

Mastering the venture playbook: Five key success factors – and how to apply them today



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For institutional investors, venture's return potential is best accessed through early-stage exposure, a focus on quality density, smart diversification, and disciplined investing across cycles. These principles take on added weight in today's market, where AI-driven euphoria contrasts sharply with a multi-year slowdown in venture fundraising.

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Key takeaways

1. Venture capital is arguably more important than ever in the current market, with its stellar, long-term return opportunities highly valuable at a time of uncertainty and volatility, and as disruption from megatrends such as artificial intelligence (AI) gathers pace.
2. Venture performance has been strong over the long-term – and the coming years could provide particularly strong vintages in which to invest, due to a combination of lower levels of capital following a fundraising slowdown chasing an abundance of innovation-driven deal flow.
3. Investors need to be discerning and able to spot the red flags of hype cycles and exuberance that can inflate valuations in specific periods and within specific segments, particular for later-stage investments.
4. Schroders Capital believes there is a playbook of five key factors for investors looking to build a long-term, successful venture capital investment programme, including:
 - a. Focusing on earlier-stage rounds
 - b. Building exposure around a core of high-quality funds and managers
 - c. Enhancing direct exposure via secondaries and co-investments
 - d. Diversifying smartly across managers, sectors and geographies, the latter reflecting the increasingly 'multi-polar' nature of innovation
 - e. Maintaining discipline and investing through the cycle
5. The current market could yield attractive opportunities to execute on this playbook, as innovation activity is heightened, exit markets are picking up, and secondaries and co-investment opportunities are plentiful. However, current euphoria around AI and capital inflows into this theme from non-traditional sources also create risks that need to be navigated carefully.

1 Why venture matters

In today's volatile and uncertain world, venture capital matters more than ever. It plays a critical role in driving innovation and economic growth. Moreover, in an era of rapid technological advancement and disruption, innovation is happening at an unprecedented pace in the top hubs around the world, creating diverse and compelling opportunities for investors.

Venture-backed, category leading companies have replaced incumbents of several large industries, from software and

media to healthcare. They have developed life-changing innovations, for example technologies that have changed our everyday lives or new medicines that can cure previously incurable diseases. Venture investment is the catalyst for these breakthroughs, financing the bold ideas that can redefine how we live and work.

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Many of the world's most transformative companies were born as venture-backed start-ups. In fact, eight of the 10 most valuable public companies today were venture-backed in their early days, including tech giants Apple, Microsoft, Google (now Alphabet), Nvidia, Amazon, Facebook (now Meta), Tesla and Broadcom. The venture firms that backed these companies earned multiple times their money (in some cases triple-digit multiples on first-round investments), as those start-ups grew into giants.

For founders, the rationale for bringing in venture investment is primarily to provide funding while companies are developing their disruptive products and services before these have been commercialised – and to provide follow-on funding as they scale. To boot, it brings access to the experience, commercial expertise and global networks of global venture investors, enabling transformative growth.

Why venture: The investor perspective

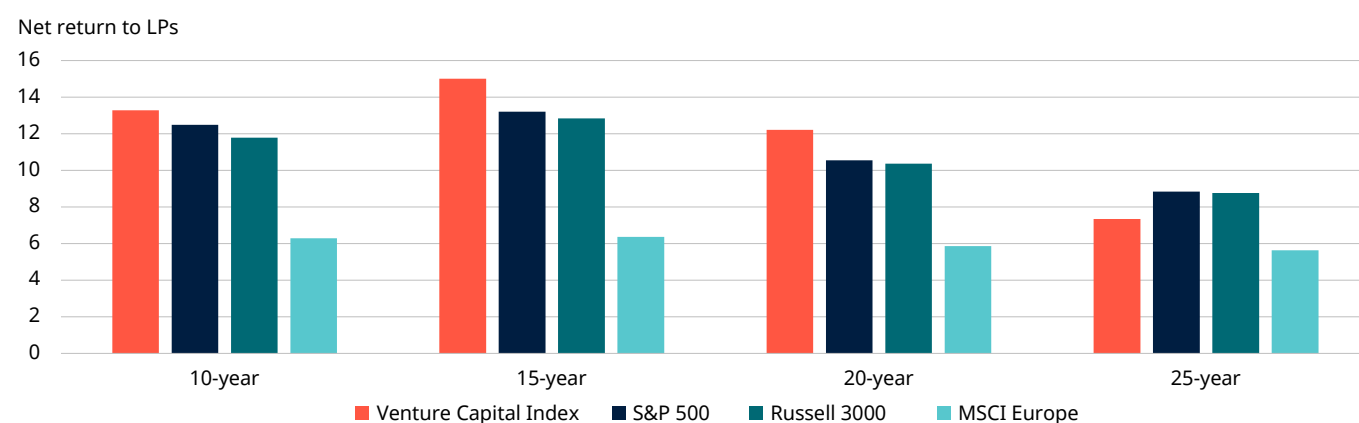
From an investor perspective, at a time when market fluctuations are impacting return potential across asset classes, the strategic importance of venture capital has never

been greater. This segment provides access to the growth success stories of tomorrow – high-potential companies that are staying private for longer than ever before and that are not accessible in public markets.

Over the long term, this has consistently translated into strong returns. The Cambridge Associates Venture Capital Index, which measures annualised returns across the market and compares these to public market equivalents, has outperformed the S&P 500 and Russell 2000 index over 10, 15 and 20-year time horizons, only dipping slightly over a 25-year horizon that captures returns during the dotcom bust. Against the MSCI Europe it has outperformed over all long-term horizons.

