



Lowenstein's Tech Group Podcast: Crypto Innovators

Episode 15 – From Operator to Investor: How One General Partner Selects Her Investment Vehicles

By [Frank W. Eucalitto](#), [Aubrie Pagano](#)

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Frank Eucalitto: Welcome to the Crypto Innovators Podcast, presented by Lowenstein Crypto, where we speak with the most innovative investors, founders, and operators in Web3 to shine light on the technologies that fascinate us all. I'm Frank Eucalitto, Lowenstein Crypto Counsel and specialize in VC and crypto financings.

Today we welcome Aubrie Pagano, general partner at Alpaca VC. Hi Aubrie.

Aubrie Pagano: Hey, great to be here. Thanks for having me on.

Frank Eucalitto: Thanks for coming on. Can you tell us a little bit about your background and how you became an investor?

Aubrie Pagano: For sure, yeah. So before becoming an investor, I was an operator, so took the operator turn investor journey. Before Alpaca. I actually started my career out in finance after college. So I started working at Fidelity Investments really to get out of student debt more than anything else, which I think lots of listeners can relate to. So worked there, got an incredible sort of secondary education in business, which I did not have. I was a medieval studies major in undergrad, and so then saved up money, lived below my means and started a company with one of my best friends from undergrad called Bow and Drape. And so that was my operator journey. We started a company that was essentially a Build-A-Bear for fashion. So the thought was you could online or in-store, walk in, look at a bunch of really well made and comfortable sweatshirts, t-shirts, accessories, even pet gear, which we did actually a pretty big business in, and you could customize it to your heart's content, embellish it, make it your own, and have this creative crafty moment where you could express yourself.

And so it was a millennial focused women's apparel, accessories, and gifting brand that was all about mass customization. So everything that powered that was a bunch of technology and an on-demand supply chain where we

did everything just in time. And then you had this really wonderful sequin embellished, embroidered goods that people just loved. And so that business took off, had sort of like a viral moment with a bunch of celebrities and we built that brand both online and in over 350 department stores. At our peak we had 35 shops where you could actually come in and make things right then and there. Where you could actually customize something and then we'd give you a text when it was ready like in a Nordstrom or in Bloomingdale's.

The business, we actually took in venture, we took on debt and then we got the company to break even. And then we exited the business in 2019 to a group called Win Brands Group, which is buying up digitally native brands, sort of like a digitally native brand rollup. So they bought Gravity Blankets and QALO rings, which you may know as well. So I had that sort of incredible journey over seven and a half years from start to finish, stayed at Win for a little while to earn out and then basically had a blank check to really start another business from my investors, but got so much more excited about helping other people bring their visions to life. I just felt like I had so many learnings that I could bring to things that other people were really passionate about. And so I thought, well, why not formalize? This is essentially what early-stage investors do. And so joined Alpaca, which is an early-stage venture fund here in New York back in 2020 right before the pandemic, coincidentally.

Frank Eucalitto: Tell us more about what Alpaca is doing and your transition from operator to investor.

Aubrie Pagano: Yes, we have no shortage of cool ideas coming across our tests that we get to help make a reality.

Frank Eucalitto: Really cool. I'd actually like to dig in there a little bit, Aubrie on that transition to Alpaca after your exit. I'd love to know more about how your time as a co-founder and a CEO from formation kind of through exit has influenced you the most in terms of your impact as an investor and on portfolio companies.

Aubrie Pagano: Yeah, it's like your lived experience can be your competitive advantage. And so to me, I feel like all parts of it kind of inform how I run my job day-to-day, whether that's sourcing, underwriting, winning into deals, or ultimately adding value across everything we do as an investor, I feel like it's so informed by this kind of gritty experience I had as a 25 year old starting a business and trying to wrench it into reality. So from a sourcing standpoint, I think as former operators, the goal is that we can see others who have the grit that it takes. So that's the one thing I would say to start is that I think there's this pattern recognition of someone who goes the extra mile, who has a little bit more of an edge, has something to prove, has done some amazing things in the past, is purpose-built for what they're about to build.

