

Patricia Costello of Portfolia

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso. You can learn about startup funding to subscribe, go to Invest, Connect Dog and put your email into the pop box. Hello. This is Hall Martin with Investor Connect the Day. We're here with Trish Costello, CEO and founder of Portfolia at Portfolia. The Global Network of top VCs works best in class companies and high value deals and bring deep experience to each fund. They have ten funds in market and invest in eight to 12 companies per fund performance of their first two funds, placing them in the top quartile of venture funds launched in twenty sixteen seventeen. Trish, thank you for joining us.

Speaker2: [00:01:06] Paul, it's great to be here with you.

Speaker1: [00:01:08] Great. So can you tell us about your background? What did you do before you started investing in early stage companies?

Speaker2: [00:01:15] Well, like so many venture capitalists, I was on the other side. I was an entrepreneur that was venture backed in the health care field many years ago. Now, actually, back in the late 80s and early 90s, we were fortunate in that we had a nice exit with that company, started investing as an angel investor, and then started investing other people's money with mine and just ended up here on the dark side.

Speaker1: [00:01:47] Well, great, well, given all that we've been through, what excites you right now?

Speaker2: [00:01:52] You know, I think where we focus a lot of our investments now, Paul, are in areas that are a little out of the norm in venture, especially areas that where women make markets. So women's health is a major space for us because fintech is a giant market, because

so many venture capitalists are men, they don't naturally gravitate to women's health. Same with active ageing as we as we age. There are more women that age. There are more women that take care of aging parents. And so it's an enormous market and more spending money is controlled by those over 60 than any other age. So there's a great opportunity, economic opportunities there. But it's not an area that you traditionally think of as venture capital. Right. So those are a lot of those spaces where we have a unique competitive advantage and proprietary deal flow and we're making some great returns.

Speaker1: [00:02:55] Well, that's great. So you see a lot of investors and a lot of startups out there. What's your advice for people investing in startups? What do you tell them to do before they write that first check?

Speaker2: [00:03:05] Well, I think there's a couple of things that we should think about. And we all know about Shark Tank. So we see Shark Tank and we think, oh, my gosh, this is just, you know, this is something I can just jump into so easily. And and I'm a big believer because I started out as an angel. And in fact, most of the people in my venture funds are wealthy individuals, many of them that have been angels. I think there's a there's three things that I recommend. The first is this piece of advice that is, you know, is almost universal. You hear it across all markets. And of course, Warren Buffet is famous for this Peter Lynch, and that's invest in what you know, you know, invest in those spaces that you really have an understanding or grounding or networks in. And it seems like that would make sense. But so many times that we invest, we want to get we want to do something novel outside of what we know. And that's where you start to get into trouble. That's where you hear about the doctors that started investing in hydroponic farming or something. So that first thing, invest in what you know. And the second thing that I believe is important is when you're starting out, invest with other people. Your combined wisdom or knowledge is really important for good decisions, and it actually takes a lot of time to invest smartly. And so if you have other people, you're breaking up the diligence that's important. And then the third thing I would say is especially when you first get started, it really is helpful to invest through a fund. It could be an angel fund or it could be a venture fund like ours. But you see what other experts do. You can start to develop your own thesis before you get started. So you're not just flailing around. So those are the important things. I think when you're getting started,

Speaker1: [00:04:56] Then on the other side of the table, what's your advice for people running startups? What do you tell them to do before they go out to raise that first round?

Speaker2: [00:05:04] I always tell them how to try to get as create as much value as you can first, you know, whether it's whether it's actually getting some scale or it's making sure that you have a beta that you've tested or at least testing your concept. The more you can put, you know, real detail around your company or growth around your company to go out, the more successful you're going to be with fundraising and the least, the less amount you have to give away. It truly is about that value proposition that you can prove it and that you risk that even a little bit. You know, a lot of people think it's about how much have I raised right. Or something like that. We especially see this with some of our younger entrepreneurs. They're trying to beat some, you know, some dollar amount. But it's really how much do I have left, you know, that I still own when you're really in that final analysis. So make sure you've you've done as much as you can before you go to prove that that the worth of the company before you go out fundraise.

