Venture Capital: A Gateway to Innovation

Key Points

- The AI-driven tech revolution is creating powerful investment opportunities, with venture capital emerging as a key gateway to innovation.
- Venture capital now encompasses companies at various stages, from high- potential seed-stage companies to established, revenue-generating businesses.
- Investors seeking high-demand opportunities can access them through established private market fund managers.

The Question Is No Longer ‘If’; It’s ‘How’

Investing in today’s most innovative AI companies means investing in venture capital. The tech landscape has shifted dramatically, and many investors are no longer asking if they should invest in venture — but how.

Twenty-five years ago, venture capital focused on seed-stage companies which had a wide dispersion of returns. But the venture ecosystem is no longer just a launchpad for fledgling startups, it’s also a powerful engine across the full growth spectrum. This transformation has opened new doors for investors seeking exposure to the disruptive tech revolution.

In this piece we will discuss how venture capital has evolved—and what it means for investors.

1. VC Now Includes High Revenue Deals

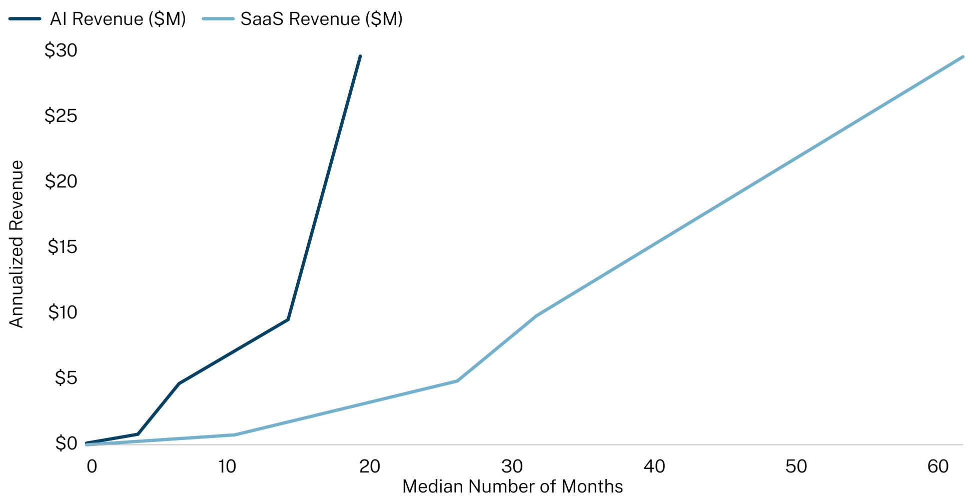
Today, venture-backed companies tend to go public later, once they are generating earnings or they may skip the IPO altogether.

In addition, many AI companies generate revenue at much faster rates than historical tech companies. As the chart below shows, top companies that scale to $30 million in revenue do so about three times faster than traditional software-as-a-service (SaaS) companies[1]. This has a major impact on venture capital opportunities: In 2024, VC deal activity shifted heavily toward AI.

These changes have broadened venture capital’s scope to include companies of all sizes, from early-stage startups to multibillion-dollar firms.

[1] Financial Times, September 2024

Top AI Companies May Generate Revenue Faster



Source: Financial Times, September 2024

2. The Opportunity Set Is More Diverse

While seed-stage companies — offering the potential for high returns, often with high volatility — remain central to VC investing, today's VC opportunity set is more diverse. Some of the highest-returning opportunities are still in smaller companies. But the addition of later-stage deals brings greater visibility, proven business models and more predictable growth. These companies have moved beyond the proof-of-concept phase, with established products, scalable operations, and expanding market share.

According to PitchBook, late-stage venture deals accounted for more than 60 percent of total U.S. VC investment value in 2024, with AI-focused companies capturing a significant share[2]. These firms — often pre-IPO or choosing to stay private longer — are delivering returns that rival or exceed public benchmarks, with far less exposure to the write-offs common in early-stage portfolios.

3. Access Is a Growing Challenge

However, as venture capital has changed, many top AI deals are oversubscribed, and accessing top-tier opportunities across all growth stages is more challenging.

Access often depends on partnering with experienced managers. Established private markets platforms can open doors to primary, co-investment and secondary opportunities that are otherwise difficult for most investors to reach.

Here's what to watch for when evaluating venture exposure:

- **Focus on quality.** Wide dispersion and the power law—where a few companies generate most of the returns—make it critical to invest with top-tier companies and managers.
- **Consider liquidity.** With companies taking longer to go public, holding periods are lengthening. Consider semi-liquid evergreen structures to gain access.
- **Diversify.** Mitigate risk and capture upside through thoughtful portfolio construction.

[2] Pitchbook, December 2024

Conclusion: This Is Not Your Dad's Venture Capital

Venture capital investing has evolved significantly over the past two decades. Today, fund managers with scale and deep networks can provide access to the full lifecycle of innovative private companies, from seed to scaled private growth.

Allocating to a semi-liquid evergreen fund with a venture capital focus can provide exposure to innovation while mitigating portfolio concentration. By including growth-oriented companies across various stages and revenue profiles, these funds inherently offer diversification and the potential for an attractive risk/return profile.