There's all these sorts of qualitative things about someone who's a great founder that I think if you've been a successful founder, the hope is that you can pattern recognize there. So I'd say that's probably one of the important places it comes into play. And then to your point about a co-founder, really try to get under the dynamics of the founders when we're talking to them. So we

try to suss-out how well do these people work together? How do they dissent? Do they have clear lanes of ownership? Do they like each other? Some of that is like a parent. And so trying to suss that out. And I think I have some lens into that, maybe more than a career investor because I've seen the nuances of what it means to put on a pretty face for investors.

And I say that because I started with my best friend who is so hard, but we're still best friends. And so I think going through that journey and coming out the other side, still being very close, it's actually rarer than maybe most people realize. One of the biggest things about what unravel startups are founder issues. So that's one of the big places. And then the other is obviously we think we can add value and supercharge companies better because we invest in areas where we have lived and owned networks where we can just help get companies faster.

To me, I was talking about this with someone the other week, being a good investor and sitting on a board is not standing over someone's shoulder looking at every metric being like, how are you making this decision? It's like we're investing in people because we think they know how to run their business and that they know what better than we do. The way that we can really help is let's say I invest in a lot of things commerce, obviously because I had a commerce business, how can I get them 10 intros that are meaningful and are going to make the business go so much faster?

So to me it's more like an extended biz dev arm and also advice when there's some hard questions, but really a sounding board, an advice mechanism, I really try to invest in people who I trust and who I would work for myself. And so really I think my role and some of my learnings from my past life are just. How can I bring all those networks and all those successes to bear to then introduce those relationships to my founders. And have done that successfully, one of my last board meetings they were like, "You're 9% of our sales funnel." And I was like, that's good. I'm doing my job.

Frank Eucalitto: It's about leveraging your experience and your network, is that right?

Aubrie Pagano: And to your point, it's like, yes, you can get there, but how fast? We're in the game of super growth companies where you're building a sustainable business but doing it as fast as possible. And so I think surrounding yourself with people who can make you move faster is really important.

Frank Eucalitto: How do you think we can bring more women into the Web3 ecosystem, as both VC investors and founders?

Aubrie Pagano: I'm happy to be talking about this. It's a big part of my mission as someone who's been in finance and in tech for a long time, we started JOAN DAO with the premise that there was a lot of women who were curious about Web3 or who already were operating Web3 but were operating amongst a sea of largely men. And so we're like, can we bring us all together to have conversations, with a unique lens. Not that we're like anti investing men, we all invest alongside men. My partners are all men. I love my guys. But there is something about, again, the lived experience that we all have that is kind of an interesting thing to use as an advantage to think about investing. And so

we all came together, there's about 20 of us who are all some of the top VCs that you would know alongside some of the great Web3 builders really to have unfettered conversations together and then hopefully make money around how we're viewing the market.

And so what's been a successful journey in terms of building that community? Obviously, it's actually interesting, we're having a big discussion about rebalancing our portfolio right now, just given the markets down, we're like, should we sell out of some stuff and buy into some other things that are at attractive prices? So it's a constant dialogue, but I've learned that I think it's hard to talk categorically about women investing in Web3 and how to fix that. But what I would say is some observations. One is that Web3 is very new. And I've observed that women in my community are very cautious. And so they're very cautious decision makers in that they want to know how everything works, they want to research extra. And there's some good data to back this up around how women sort of underestimate their performance and want to be super sure that they can be accountable to what they can do and cannot do. They don't overstate.

And so I've observed that that can work against women in Web3, because it's total wild west territory. Oftentimes you're figuring stuff out on the fly, you're working in these new modalities that you're not used to. And so I think in some ways that slows some women investors down. And I think now you see this kind of wave of it, I think my BFF, say what you want about their project. But I think what they've done a good job of is kind of breaking down for women how to think about the space and inform women so that they get a little bit more under their feet around how to enter this space. So I think women are maybe slower to this space, but I don't think that means that they'll be out of the space forever. Just my observation is that women are a little bit more cautious, I guess I would say, as they sort of tiptoe around something that's very new.