Speaker1: [00:06:21] Great. Well, let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker2: [00:06:28] Well, I think there's you know, I think there's huge there's always huge opportunity out there. You know, it's just how how far do you look and how deeply do you look on this? I am a believer in having some degree of specialization. I think it makes you smarter at investing. So, you know, I think there's great opportunities, you just need to look at where those areas are. I happen to be in today. I am headquartered in the San Francisco Bay Area, but I was in Kansas City for many years and invested in the Midwest. There are great deals everywhere. And and we need to be open minded about where to find those deals. We need to be open minded about the industries. And let me just put a plug in. We need to be open minded about women and men and people of color. Some of my fastest growing companies right now are led by nontraditional entrepreneurs.

Speaker1: [00:07:31] And what is the biggest change you think we'll see in, say, the next five years and the startup funding world?

Speaker2: [00:07:39] So I think there you know, I think there are a couple of things. I think that we are going to be looking at what's happening with green and sustainability and a lot of the money that is being put out in climate. You know, I think there's a lot of government money that's going to come out that will start to pump up new industry. I used to be I'm a big believer in that. And the SBIR grants, I don't know how, if you will, talk a lot to cover those kinds of things, but the government is the largest provider of early, early technology discovery. And so you can get you know, whenever the government is focused in a particular area that is helpful in new technology. I mean, look at what is done for space. Look at the whole Internet, of course, as you know, emanated from government programs. So to be aware of what's happening and to be ready to move, I think we're going to see a lot of new things happening in green. I think we're going to see a lot of new things happening in alternative proteins that are coming from plants. I think health care is still there's still a lot of major investing that's going to come out of health care. There's things going to come out of health care because of the pandemic. Telemedicine is going to shift. Education has shifted. All of us now who have have children understand what the true technology is in the education session section. So think of all of these areas that are going to be shift where our thought has shifted, our practice has shifted over the last year. Those are all opportunities for new technologies, new companies, new entrepreneurs to make to make a stand and make a difference. So, you know, great investors are constantly looking at what's my environment today? Where might it be shifting tomorrow and why is that going to give me an opportunity to make a return three years, five years, seven or ten years down the road?

Speaker1: [00:09:49] Great. Well, let's talk about your investment thesis in general. What exactly is it and what are you looking for when you fund a startup?

Speaker2: [00:09:57] So so we actually will we're looking for experienced teams and everyone will say they're looking for that top team, our asset portfolio. Our little difference is that we do we do tend to do a little older investor, our average age of our entrepreneur, the average age of entrepreneurs, early forties. So we're less likely we put a premium on experience and networks and a few hard knocks and maybe even a few gray hairs. We will occasionally do that. Twenty year old out of Stanford. But it's it's it's more rare for us. We really prize experience and expertise and resilience and we like you know, we do like a little bit of scale. So we want to know that they've thought it through. They've moved in the market. They've learned a little bit,

and we can then grow it together. We will look from all over the country. So I have my partners, my my co partners are all over. We're in six different locations. So every major metropolitan area will invest in from day one. For the last five years, nearly all of our pitch meetings are pitch calls that we take from our entrepreneurs or have been on Zoom So we've been we're very comfortable investing in any area of the country. And that's really I mean, those are kind of the basics. Again, health is a major space for us. We were the first women's health venture capitalist fund, venture capital fund, active ageing consumer. We do do a lot of enterprise. Data I my current fund that I'm launching on Monday is food and ag tech. I do like that space a lot and we will be following that up in two months with a green and sustainability fund. So those are those. As I told you, I feel like there's some great opportunity there. And so we're launching two funds over the next six months in those spaces.

Speaker1: [00:12:13] Well, great. Well, let's talk about the challenges you see out there with startups and investors. What do you think is the main challenge your startups face when they run their business?

