



McGuireWoods

FUND FLOW



12/08/2022

Brom Rector Explains What to Look for in Psychedelic Portfolio Funds

Episode Summary

On this episode of Fund Flow, host Jon Finger sits down with fellow podcaster Brom Rector, founder of Empath Ventures, to break down misconceptions about psychedelic medicine and first-time management.

Brom worked in venture capital as a quantitative researcher and portfolio manager for several years until he realized something was missing. As he describes it, “I didn’t like this idea of just reducing everything down to pure numbers. It kind of felt like you lose a lot when you do that. And I wanted to try getting involved with businesses on the private side where there’s a bit more of a human element.”

In 2020, he took the plunge and began The Brom Podcast, where his guests continue to educate him on the diverse and evolving market of psychedelic medicine startups. The podcast garnered a lot of attention and became a natural crossroads for new startups and LPs to intersect.

As the founder of Empath Ventures, Brom continues to bring LPs into the psychedelic venture capital community. During this episode, he discusses misconceptions regarding investing in psychedelics, what Empath Ventures looks for in an LP, and the lessons he’s learned in his first year of operation.

Top takeaways from this episode

- ★ Growing from personal interest to professional development. Brom has been interested in psychedelics for the past decade but never foresaw it combining with his professional portfolio. He discusses the career transition and how he realigns people’s impressions of psychedelics.
- ★ Does a perfect pitch exist? The fundraising environment continues to fluctuate post-pandemic, making it easy for founders and managers to believe the perfect LP is just one that invests. Brom encourages folks to dive deeper and connect on fundamentals.
- ★ Connect across all channels. The Brom Podcast has served as an in-depth reference material while building Venture Empath’s network. Since 95% of Empath Ventures LPs mirror Brom’s passion for psychedelic

medicine, he enjoys blending business with pleasure and encourages other founders to share their personal transformative experiences.

Transcript

Voiceover ([00:03](#)):

You're listening to Fund Flow, a podcast for emerging managers offering insights into the journey of new and aspiring fund managers seeking to have access in a crowded market. Tune in as McGuireWoods partner and host, Jon Finger, is joined by guests ranging from first time fund managers to proven emerging managers, experienced LPs, poised to back emerging managers, and other key participants in the emerging manager ecosystem. Hear their real world perspectives and gain actionable tips to help inform your strategy and position yourself for a successful fund closing.

Jon Finger ([00:38](#)):

Welcome to Fund Flow. I'm Jon Finger, and today's guest is Brom Rector, who is the founder and general partner of Empath Ventures, which is a venture capital fund that has a very unique and innovative focus in the psychedelic space. Brom, thanks so much for being on today.

Brom Rector ([00:58](#)):

Thanks so much, Jon. It's a pleasure to be here. Really appreciate it.

Jon Finger ([01:01](#)):

Likewise, likewise. Let's spend a little bit of time orienting the audience around your history in investing and ultimately how it led to you launching Empath Ventures.

Brom Rector ([01:15](#)):

Sure. So Empath Ventures is a fund that focuses on the emerging field of psychedelic medicine. I think as of today, there are probably fewer than 10 funds that are in the world that are focused specifically on psychedelics. So this is definitely kind of a new field.

([01:31](#)): In terms of how I got into it, I've been personally interested in psychedelics for about a decade. Professionally, I worked as a quantitative researcher and portfolio manager at a couple of different hedge funds, mostly as a quantitative portfolio manager. Most recently worked at a fund out here in Los Angeles called Crabel that has about nine billion dollars in assets under management, and I ran a global macro book for them. So very, very different type of investing than early stage startup investing, specifically sort of early stage biotech, which is kind of what most psychedelic companies are most similar to.

([02:05](#)): But it was definitely a big sort of career transition for me. I had been doing the quantitative trading stuff for a while. It was very interesting from an academic sense, but I didn't like this idea of just reducing everything down to pure numbers. I kind of felt like, you lose a lot and when you do that. And I wanted to try getting involved with businesses on the private side where there's a bit more of a human element, if that makes sense.

