, as we conclude, because I'd love to hear... is there anything that I haven't asked you that you think I should have asked you about your business?

**Afzal M. Tarar:** I think you have covered quite a bit. I think I was telling you in our chit chat earlier, we are looking at where the future of AI is. I'm talking about two, three, five years, not 15, 20 years.

**Gui Costin:** Yeah.

**Afzal M. Tarar:** So we are studying Goldman Sachs research that just came out a couple of weeks ago, I believe, and a couple of other papers that they have written, and some other sources. So we are summarizing that in a short visual chart. I'm happy to share that with you.

**Gui Costin:** That'd be great. I'd love to put it in the show notes too.



**Afzal M. Tarar:** So that talks about five stages of AI, or layers of AI because the horizontal and vertical concept. So they're talking about hardware layer, which is NVIDIA. And they talk about software infrastructure layer like cloud infrastructure. The third layer is the LLM layer, basically large learning models, large language models. Then on top of that, there are vertical layers. So some people say two, some people say three. So my partner convinced me to add a third layer. So the first one is AI-based revenue generation. So this is basically creating new business categories using AI, AI native applications for new businesses, new revenue. The next one is AI-based productivity improvement. Perhaps some of your systems and tools use AI to do something faster or better. Right. The sixth one, which my partner convinced me to add, is physical AI. It's using AI in physical environment, physical devices. These are robots that actually move around and do things. An example would be Waymo self-driving car. Right. So that's the kind of framework. And on top of that, they're talking about where they are in terms of the investment horizon. So that's what we are summarizing right now.

**Gui Costin:** Is there anything in AI that you believe would be overhyped or is it... because it's obviously not going to replace a fundraiser's job. You know what I mean? It's not going to replace an investor's job, because there's so much fiduciary work. There's so much physical human interaction. You're still interacting with... when you're making an investment in a company, you're assessing the individuals.

**Afzal M. Tarar:** I think there is hype, and it's not just my words, and it's being put up in Financial Times, New York Times, and other publications on a regular basis. A lot of hype. And there is a lot of development in AI that hasn't happened yet. So, for example, the LLM technology is based on massive data processing. And they're burning a lot of energy and hardware and software resources. And as you might have read in the same papers that I read, is that the more they're putting in, the less they are gaining in terms of the new benefits.

**Gui Costin:** Wow.

**Afzal M. Tarar:** So the efficacy of the technology is getting lower and lower. These are rules of computing. There's a new form of AI that has not quite taken off yet, and that is using cognitive way of teaching AI software, not data. So as you might know, in LLMs, whichever LLM you use, they have delusional moments.

**Gui Costin:** Right.

**Afzal M. Tarar:** Because they don't the concept that they are trying to address. They know a lot of data. So if you ask them sometimes simple question, they fail.

**Gui Costin:** Gotcha.

**Afzal M. Tarar:** But the cognitive AI, which is how a human work, will change that trajectory and will happen perhaps in the next few years. Just to put it in simple words, just like how children learn alphabets...

**Gui Costin:** Yeah.

**Afzal M. Tarar:** ...or dogs. So you don't have to show your child hundreds of dogs or thousands of dogs. He or she can learn to recognize dog versus cat very quickly. That's what cognitive AI of learning is. So they don't need a billion documents to learn to recognize cats and dogs. So that's where we believe a lot of future opportunity sits.

**Gui Costin:** Interesting. Well, I could go on forever here, AI. It's been a fascinating conversation. You have an incredibly fascinating career. And I really love how you positioned your business and the differentiation. Like, your experience, the expertise, and the ability to be that rainmaker for those CEOs once you make an investment is extraordinary.

**Afzal M. Tarar:** Thank you very much, Gui.

**Gui Costin:** You got it. Thanks for being on. This is a real treat.

**Afzal M. Tarar:** My pleasure.

**Gui Costin:** All right, everybody. That is a wrap of another world-class Rainmaker Podcast. Thanks so much for joining, and we can't wait to see you on the next Rainmaker Podcast.

**Announcer:** You can find this episode and others on [Spotify](#), [Apple](#), or your favorite podcast platform. We are also available on [YouTube](#) if you prefer to watch while you listen. If you would like to check up on past episodes, check out our website [dakota.com](#). Finally, if you like what you're hearing and seeing, please be sure to like, follow, and share these episodes. We welcome all your feedback as well. Thank you for investing your time with Dakota.