Speaker2: [00:12:23] Well, I think it's I think it's it's two things or I'll even add a third. So there's I think the biggest honestly, the biggest challenge is, is fielding the right team. You know, if you have the right team, you have the right people around the table. You can weather about anything. Right now. It's difficult. Hiring is difficult. I think there are things kind of bottomed out for a while during the pandemic. And now everyone's trying to hire. People have moved. You know, so many, many people have moved out of the cities. And so it's a little harder to kind of focus your hiring. And so I think hiring is a is a is always a challenge, getting the right people, hiring on board and getting them up to speed, because to scale you have to be able to put together a team, trust that team to to do their part. As you're growing the company, you can't micromanage when you're in a fast growth company. So so it's the people. The people. The people. The people. Number one. Number two, it's another resource money. And so, you know, you can't cash is king. You can't run out of money. And and so you have to be able to have those resources there. You know, we're in a high point on in the venture world right now. There's a lot of money being put to work. There's a lot of money coming into venture capital funds. So people have a lot of dry powder to put to work.

Speaker2: [00:14:01] So that's, you know, the money is there. It's just being able to get in to the right you know, the right funds, be able to move quickly enough. And let me just say, you know, having been an entrepreneur myself and I still consider myself an entrepreneur and and a and a venture capitalist, you know, we have to be able to raise money in a way that is efficient as possible because too much of our time is entrepreneurs, unfortunately, can get pulled into that fundraising process that feels like it's never ending when we really need to be focused on on the customer and building the right product. So I think that's that that second one. And then finally, it it's there's so much it doesn't matter how experienced you are as an entrepreneur, you are facing new challenges every day. You could be in this like I have for thirty five years. And you know, every step when you're building your franchise, building your brand, you know, there's a new challenge. The environment's different. The way we communicate is different. And so you're constantly needing to to enhance and upgrade your skills. Your workforce is different. And so people underestimate entrepreneurs underestimate how much we need to work on ourselves and how much we need to keep ourselves healthy, because it can be a very solitary business and we have to be at our very best to create the best company.

Speaker1: [00:15:42] Then what are the challenges you face as an investor?

Speaker2: [00:15:46] And many of those are the same. You need that. So a couple of those are the same. Probably all three of those have have similarities. You know, the you know, you're always you're still you're still as a as a venture capitalist. You know, people often don't realize this, but but for us, for entrepreneurs out there, you know, the I guess what I would tell I would I would tell entrepreneurs, too, about what you need to know about a venture capitalist. The venture capitalist boss is limited partners that are putting their money into that VC. Right. So and those may be family offices. They may be pension plans. They may be trusts or foundations. So so that's who they have to that's that's their customer. You as a company are are in some ways a product. Right. So they're investing their money in you. They want to make you the best you can be so they can get their money out to give that to their customer. So just kind of an understanding of how that works. Sometimes you have to kind of take a step back and say, you know, that they're looking to build they're building a portfolio. And and so that's that that part for them. So we have those same types of things. Me as an investor, I as an investor. I mean, I am looking for the very best companies across different stages to deliver the optimum return to my investors.

Speaker2: [00:17:19] And, you know, and that. That's that critical piece for us. There's so many companies, there's great companies out there right now, you know, during a time of chaos, all, you know, we know this, we know this. We can look back and see some of the very best companies and very best returns happen for venture firms in vintage years. You know, where it's the most chaotic and most confusing. This past year in twenty twenty, we did twenty five investments in twenty twenty. So we were we were doing two and more than two investments a month all through twenty twenty. And it's because we looked at that and we knew there was two options. There really were two kind of people were in the venture capital world were ducking and covering and saying, I want to keep my I want to keep my my money out there. I would keep my powder dry and then I'm going to wait till the fog clears and then I'm going to go out and start investing. We saw it the other way. You know, we said now, if there's ever a time for us to be putting our money to work, it was during the pandemic. And so we did. That's what we did. We we did. We doubled our the size of our portfolio in one year.