And so it's been nice as a group with JOAN for us to all have a safe space where we can ask all the dumb questions, learn together. That's a big part of why we all came together. We said, if nothing else, we're going to learn a bunch together. And so I think creating those circles for people to learn, make mistakes, ask questions, which is something that Web3 says happens. I often say Web3 co-opted the term community. I think we have to be very cautious about what's a real community and what's really making money. But I do think there's opportunities in Web3 to create real safe spaces for people to come together and learn from each other. And that's some of the beautiful things I've seen in Web3 is that everyone, because it's decentralized, is incented for the more people to get it and to win, we all win. And so I found it to be an incredibly supportive space. And so I think the more that we create forums and places for people to learn from each other, I think the more you'll get people comfortable investing.

Frank Eucalitto: Your portfolio includes three of the top Metaverse projects. What do you think that new founders should be working on in the Metaverse?

Aubrie Pagano:

Yeah, it's a great question because I think there's still so much, it's still so early days. And I'll say it from my end of one, our partners actually all invest in Web3, we think about Web3. And so they actually probably have other ideas beyond mine, but I'll speak for mine. I think part of the exciting thing we saw early in Metaverse is really tied to... So if I zoom back out and talk about Alpaca just for a second. So Alpaca really, we stand behind this idea that we invest at the intersection of the digital and physical worlds. And where technology is kind of layered over real life. And the way we do business is all of us are former founders. Between the four partners, we started six businesses and they're all along the value chain of modern-day commerce.

So Ryan and Daniel focus a lot on prop tech and construction tech. David focuses a lot on consumer, both Web2 and Web3. And I focus on all things on the backend of commerce, whether that's tech enabled commerce back through the supply chain. And so broadly, those are our sectors. But the way that we really think about investing is much more theses driven. We are constantly doing research sprints, 90-day research sprints that we call field studies with our MBA associates, which at any time we have six on deck who are doing deep thinking for us around where is their white space in areas that we know? Where can we push our edges? Can we map the market? Can we identify new things that are exciting to us? And so we're constantly in this flow and you can read a lot of these online. And so really I have to credit David on our team, when he started to get really involved in NBA Top Shot, he got really involved in ZED RUN.

Early days, he was like, this is a thing. Web3 and blockchain is finally becoming consumerized, which for a long time we knew blockchain was interesting, but there was this kind of consumer layer over it. And so we did a deep dive into it and we were like, where can we play in all of this? What are NFTs? Let's really understand it. And so one of the big themes that came out of it, there were five different themes that came out of that. One of the themes was around Metaverses, and in particular for us was interesting for a couple reasons. One, because we're commerce investors we were like, wow, this is an entirely new landscape where you can not only replicate what happens in the real world but can reinvent the real world and create a whole new digital surface for brands and commerce to operate around.

So that was really exciting to us, because we saw the potential for brands that exist and commerce that exists in the current world to have new possibilities in the virtual world. So we're really excited about that. And then we were also from a prop tech angle, really excited about the real estate angle as well. Ryan built a two-billion-dollar real estate company doing developments in New York in all major cities. What an exciting proposition to think about how real estate develops in a virtual sense because land ownership is something that's similarly important in a virtual world. So because of those two things, we got really excited about the possibilities of what would happen when you can bring a consortium of people online. And we didn't think the Metaverse would be for, or at least not speaking for myself, I don't think everyone's going to be in Metaverses, I don't think a light switch is going to go off and we're all just going to be virtual.

But I think more and more you see, especially young generations of people whose entire digital identities in life are online and people who are very

comfortable with that. There are people who are still IRL, but even I have two friends who I spoke at their wedding who met in the same guild in World of Warcraft. And their Friday nights are spent in their game room hanging out with their friends who are all over the world. And so there are a lot of people who that reality is very comfortable and where you can build something amazing. So because we sort of saw that possibility along, we saw these kind of cultural evolutions of digital lives online, the ability for commerce to be there, the ability for real estate to be there. So we were like, okay, we got to figure out who the best ones are.

And so again, through our field study process, that's actually how we got to the Sandbox, Venly, and in Mocha by going in, talking to other VCs, talking to entrepreneurs, we actually got connected to the Sandbox to just talk to them about Metaverses. And they were so interested in what we had to say and our opinions. They were like, "Hey, we're actually raising around. Do you guys want to invest?" And so it sort of happens serendipitously like that. And that's sometimes how those things happen for us is as we're doing deep research and gaining conviction, we actually meet the founder that gives us the opportunity to come in. And so that's how we got connected to a lot of those folks, was through some of that research and thinking. So I'll pause there. That's kind of the context and broad brush how we think about what's exciting in the Metaverse.