[\(02:30\)](#): And so after a while of working in this quantitative hedge fund space, I ended up leaving in 2020, just knowing I wanted to do something new. Definitely did not have any plans to start a venture capital fund focused on psychedelic medicine at that time. But I left the job in 2020, sorry, I think I said 2022 before. I left the job in 2020, started realizing that there was an emerging industry building around psychedelic medicine.

[\(02:55\)](#): There were a couple of IPOs of companies related to psychedelics. And as someone who had been into psychedelics for a long time, this was obviously very interesting to me. And I started spending all my free time trying to understand what was happening on the corporate and investing side of psychedelics. And one of the things that I did to help further my understanding, was I started a podcast where I interviewed a lot of the founders and investors and other CEOs operating in the space.

[\(03:18\)](#):

And the podcast got pretty popular because at the time it was really the only podcast focused on the business side of psychedelics. I started getting a lot of emails from people to listen to the podcast that said, "Hey, I've got some money. I want to invest in psychedelic companies. What do you think I should do?" And I also had startups reaching out saying, "Hey, we love your podcasts. Can you help promote us? Or help us raise money?"

[\(03:40\)](#): And I realized that maybe I should listen to what the market was telling me and start a fund, given the fact that I had basically potential LPs and potential deal flow coming to me. So that's sort of the backstory of how this whole thing got kicked off. Fast forward to September of last year, set up the infrastructure for a fund, got an advisory team around me.

[\(04:00\)](#): Started raising money. Got personal checks from some pretty interesting LPs including Marc Andreessen and Chris Dixon at Andreessen Horowitz, and Jim O'Shaughnessy of O'Shaughnessy Asset Management. And have invested in 10 companies so far. So starting from just a podcast with no real goal in mind, I've started to turn this into something that is turning out to be a real thing.

Jon Finger [\(04:22\)](#):

Well, speaking of a podcast with no real goal in mind, but no, just appreciate the context. That's super helpful.

Brom Rector [\(04:29\)](#):

Yeah.

Jon Finger [\(04:30\)](#):

It's interesting to me in this time where it's clearly challenging fundraising, but at the same time lots of opportunities and funds getting raised. I wanted to talk a little bit about, because of your sector specialty and how important that is as a general matter to LPs these days, I'd really like to talk about that conception phase of your strategy.

[\(04:57\)](#): And what were some of the triggers, hallmarks that really made you have conviction that there was an

appetite for a committed fund? And that that would be best suited for what you were trying to do with your investment strategy? What else was out there other than hearing from the market? What were some of the things going on in your mind?

Brom Rector ([05:23](#)):

Yeah, so it's this, like I kind of mentioned in the beginning, the field of psychedelic medicine was something that I had been a big fan of, and I guess participant in for almost a decade prior to launching the fund. And realizing that this was actually starting to become a real industry is what made me more interested in it from an investment side. So I saw a lot of signs.

[\(05:49\)](#): On the regulatory front, I saw that the FDA was starting to grant breakthrough therapy designation to a couple of different clinical trials of psychedelics for different mental health disorders. I saw that different states like Oregon were passing laws that were allowing psychedelics to be used in therapeutic contexts. So I saw these movements on both the regulatory and legislative sides that were kind of suggesting that psychedelic therapy was probably going to become a part of healthcare, or at least mental healthcare over the next three to five years.

[\(06:21\)](#): And I started seeing news articles about big name investors like Peter Thiel and Christian Angermayer putting money into psychedelic pharma companies. And I kind of felt like the train had left the station, but it was still moving slow enough that I could run and catch up and jump on, if that made sense.

Jon Finger ([06:36](#)):

Sure.

Brom Rector ([06:36](#)):

It is that sense where it's like the door has closed behind us, but the door in front of us still hasn't quite yet opened yet. And I kind of realized that there was this opportunity to get in early on something that I really believed in personally, and that I was seeing other people start to believe in as well.