Speaker1: [00:18:36] Wow. That's great. Well, you see a lot of sectors and applications out there. If you had to pick one or two that you put at the top of the list is being very timely to pursue. What do you put up there?

Speaker2: [00:18:48] So so I'm going to tell you this. You may not hear this from a number of years. I'm going to tell you that you that investors really should stretch out and look at markets that are being influenced, are created by people of color. As I said earlier, some of the fastest growing companies that I have now and I'm talking about that have doubled in valuation in months are companies that are focused on Latin X markets, huge growing? Look at the demographics, huge growth in the Latin X market in the US. The African-American market is almost defining culture today. And so there are amazing opportunities in these spaces that you don't necessarily think of or focus in huge growth. And, you know, that's one of those interesting things when you're investing is don't don't rush in, don't rush where others are going. You know, this idea of blue means moving. You look at what's what happened in so many spaces like subscription boxes or things like this. It's like everyone jumps on these. You want to be where others aren't. You want to be looking at what's that? These fabulous opportunities that I understand others aren't running toward. That's where you're that's where your opportunities are for better priced deals and opportunities for for better growth. So I like that

space. I've done one fund. I have a second fund coming up in that space and my best funds ever, like I said, green and sustainability. I think we have a new after the pandemic. And of course, we're still we're not completely through yet. You know, there's a newfound understanding in what science can do for us and how intricately we're connected to science.

Speaker2: [00:20:51] I think we're going to see new ways of I think supply chain is shifting and I think there's going to be all kinds of different ways. We're going to be using power, making our food, transporting food, you know, just besides the big the big kinds of things in the green, there's going to be all variations of that. And and that's going to be interesting to do. There's going to be some challenges, but are going to be really interesting spaces as well. And then I think another one that we haven't seen that much education is really going to be shifting right now. And then finally, fintech, we didn't even mention that. I didn't mention that one earlier. How but look, FinTech had some financial services and financial services, tech, well, tech, all those areas. We made a number of investments in those spaces. And this last quarter was the largest quarter ever investing, investing in big deal ever in history in financial services. Traditionally, you have these big financial behemoths and traditionally it hasn't been a big space. But over the last year or so, a couple of years, it's been increasing and it was a huge, huge space. So those there's a lot of people in financial services that are investors. Well, and for them to to look at their space with fresh eyes and and start to look at what those. New innovations could be would be a huge area for potential investors,

Speaker1: [00:22:28] Right, when the last minute that we have here. What else should we cover that we haven't?

Speaker2: [00:22:33] Well, let me let me just let me just put in one of my favorite areas, men invest. About 30 percent of wealthy men invest as angels, entrepreneurial investors. So 30 percent of wealthy men do this. And they do this because they make a lot of money doing it. And it's just intellectually interesting and satisfying. Only about one percent of women that are wealthy, who actually invest in entrepreneurial companies and women now own in the US own a little over half the wealth. And so if we don't get them investing, we're really going to miss out on women need to invest because it's a way to create wealth. But we also need women investing because it's going to really continue to enhance our entrepreneurial infrastructure. So that be the last thing I would say is we need women stepping up as investors at the at that same

level as men that are investing in. And, you know, that's a lot of what I do. So, you know, we we bring in we're committed to individuals coming in to venture funds, opening up the venture capital asset class to the individual. And so each of my funds has two hundred forty nine people in it. And you can get into a first time fund for ten thousand dollars. And we invested across 10 companies. And you can be very involved as a part of that process. It's it's a it's a professionally managed venture funds, but that we do like to involve our limited partners as well.

Speaker1: [00:24:15] That's great. Well, how best listeners to get back in touch with you

Speaker2: [00:24:19] So you can reach me at my at my email tricia portfolio dot com. That's the best way to catch me.

Speaker1: [00:24:26] Great. We'll put that in the show notes. Want to thank you for joining us today and have you back for a follow up soon.

Speaker2: [00:24:31] Oh, great to meet you. I sure enjoyed it today.

Speaker1: [00:24:38] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Alti Martin is the director of investor Canek, which is a 5.1 C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.