Matt McGraw of Anthropocene Ventures

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm 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. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Speaker2: [00:00:38] Hello, this is HallMartin with Investor Connect . They were here with Matt McGraw, co-founder and managing partner at Anthropocene Ventures. Anthropocene Ventures is a global early stage VC firm investing in founders that leverage exponential technologies in hard science to make humanity more resilient. Matt, thank you for joining us.

Speaker3: [00:00:56] Hey, thanks for having me.

Speaker2: [00:00:57] Great. So tell us more about your background before investing in early stage companies. How did you get here?

Speaker3: [00:01:02] Yeah. Well, I'm new to the VC game. I grew my horns as a VC just about two years ago. I'm an operator and founder at a company called Rocket Science that I founded in 2000 that helped quickly scaling startup scale. So for 15 years, 20, really, with my first job in tech in the 90s, I've been applying technology to help businesses scale rapidly innovate and commercialize their own products and kind of at the intersection of venture and startups. We also worked a bunch in corporate innovations, so I've got this broad background both in consulting and making that consulting work into a reality. So services, product and design, DevOps, hardware, networking, BPO governance, all of this we, we we made happen for kind of the bigger startups that you've heard of the Airbnbs, the Ubers, Postmates, Twitters, Facebooks. And then I retired. I got I got sick of the tech industry, really. And 20 15 kind of all the reductive business models that were happening in software didn't think it was a net good for the world, either. So I sold everything retired. I have a big family, six kids and thought I was going to ride off into the sunset. But apparently I'm pretty bad at that because about two years later, I found it to

blockchain companies. I think I see that tech as a really wonderful new governance model that at its best, matches my thinking and thoughts on how the political economy should operate and new services and platforms.

So in that round of my founding and operating experience, I did software governance, finance regulation. It was global and because of this community, I kind of got into the global early stage crypto projects, but then I retired again. America is a pretty harsh place for crypto startups. They were successful, but we sold them to foreign companies because that's where they were going to thrive. And I started to just focusing on angel investing, so I had decided to angel invest mostly in underrepresented and founders, kind of focusing on creating more economic equity investing, really. And my co-founder and the fund's investor convinced me over the course of about 18 months that climate and investing in justice, equity, diversity and inclusion are like a Venn diagram, but really a perfect circle. The climate justice is just justice, and climate was a secular trend that would get more broad based support if we invested well. And I, I kind of put up all these barriers to entry for him to convince me to start a fund of them. And to be clear, Jim Bakker is a pro level. B.c., he's been investing as a venture capital investor since the 80s. He's on the Midas list. He's got a top 10 fund full time. He's the real deal. And why this guy wants to start a fund with me is a mystery. But we've been friends for a while now. But he he first said climate.
I said, No, I don't know climate well enough. I don't know the climate markets well enough. Well, my wife is an environmental scientist, so she knocked me upside the head about that assumption. Then I said, No, I don't. I don't know the business of venture capital well enough. So then Jim said, I'm on the Midas list. I think I might be able to help you figure that part out. And so I finally got whittled down to saying yes, and I really got excited once I started meeting founders in the climate tech space, that's what really convinced me because it feels as mission driven as the beginning of the internet to me, where, you know, originally all of those companies that we talk to in 95, 96, 97, they were all about democratizing access to information and that was going to solve the world. That was a swing and a miss. We did not do that. But but these founders are solving like real physical problems. You know, on the planet that we need to solve rapidly and immediately, so and they and they can do it. I'm I'm actually more positive that we've got this thing licked or that we can have this thing licked because the science and technology is there. So the founders convinced me to finally say yes, and we put out the shingle

earlier this year. We were about halfway through our raise and we made some investments and it's been fun.

Speaker2: [00:05:06] Great. So what excites you right now?