[\(06:53\)](#): In terms of realizing that there was an appetite for a fund, that came through having actual conversations with LPs. And I started raising in September of last year when the market was kind of at its peak in many ways. And as you continue to raise a fund and make progress, in theory, it should get easier. If I tell you I've already raised a few million dollars and have some big name LPs and have made some investments, it sounds like it should be easier than starting when you say, "Oh, I'm just starting and I have nothing."

[\(07:25\)](#): But there was just so much money flowing around back in September of last year, that it was in some ways easier back then than it is now. There was so much money. I raised a lot of money from people that were interested in cryptocurrency because I think a lot of crypto people are comfortable with new and emerging industries.

[\(07:45\)](#): And now we're just in this situation where, yes, there's still appetite for new funds and new

investments, but I think people are being a little bit more conservative and are generally investing in more conservative asset classes. That's not to say that we're still not being successful at raising money, it's just the conversations get a little bit more difficult. People ask a lot more questions. And it takes maybe three or four calls to close an LP than sometimes one like it did back last year.

Jon Finger ([08:14](#)):

Sure, that makes sense. So as you were really refining the investment strategy that you were going to pitch to the LPs, again with the backdrop of how narrow and specialized your focus was going to be, what did you consider and prioritize in the course of developing the strategy for the LP pitch?

Brom Rector ([08:43](#)):

Sure. Yeah, that's a good question. So the field of psychedelic medicine has a lot of different components. So you could invest in the biotech side of it, you could invest in the infrastructure and accessories side, you could invest in software that's doing something related to psychedelics.

([08:59](#)): But at the same time, the industry is so early and so new that it's kind of hard to make a definitive judgment about what the proper way to invest in the industry is because it's changing every day. There are new states that are opening up every day. There are new laws that are being passed and new clinical trials that are getting approved every day.

([09:18](#)): So the way that I pitched it to LPs is, "Look, this is more of a thematic fund than a fund with a very, very specific strategy about how we're going to invest it in psychedelics. So if you want exposure to psychedelics, there may be a handful of other funds out there that can give it to you. A lot of them are already closed and you might not know them. So the question is really, do you want exposure to the world of psychedelics or not? If so, let's talk."

([09:46](#)): And then from there, I will use my best judgment to create a portfolio that provides exposure to as many different parts of the psychedelic industry value chain as possible, if that makes sense. But we're not necessarily focused on one part or the other part.

([10:03](#)): There are of course, some general guidelines. We are more focused on early stage than late stage. So we don't do anything later than series A and that's just because there's more opportunity to have upside when you get in early. But outside of that, it's just sort of, I would say a general thematic fund.

Jon Finger ([10:20](#)):

Makes sense. And you alluded to some of your history in investing. How do you think that being in such a progressive, ahead of the curve type industry focus, how did that affect the fundraising process?

Brom Rector ([10:40](#)):

In some ways it makes it easier, and in some ways it makes it more difficult. So it makes it easier in the sense that there are very few other folks focused on this. So you don't have a lot of competition from other funds. But

of course it makes it more difficult in the sense that a lot of people don't even know that there are investment opportunities in psychedelics.

(11:00): And some people, you really have to explain what you're talking about to them. Some people think you're trying to sell them LSD at Burning Man, and you have to really kind of ... People have all sorts of ideas around what this industry is. So really what it means is that we just have to be selective about the LPs that we target and find people that maybe have a history of investing in something mental health or impact related.

(11:27): Often, I think 95%, the vast majority of my LPs have some personal experience either themselves or a close friend that has had some kind of transformation through psychedelic therapy. It ends up being almost a personal thing for them rather than a purely monetary thing, if that makes sense.

Jon Finger (11:47):

Absolutely. So I appreciate you opening the door here a bit to it.

Brom Rector (11:51):

Yeah.

Jon Finger (11:52):

Because one of the things that I think would be really important and impactful for the audience to hear about is some of those, what you felt were the most important considerations during the fundraising process, in choosing the LPs that you wanted to pursue a partnership with. What were some of those critical components?

Brom Rector (12:17):

I mean, it's tough. When you're raising an emerging fund, it's tempting to just say, "Well, my target LP is anyone who will give me money." But especially when the fundraising environment is tough.