If I then answer your second question, which is double clicking on where should people be working, I think there's a couple areas specifically in the Metaverse, so we could also talk blockchain. Because I also think blockchain is just fascinating generally and we're excited, but in the Metaverse, very excited about, I think two areas. One again is around thinking about digital real estate. So we envision a world where a lot of the things we see in prop tech are existent in Metaverses. So we've looked at already digital brokers who are brokerage firms who exist to buy and sell Metaverse land. There are developers who are developing there. There are property managers and property management software. If you can think about the real world essentially being replicated and then augmented in a virtual world, what are all the tools and technologies to be able to manage that? Because we see the real estate in these Metaverses being one of the largest assets in these worlds.

So we're very excited about who's building to help develop and manage in those spaces and what that means in the nuances of that. And then the other is much more around, and this is particular to me, because I was focused on fashion. I think digital fashion, digital goods is a really interesting space in the Metaverses. And I think we've seen this early on with Sandbox and some of the early folks who are in there. There's a ton of celebrities and there's a ton of early brands and a lot of them are blue chip brands. But I'm really interested to see, and again, there are some brands who I think have done a good job in the Metaverse. I think what Nike's done with NFTs is good. I think Adidas has done a good job, but I would say it's still very early innings and it's very parallel thinking to, okay, we're in the physical world now, what does it look like for us to have a brand identity in the virtual world?

I'm very excited to see more orthogonal thinking about, okay, if this brand were to never exist in the physical world, what does that look like and what

does that open up as far as what are the possibilities for these brands? And it doesn't necessarily have to be fashion. I think fashion is an easy parallel for people because fashion and collectibles and merch have been such a part of the NFT fabric, but I just think there's so much more to be done there. And we've already seen, I mean, you look at the younger generations where the things that they own the most of are in Roblox and in virtual games. And so we see, again, long term there's going to be... And we also already, I mean, you can also look at mega trends around people buy more secondhand is five-Xing regular retail at this time. People don't care as much about stuff. We can't afford as much stuff. So digital goods are becoming a more prominent part of our cultural and societal fabric. And so we're really excited to see what emerges as far as what experiences and brands you can build in Metaverses that totally, again, have no touchstone in real life in a fantastic way. I'm sorry I wouldn't be prescriptive about what that is, but I think there's so many more possibilities.

Frank Eucalitto: Fashion and wearables are another area that is really expanding.

Aubrie Pagano: No, it makes sense. I mean, I think with Archive in sneakers and with some of the... I mean, if you look at Abloh's rise to Louis Vuitton creative director status, streetwear is the most in vogue fashion moment. And so they're at the cutting edge. And so it makes sense streetwear is embracing this, especially the end customer of streetwear, which is largely a younger male. I think it makes total sense that that demographic is really embracing and thinking about these digital goods. But I'm also excited to see who else comes up. Oh gosh, I forget who did the Barbie? Was it Gucci who did the Barbie collab in the Metaverse? I forget which house did it, but they did for the Barbie movie, they did a collaboration, or maybe it was Balenciaga, I think. Yeah. Oh, now I can't remember. Oh my gosh. You'll have to edit, revise, whoever it was did this amazing collaboration where they took the nostalgia of Barbie put it together and created looks in the Metaverse that sold out in minutes.

And so I think streetwear has the ability to do that. And I also think there's this ability to take the nostalgia of things, which also, nostalgia is such a big Gen Z trend. I think there's this great ability to take things that were of the past and revive them and kind of bring them back to life. I've said for a long time, I'm like the Delia's catalog. And some of the women on this call might remember, there's like Lisa Frank, there's all these old nostalgic brands that are dead in the water, but you can give all these things new life in a digital context that's totally different. So I just think IP generally, that's interesting old IP also is an area that whether it's in streetwear or beyond can be brought to new life. And I thought the Barbie collab was a great example of that.

Frank Eucalitto: There are lots of entertainment brands that could take off in the Metaverse.