Speaker3: [00:05:09] Uh, soccer, maybe my kid just graduated from Turtle one swim level for work, what I just said, I think the most exciting thing that I've realized over the last 18 months really is that all of the problems that we're seeing in terms of climate have a solution that's viable today. This isn't like science fiction stuff, and we can fix issues up and down the climate stack to it's not just renewable energy, it's not just decarbonization, it's creating more circular economy. It's everything. And there seems to be like a consensus that it's the most important thing right now. I've never been more positive about climate change challenges, and that's that's that's what gets me excited. It kind of the idea that we're going to rewrite the entirety of the economy with this, we're industrial. I really think we had like agrarian society. We industrialized, then we globalized in the fifties to the 80s. Then we digitize from the 90s to now. And I think we're going to industrialize. And that's amazing. We're going to rewrite trillions of dollars of value chains on this planet, and we get to do it in a more conscious and thoughtful, intentional way. And I get to be a part of that. You know, I get to invest in companies that I think are going to do it the right way. So that's really awesome.

Speaker2: [00:06:30] Great, so as you move into this new era of climate change, you see a lot of startups and you see a lot of investors there. What's your advice for people investing in startups and the climate sector? What do you tell them to do before they write that check?

Speaker3: [00:06:43] Well, that's a great question. Don't be so negative on the first call, I find that venture capital folks in general, not everybody but in general are pretty harsh and pretty negative is the right word. You know, they're they try to poke holes right from the first conversation. And I just don't understand that as a founder, I don't understand that, right? Because these, by and large, the people that we talk to in this space are PhDs big brains smarter than me. They have solved some deep, hard problem through the use of exponential tech or some hard science. So the problem solution set that they've come up with is probably spot on. Maybe the product market fit, it's not there, but that's not for a couple of years down. We invest early, right? So I just I really want to see more positivity in the space and that's kind of a

VC thing versus a climate thing, I guess. I also think that these founders are doing the hard work and we aren't. This job is not as hard as being a founder of a startup. It just isn't. And I think go earlier is another thing I would say don't be so scared.
Venture capital has gotten to be almost private equity level risk adverse. And I think we have to swing for the fences on climate in particular. But even I could say the same thing across the entire venture capital stack and then stay collaborative. One thing that I am positive about in the venture capital community that focuses on climate stuff is that all the firms and managers that I know that I've been introduced to are very collaborative, much more so than in the regular VC world. Everyone wants to be on everyone else's staff table. Everyone's bringing deals to other other firms and funds, and everyone seems to want, like the whole industry to succeed. And that's because it has a mission driven element to it. And that's not true with the sharp elbows in the software investing world. Not as true. Anyway, there's there's some firms there like that. So, you know, be be stay collaborative because I think as we get some unicorns and deck acorns in the climate space, sharp elbows might get grown. And I don't I don't want to see that. I think it's important for us to stay clever.

Speaker2: [00:08:49] And then on the other side of that equation, what's your advice for people running startups in the climate sector? What do you tell them to do before they go out to raise funding?

Speaker3: [00:08:57] Oh, don't listen to people like me. No, that's not true. There are many great folks in this industry that I know that are really want to be helpful and can be very helpful. Maybe just don't pay attention if people are distracting, if they seem unexcited. You know, there's a lot of folks. That are overworked or they've made themselves overworked in my industry, and that that distraction can lead to just lazy, lazy conversations, lazy interactions and and so. I would I would say to any founder, not just climate technologies, but specifically the climate technologies, have the confidence and conviction that you're going to win. I think it's important as a founder, right, you've got to believe in yourself. But I think don't don't be overawed by people who are sitting in my chair. All we have that you don't is money and maybe experience and maybe some connections in like the industrial victims got these great Asian connections in the major industrial space. And I've got connections with teams of people that we can recruit like we've got value to bring. But really, the people that are doing the hard work

that are that have solved something amazing, that are unique, are the founders and have confidence that you're really the more important part of the value chain here.

Speaker2: [00:10:17] Right, well, let's talk about the state of investing in climate change, it sounds like you have a good group in the early stages of it, but how do you see the industry evolving from here?