(12:32): But in general, we're looking for someone who already has a lot of conviction around the field of psychedelic medicine. I don't want to have to be reselling my investors on the industry that they're investing in, considering that this is a thematic fund. So we're kind of looking for people who already get it, if that makes sense.

(12:52): On top of that, of course, it's always good to have value add LPs. So a lot of these psychedelic companies are basically biotech companies that happen to be researching psychedelic drugs. So LPs that are familiar with biotech, that might have a network of folks that are well connected in the biotech industry, that can help advise or make introductions to portfolio companies, is always helpful.

Jon Finger (13:14):

And during that process, we certainly see LPs, again, just in today's market, having a little bit of a higher hurdle, a little bit harder to get over that. So as you were a first time fund manager in a relatively niche area, what were some of the expressed or frankly observed reasons that you thought LPs were not committing to your fund?

(13:46): And then also how did you leverage some of those learnings throughout the fundraising process? And maybe shift your pitch or otherwise take into account those things during your pitch?

Brom Rector (14:01):

Yeah, so no one ever told me that they didn't invest because of me or a perceived sort of lack of confidence. Generally, the reasons were one of two things. Either they don't have conviction around the psychedelic space in general, so they just kind of don't believe in the industry. Or maybe they believe in the medicinal power of psychedelics, but they don't think it's going to be a profitable industry. Or it was the classic, "Hey, we're in this recession, so all of our commitments are being paused until next year."

(14:30): So what I kind of learned is that I needed to have kind of materials on standby to share with folks that would maybe help them gain conviction around the idea of investing in psychedelics. And this is where, turns out the podcast was really useful.

(14:46): Because I have a lot of different episodes that I can point them to saying, "Hey, I know you said that you don't really understand how this idea of psychedelic drug development works. Well, I actually interviewed an expert on it, why don't you listen to this and then tell me what you think?" So having that sort of library of content to educate people around the industry that they're potentially investing in, has been very, very powerful.

(15:07): And then in terms of personnel, having a good set of advisors is always helpful. People will sometimes ask, "Well, Brom, you have this experience doing quantitative trading at a hedge fund, but you're not some sort of scientist. How do you evaluate these biotech companies?" And having well credentialed advisors that I can point to and say, "Well, actually, I don't do the technical due diligence on the biotech stuff, these folks here do." That oftentimes builds a lot of trust and credibility.

Jon Finger (15:39):

Makes sense. So that's all really helpful to people around the fundraise. I'd love to hear more about how Empath has evolved since its conception? And then through fundraise and importantly now into the investing cycle. What's been the evolution of the firm itself?

Brom Rector (16:05):

So when the firm started, I mean, it really was just me. It was the solo GP and no one else was really working with me. And I brought on some advisors that would help with various things, whether it was technical due diligence, or whether it was making interest to potential LPs.

(16:20): And of course, we're still fundraising for the fund. We haven't closed yet, but we have raised a decent chunk of our target and have deployed into 10 different companies. So the workload has gotten significantly higher as now I'm not just raising, but I'm also kind of managing this portfolio. Trying to continuously produce content, trying to continue fundraising, et cetera.

(16:43): So I ended up making a full-time hire for someone who is basically an executive assistant/investor relations person, that takes care of the top of the LP funnel. Doing a lot of cold outreach to family offices and high net worths, and also helps with podcast production and other things. We've brought on some folks that are not necessarily full-time but involved much more significantly than the standard advisor might be, that does a lot of portfolio tracking and really deep due diligence on some potential investments.

(17:17): And what that's meant for me is just that I am now at that stage that I think every sort of entrepreneur goes through. Where you have to start working both in the business and on the business, meaning that there are people to manage, communication to coordinate. And it's been kind of an interesting transition and learning experience for me.

Jon Finger (17:41): And one of the things that I know is important, I'd like to talk about your relationships and really the kind of value add that onboarding your venture advisors has brought to Empath. And in particular, either in addition to or as part of that, how has that intertwined with the deal sourcing angle here? Getting in early into these opportunities. Maybe talk about those dynamics.