Aubrie Pagano: 100%. Oh, it was Balmain by the way. It was a mind bender. It was Balmain by Barbie, did an NFT drop that sold out in minutes. It was amazing. Hopefully the same will happen with Pokemon Go.

Frank Eucalitto: What do you think of Ordinals? Could they be a viable non-Bitcoin asset?

Aubrie Pagano: I think that's a great first one.

Frank Eucalitto:

I think from our discussion today, Aubrie, it's pretty clear that you have a passion for mentoring and education with respect to others, including your portfolio companies. And so we really just wanted to see and dig in little bit more about what inspires that and what we can look forward to from you next on that front.

Aubrie Pagano:

Sure, I mean, it's the most rewarding part and of investing. Investing is a finance job at the end of the day. It's very transactional. There are sharp elbows, and I get a huge adrenaline rush out of that. I love winning deals and negotiating and all that stuff, but the heart of the business is all the mentoring and all the work you get to do with people. And so that's the part of the job that really drives me. And I have a really strong battle cry toward that, honestly, because I had really strong mentors who helped me. Tony Shay and his team were some of them, some of my earliest investors who pulled out multiple times to help me. And so there's sort of a pay it forward element. And then there was a kind of injustice in the industry where we had some great people, often many of them were men who helped me.

And then when I went to go raise capital, it was a disaster. I raised money pre-me too. All the stories of me being the only person in the office besides the assistant getting me coffee, who was a woman. So really feel like I got through the help of others and through my hard work, was able to exit successfully, got the opportunity to be a check writer, which not most people have. So I feel like this very strong, like I said, battle cry to be like, okay, I need to be a diverse investor. I need to not only think about diverse check writing, but also helping pull other people up the way that I got pulled up. And so it's a really strong piece of purpose for me that I get out of bed to do this job because otherwise it's like you're just making LPs money and yeah, that's cool, but I need more purpose than that.

And so that's really where I hang my hat and spend a lot of time. So I spend a lot of time thinking about and investing in diverse founders. I'm still part of a group called XFactor Ventures, which is a group of 20 female operators and former operators who invest in women. So I can write some basically angel checks into women founders. And so that's another outlet for me to be able to be supportive of diverse founders. We as a firm wrote six checks into diverse managers. So we ourselves, not out of our fund, but as GPs, we wrote checks into diverse check writers. So as there's this new wave of BIPOC women fund managers, we were like, okay, we can authentically build networks by investing in them because they have authentic networks to diverse founders, and we can hopefully work with them and tap that.

And so it's another way that we're trying to think about how do we further the ecosystem. And so it's been incredible. We've done two deals that have been from those diverse managers, and we've sent three deals that have gotten done to them. And so we try to think about how can we really collaboratively just make the ecosystem better because we truly believe that more diverse voices make it better. And so those are the ways that I've spent most of my day thinking about it. And then obviously have a bat phone to all my founders and they're on text message with me most days. And then hopefully we'll see, I'm going to say this on this podcast and hopefully this will wrench it into fruition. I'm hoping that I can, at least, I write all the time about, I wrote last year all about supply chain. I write about live commerce.

I really want to write something more substantive about my view now as an operator turned investor that's really geared toward founders to be like, okay, I've been on both sides of the table and here's all the things that I wish, basically I told myself about understanding VC. So I'm hoping to publish that, let's see, when I get around to it, but want to also think about how do I give back and in a more... Podcast, this are great because it's like a one to many where I get to tell you guys my story and hopefully other people hear it. But I think publishing something more substantive is hopefully more long lasting that people can refer back to in a more time-tested way.

Frank Eucalitto: That's awesome. And I think you're in a really unique position being a founder turned check writer, not only for your portfolio companies, but for others with writing because. You have a really unique experience and VC is kind of a great spot where it's not just about the numbers and it's not just about a banker or the financials. There's so much more to it. And you're in that unique position where you've seen both sides and have the experience operating. And so I think it's a really cool kind of position you're in to be able to help others.

Aubrie Pagano: Thank you, yes. I will let you guys know when I finally do it. I've been telling myself I'll do it for the last year.

Frank Eucalitto: Thank you so much for coming on today, Aubrie.

Frank Eucalitto: If you enjoyed today's episode, please be sure to subscribe and hit the like button.

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