Speaker3: [00:10:28] I'll talk about so I did a crash course in B.C., I've been at the intersection of sea and star for twenty five years, so it's not like I didn't know the jargon, did know the scene, didn't know the players, but I really got to know. I heard it out on portfolio modeling and and kind of the full lifecycle of a franchise of funds with an adventure company. And I think in the industry in general, which is kind of my thing, like I go meta and I can see the big picture and the big picture for venture in general is that it's getting disrupted at every stage. I think the top of funnel in is getting disrupted by crowdfunding and non-dilutive capital, specifically in the climate space, super angels, professional microphones, rolling phones, et cetera, et cetera, et cetera. Like all sorts of different ways to allocate capital, first check to see maybe Series eight, then at the bottom of the funnel, you're seeing exits and kind of the model of venture capital portfolio models being disrupted by direct listings and SPACs. And the kind of, I believe a lot of M&A will happen and a lot of mergers will happen in the climate tech space because we're talking about like real physical solutions that have intrinsic value, not just software companies that are either going to go to Mega or go go to zero.

And I think the squeeze is going to be in the VC industry is going to happen in those middle rounds. Series A, Series B, Series C, like who's going to lead Series A. There's a great article that just came out. I forget where, but it basically said, Who's leading series? Everyone's going earlier and earlier. Earlier Series A is like that inflection point where you have to learn how to scale. That's really critical and we can lead. By the way, Anthropocene can lead Series A, although we we focus on pre-seed and seed. I'd say so. But the middle ground C, B, C, like, who's doing those anymore like that just feels to me like debt, private equity, other capital allocation is going to wipe that industry out. So I think that this is a good thing. I think that is being disrupted or having to innovate is important. And I think that the the kind of personal relationship style model is going to have to come back, whereas it it kind of started going away

for quite some time. And so I, in the very best firms, will have to either scale to met a gigantic size like the a16z and Sequoia's and Tiger Global's.

That's fine. They've got the brand, they've got momentum. They've just got so much capital. They'll be OK, then firm with niche expertise like the people that know that one thing in machine learning and can invest in it really well, and it's just a really tight community. They're going to be fine. I think of like NSX and then focus on network effects, for example, just one. And then, you know, I think the ones that can just blow out valuations like the Tiger Global and the vision funds, they just got a pile of cash. They're never going away. But I think that the very best funds that are going to survive that don't do any of those one particular things, they're going to be great editors. They're going to be able to actually have value add and real community surrounding them. That's a piece that's missing. I think in the climate tech VC space is there aren't a lot of funds. Maybe there just haven't been funds around long enough to build up a strong community. Maybe urban us is is a is an example of the opposite of that. I think they've done pretty well. I think they've got a pretty strong brand and community around them.

Speaker2: [00:13:52] Right. What do you think is the biggest change we'll see and say the next 12 months?

Speaker3: [00:13:57] In my vertical, it's probably how collaborative everyone has been and will be. Everyone wants, like I said, everyone wants everyone in on all their deals and are very open and transparent. I think that. Um, what might change is that we get a little bit more data focused on in our in our vertical, in the larger BC space. I think that you're going to see some superstar partners leave some superstar firms because the it used to be a. It used to be an infrastructure problem to do this on your own, to invest on your own, and it just isn't anymore. You can spin up SPVs easy, you can automate the entire process. And what firms used to give you was that. And I just don't think you need it anymore. So I think it's going to be more decentralized in a way which is probably a good. Great.

Speaker2: [00:14:53] Well, let's talk about your investment thesis in climate sector. What exactly is it and what are your criteria for funding a deal?