Brom Rector (18:13):

So the folks that I brought, I kind of have two different sets of advisors. There's the scientific advisors, which I think pretty self-explanatory. And then the venture advisors that I kind of brought on. And these are folks that have experience both in investing in a venture capital fund, but also starting their own venture capital fund.

(18:31): And I had a lot of experience in the investment world through the hedge fund space, but it's a very different world than the early stage venture fund space. So these folks really helped advise me on how to set up the fund, what's right way to do things, what's normal, what's not normal? Helped educate me on red flags to look out for when doing deals, et cetera. And then they also provided a lot of very, very core introductions to some of the, especially early LPs.

(18:59): Because of the unique nature of this space, the psychedelics world, like I said, it's a super small space and there are only a handful of investors focusing on it full-time. The deal flow has largely come from just the presence that I have built up within the psychedelics world through the podcast and social media accounts. The deal flow hasn't come as much from the advisors, although there have been I think one, maybe one or two that has.

(19:24): So I would say that the venture advisors have been primarily important for just kind of general advice on running a venture capital fund and making sort of core LP introductions to people that they had a very good relationship with. And it's really amazing how powerful some of these LP intros can be.

(19:46): I had some people that ... Some of my venture advisors that have run quite successful venture capital funds, they made some intros on my behalf to some of their LPs. And the responses was basically like, "Hey, well, I've made money every time I've done what you said, so I'm investing with Brom and Empath." It was such an easy sell compared to going out to someone cold.

Jon Finger ([20:07](#)):

For sure. And so powerful in the emerging manager ecosystem, no doubt. So for those out there who say, "Yeah, that's great, Brom, but how do I find those people? And how do I get them to really engage with me and frankly, help me?" What would be your recommendations for developing and then nurturing and harvesting that network of advisors?

Brom Rector ([20:36](#)):

So in terms of identifying the advisors, it's always best to start with your own network. Danielle Strachman, who's one of my advisors, I was lucky enough to have known her for about a decade prior to starting this fund. She worked for Peter Thiel for about five years, and then launched her own fund called 1517, which at this point is on fund three and has had some massive successes. So I was just fortunate enough to have her in my network already, and it turns out that she had an interest in psychedelics.

([21:05](#)): Some of my other advisors are just folks that were kind of in my periphery and who were attracted to the mission. I would say that that is one of the most important things, is if you're going to set up a fund, set up something that is interesting and different enough that people are going to get excited about it. If you're launching the millionth enterprise software venture fund, it's hard to get people excited about something like that.

([21:35](#)): So having some kind of differentiating factor or thesis that people can get excited about, definitely helps. It's also even better if you can get those advisors to become LPs in the fund as well. Now obviously there are some advisors who don't necessarily have the net worth to make sort of a real LP commitment, but are still helpful and that's fine.

([21:58](#)): But it's even better if you can get those folks actually financially invested in the fund because then they will be even more incentivized to help you. And then the final thing of course, is that in my opinion, every advisor should be compensated with a bit of the carrier from the fund. That way they win if the fund wins.

Jon Finger ([22:16](#)):

That's helpful. So in speaking a bit more about the macro landscape. With emerging manager programs on the rise and continued interest in the space from the general LP community, what do you foresee for the future of the landscape with respect to LPs interest in investing with emerging managers? Particularly those who have a unique specialization?

Brom Rector ([22:45](#)):

I mean, I think that the data is pretty clear that emerging managers usually have some sort of out performance. I think that even just the definition of emerging manager varies quite a bit. If you look at some of these bigger institutional OPs, like pension funds, they have emerging manager programs. But to them, an emerging manager is someone on fund three with 500 million AUM, which is very, very different from where the true emerging managers are.

(23:14): So I think that there's obviously increasing interest. I think that one of the challenges is that bigger LPs that might want to see, it's like they want the alpha of an emerging manager, but they expect the same sort of institutional readiness as a more advanced fund. And so they will spend all day talking about how much they want to invest in emerging managers, but then they expect you to have a team of 10 and this institutional grade. And this institutional grade back office, and it's just not realistic.

(23:49): So I think there needs to be sort of a resetting of expectations when coming to some of these bigger institutional LPs. And for that reason, I think the vast majority of emerging managers are going to be raising largely from who they've always been raising from, which is high net worth folks and family offices. And not so much the institutional LPs.

Jon Finger (24:10):

Interesting. Similar lines. What changes do you hope to see within the emerging manager ecosystem in the coming years?

Brom Rector (24:20):

Changes in the emerging manager ecosystem? That's a good question. I think that there's already, like I said, plenty of excitement around emerging managers. Where even over the past two or three years, there was this trend of solo capitalists, or people that are just kind of one man shows running these five to 10 million dollar funds, and there was a lot of excitement around that.

(24:43): One of the interesting things is that a lot of that I think was driven by just this free flow of capital that we saw during COVID. And now we're in a ... And it was kind of like anyone who had a lot of followers on Twitter could raise a fund pretty quickly, even if they didn't have strong investment management experience.

(25:03): So I think that we're kind of in the middle of this reset. Where I would imagine that a lot of these funds that just started up over the last two or three years, might not actually end up returning what people thought they were going to return. There will be a resetting of expectations. And what I hope is that this sort of improves the overall quality of the emerging manager talent pool, without sort of destroying the enthusiasm for emerging managers that LPs have, if that makes sense.

Jon Finger (25:35):

It does. That's good insights and thoughts. Last question, and it's even more helpful by virtue of where you are in the process. I guess, what advice would you give to someone who's thinking about or about to start fundraising on their first fund?

Brom Rector (25:59):

Yeah, lots of things that I've learned along the way that I'm happy to share. Depending on what this person's background is, if you don't have a background in selling or raising capital or something, I think you need to understand how difficult of an endeavor it is.

(26:16): So I spent almost a decade working in institutional financial management in the hedge fund world, but I was never on the capital raising side. I was not out there calling LPs, et cetera. So I had really no idea how difficult of an endeavor this would be, and how much energy it takes, and what it's like to face rejection after rejection, before getting a yes.

(26:42): So I would say if you don't have experience raising capital, talk to some people who have actually done it. And just try to get a feel for the significance of the undertaking that you're trying to do is. And really ask yourself if that's something you want to do. If it's not, then maybe partner with someone who has experience doing that.

(27:02): Another thing that you should really ask yourself is, "What is your network like?" If you don't have a good starting point of it, if you don't have a solid network of potential LPs or rich friends, for lack of a better word, it's going to be tough. And you're going to have to really become a networker and maybe more of an extrovert than you are, in order to make those connections. So just understand what that is like.

(27:29): So on fundraising, just understand that you need to have the network, you need to be comfortable knocking on a lot of doors. You need to get really comfortable refining your story. And just realize that a lot of people start venture funds because they want to do investing. That is kind of what a venture fund is supposed to do.

(27:50): But for the first year or so, what you're actually going to be doing is doing a lot of selling. And by selling, I mean convincing LPs to invest in your fund. So understand that you may not actually get to the part of running a venture fund that you wanted to do, which is the investing, for a while. So I think it's just the common thing is that people underestimate how significant of a process the fundraising is.

Jon Finger (28:19):

Well, and thank you, Brom, really appreciate your time today. Thank you for being our guest and coming on the podcast today and sharing a firsthand perspective on what it's like to specialize as a new manager in the emerging manager landscape today. And thank you to our listeners of Fund Flow for tuning in to this episode, and we hope you join us next time.

Brom Rector (28:42):

This has been amazing, Jon, and I really appreciate you taking the time. It's been a pleasure to share my story and the story of Empath with your audience. And happy to do this again sometime.

Voiceover (28:54):

Thank you for joining us on this episode of Fund Flow. To learn more about today's discussion, please email host Jon Finger at J Finger at McGuireWoods.com. We look forward to hearing from you.

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[\(29:24\)](#):

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