Speaker3: [00:15:00] Sure. So, you know, the elevator pitch is, is that Anthropocene Ventures is a deep tech and hard science climate fund. We fund founders and firms that leverage exponential technologies, things like blockchain and machine learning and artificial intelligence and quantum and IoT, advanced manufacturing, synthetic biology, things like that to have large impact on climate. And I think kind of the thesis about why. I mean, the problem is obvious, right? There's a sense of urgency now surrounding climate change that there just hasn't been for the last 30 years. I think there's a ton of opportunity because science and technology have actually caught up to being able to solve these problems. I think that's new in the last three or four years. And then there's focus entrepreneurial talent and capital public, both public and private capital are focused on the problem. So sense of urgency. Science and tech can finally do it. And and everyone in the planet is is wanting to work in this space. And so I think that there. Is a secular trend at public spending that's going to drive some valuations and some great exits. I think the amount of public capital that's going to come into this space in the next 30 years is probably going to be the largest growth market. So I think any reasonable, rational investor can make money and climb it over the next 30 years where alpha is going to come from, where like really outsized returns and where we're real wins are going to come from, it's probably today if you're an early stage climate investor like me, focusing on niches that are going to be important in five years, everyone's focused on the last 10 years. Everyone's been focused on renewable energy and decarbonization technologies within that.

Speaker3: [00:16:49] Subcategories of those are somewhat more interesting to me, but I think water is a big deal. Ocean health is a big deal. Space is under talked about. I think everyone kind of pooh, pooh, SpaceX space investments are going huge, but because space is interesting, I think space environment is almost the same thing. I think we're going to get the data layer that we need to figure out what to do. Well, we're going to get from outer space and and also commercializing space technologies for dual use on the planet is just going to make us consume less resources. So I think focusing a little bit more niche on the solutions that you're looking at is is the way to go. I also think that we're like, I said, I think we're going to rewrite every business process on the planet to be more green, and that means re industrializing in a green way. And that's a lot of, I don't know, a lot of venture capital investors that are going to chemical plants or water reclamation plants or waste management facilities. And like I've done all three. And that's that's really fun. It's interesting because I think venture is going to affect the seventy five percent of the people that don't live in the software world. And I come from a small town in

upstate New York. I'll try New York Post pretty industrial town that that shrunk. My dad was a union organizer. Like I come from like working class stock. And I think that venture is going to have more effect on working class people now than it ever has. And that's really interesting to me to.

Speaker2: [00:18:15] It's great. Well, maybe investment so far that you can talk about is portfolio companies.

Speaker3: [00:18:21] Uh, we haven't announced any. There's a couple that I think there are a couple of great companies that I would I could mention as an interesting one. My founder or my co founder, Jim. Kind of find this technology group out in Montreal. Help them spin up a company surrounding a technology that produces biochar. Bio char is a great carbon sink, right? So I'm not so interested in direct air capture because that just seems like a very blunt force way to take carbon out of the atmosphere. And the business model surrounding that's a little challenging, but is interesting. Of course, it takes agricultural waste like almond shells, for instance, and produces biochar, which is a carbon sink. It's a natural fertilizer. It allows farmers to use 30 percent less water on their on their farm. The interesting part about origin is they also have a waste product called pro-Iraq Acid, which is very valuable, so they get software margins on their on their value stream, which is amazing in the space, and they have a proof of concept factory out in Modesto. I think that is active today, so that's a really cool company because it's like almost a circular economy play. It's not just climate related. There are four others that I can't mention today, but we've made some investments and we're looking to do another close by the end of the year, actually, because we've got a handful of customers, a handful of portfolio companies who like to invest in too, right?

Speaker2: [00:19:47] Well, what's the climate change brings many new challenges for the startup and the investor. What do you find is the main challenge for the startup in the climate change space? What do you see they have to struggle with more so than the software, the other ones you've dealt with?

Speaker3: [00:20:03] I think that there's the volume of voices that understand this, the science and the technology is low. There's just not a lot of like, you know, PhDs in chemistry that are also overseas. So I think that the ability for the venture capital community to take the pipeline

of deals and diligence them in a way that makes sense is challenging. But I also think that just highlights the fact that VCs think they need to know everything. And like sometimes, of course, you have to validate the science, but then you also have to know the markets that science and the solution that that science begets is going to be put into. And it's like every VC in the valley is a software guy. You know, and and so like you. Not a lot of people understand the water market in Southern California, in the PC world. And so just the expertise, really, there's the lack of expertise in the VC industry. It just means it's going to be slow going at first. I also think that. Probably the other side to that is that founders in this space are usually scientists or they're very highly technical, and they might not also, they might not know the markets that they have to sell into. And so you get expertise mismatches all around. And I think that's I think people have to be braver about saying, I don't understand that and then going and learning it. And that's hard. Harder work then. What's your tack? And I've seen five deals like this, but you're just applying it to a different market in the software world. You know, for a while, there it was. We're the Airbnb of Postmates, of Uber. And it was all the same business model. You're either selling data or cutting out the physical middleman and creating a digital one. Those are the two business models of the last 20 years and everybody understood them. These are business models that are like, you're selling sensors into water facilities around the world, like that's a different, a different beast and for everybody. And I think that that we all have to get pretty comfortable with that.

Speaker2: [00:22:05] Right. Then what do you see as the primary challenge investors face in this space that they didn't in the other ones like software?

Speaker3: [00:22:13] It's the same thing. Understanding the science and the tech, crucially, really understanding what I call the insertion point for the product or service. I mean, you have to have software you consumer or enterprise, but you don't have to. You don't have a bunch of VCs that really understand, like I said, chemical manufacturing markets or automotive or supply chain logistics or concrete. And we have these industries that were all industrialized and they were really optimized or like 200 or 300 years and they're they're on autopilot. And so they're resistant to innovation, too. And VCs have never looked into that. Vcs don't interface with that. And and that's that's going to be hard. That's that's the cultural shift that has to happen. Luckily, I do think that everyone understands that it has to happen for the last 10 years. I think there was a lot of resistance to even that it did, and I don't think that's a problem anymore.

Speaker2: [00:23:04] Right. Well, you mentioned several key sectors here already water, ocean health and space technologies. If you had to pick one that you think is the best opportunity for investors to pursue to put at the top of the list?

Speaker3: [00:23:16] Oh, that's a tough question. There's I won't give you one. I can't answer that question. I think water is undervalued. It got hot, more hot in the last six months, but I think it's still undervalued. Turns out, we all need water to live. Ocean health has an outsized impact on climate in general. So and kind of creating business models that allow companies that are dealing with ocean health issues, that's hard. Like, everybody can agree, we want plastic waste out of the ocean. But what's the business model that makes that like a viable venture investment? That's a question mark. I think that's a big problem in the space, too. There's a lot of things that we do do need to do, but how do you make money on it? Is it a challenge? I think the one that doesn't get talked about enough now and I think will become more important is probably like land use and biodiversity. Uh, again, like, how do you economically value that stuff there's there are ways to do it, but it's a little esoteric and not a lot of people talk about it. And I think that biodiversity like the loss of biodiversity over the last 10 years, has had a negative economic impact on the planet. And and kind of quantifying that is really important and making sure that we see that that it's almost like the invisible negative drag on the economy is much harder to show than or get people to rally around. And hey, we could add this three trillion dollars to our GDP because we're investing in that. So I think I think that's I think if I were going to say, who's the sleeper in this space, I think biodiversity is.

Speaker2: [00:24:53] It's interesting, great. Well, good to know, so in the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:24:59] Or maybe the LPI landscape LPs are generally like a pretty opaque lot, and but, you know, new managers need money and by the way, new emerging managers first time funds generally outperform because they work harder. Probably I don't know why, but there's this is like these are new companies and new markets and new verticals and changing businesses that have never been disrupted by this. So this this whole thing requires new thinking and investing in the same old funds isn't going to cut it. So I think that there are some

really good people working on making the LP landscape less less hard to interface with. And I think that's the thing that we should probably talk more about in the industry.

Speaker2: [00:25:41] Right, so how best for listeners to get back in touch with you?

Speaker3: [00:25:45] My inbox is open, so mad at Anthropoid Ventures is probably the best. I'm at MJM 11 on Twitter and I'm trying trying to be part of that, that Twitter thing these days. So those are probably the two best ways.

Speaker2: [00:25:58] Great. We'll include those in the show notes. We want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker3: [00:26:04] Good luck to you. Thanks a ton.

Speaker1: [00:26:09] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Canaccord. Paul T. Martin is the director of Investor Connect, which is a 501c3 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.