Venture returns have been less stellar over recent, shorter time horizons, reflecting a boom in 2021–2022 driven by exuberance related to Covid-era tech and biotech investments, which gave way to a major dip in later-stage valuations in subsequent years. This correction has contributed to an attractive, less inflated entry point for venture investors today. We provide more detail on this and some of the specific underlying dynamics throughout the coming chapters.

Figure 1: Venture performance has been strong over the long term



Past performance is not a guide to future performance and may not be repeated.

Source: Cambridge Associates, March 2025. Underlying data from Cambridge Associates, Frank Russell Company, MSCI, S&P Dow Jones Indices and Thomson Reuters Datastream. Venture Capital Index is a horizon calculation based on data compiled from 3,356 venture capital funds, including fully liquidated partnerships, formed between 1981 and 2025, and is net of fees, expenses, and carried interest. All public market indices shown are CA Modified Public Market Equivalent (mPME) calculations, which replicates private investment performance under public market conditions. The public index's shares are purchased and sold according to the private fund cash flow schedule, with distributions calculated in the same proportion as the private fund.

At a fund level, from 2009–2023 and across a universe of over 2,000 private equity and venture capital funds with performance data tracked by Schroders Capital, almost three times the proportion of early-stage venture funds generated a total return multiple (TVPI) in excess of 3x the capital invested compared to buyout funds (>13% vs. <5%), with the best performing of these generating a far higher maximum return (25.9x vs. 9.5x).

Meanwhile, the proportion of venture funds that have generated a multiple of less than 1x – and so that lost money – is slightly higher, but significantly less so (10.5% for early-stage venture funds vs >6% for buyout funds). In sum, this highlights that while venture investing does not come without risk, it is the potential for significant outperformance that comes with

investing in the breakthrough businesses of the future that drives the investment case.

In an effort to capture this return potential, venture has become an integral part of institutional portfolios. Indeed, large institutional investors typically allocate between 20–25% of their private equity programme to venture capital. Venture funds have accounted for roughly 30% of the fundraising for direct private equity strategies including also buyout and growth capital over the past ten years, according to Preqin.

Specifically, in the five-year period from 2020 to 2024, approximately \$1.2 trillion was invested in venture capital worldwide, reflecting a huge influx of capital seeking to capture the next wave of innovation.

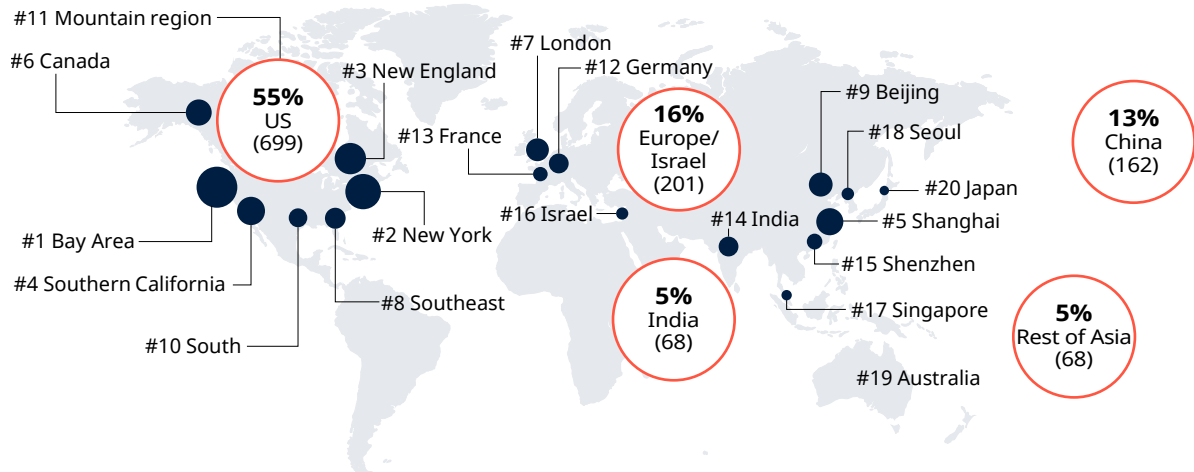
Multi-polar innovation – Investing where innovation happens

Venture capital's global reach and sector breadth have expanded markedly, making it an even more essential asset class today with potential to diversify geographic

concentration risk. Venture investment is no longer confined to Silicon Valley, it now spans dozens of innovation hubs across North America, Europe and Asia. Indeed, nearly half (45%) of all unicorns (venture-backed companies that have achieved a \$1 billion valuation) now come from outside of the US.

Figure 2: Innovation – and unicorn generation – is now happening globally

Top 20 innovation hubs and unicorn distribution globally



Past performance is not a guide to future performance and may not be repeated.

Past performance is not a guide to future performance and may not be repeated. Source: CBInsights, Pitchbook, Schroders Capital, 2025. As of 21 April 2025. Bay Area includes San Francisco, Palo Alto, Menlo Park, Mountain View, Emeryville and San Jose. In total, there are 1,246 Unicorns across the private market. Unicorns from regions not mentioned in graphic above include Africa and Middle East. Company headquarters based on Pitchbook. Unicorn defined as venture-backed private company with post-money valuation over \$1 billion.

Innovation becoming more multi-polar means investors must cast a wide net, not just in terms of location but also in terms of industry focus. Venture capital touches virtually every high-growth sector. Technology remains the largest area of focus, and it has produced the most unicorns, but there is now a sector fragmentation whereby innovation in key technology sub-sectors is becoming concentrated in specific innovation hubs globally.

Venture is also driving breakthroughs in healthcare (life sciences and biotechnology), energy, and other fields. For example, within healthcare, venture-backed companies have developed novel gene therapies, and vaccines and treatments for diseases once deemed incurable. According to Pitchbook data, in 2024

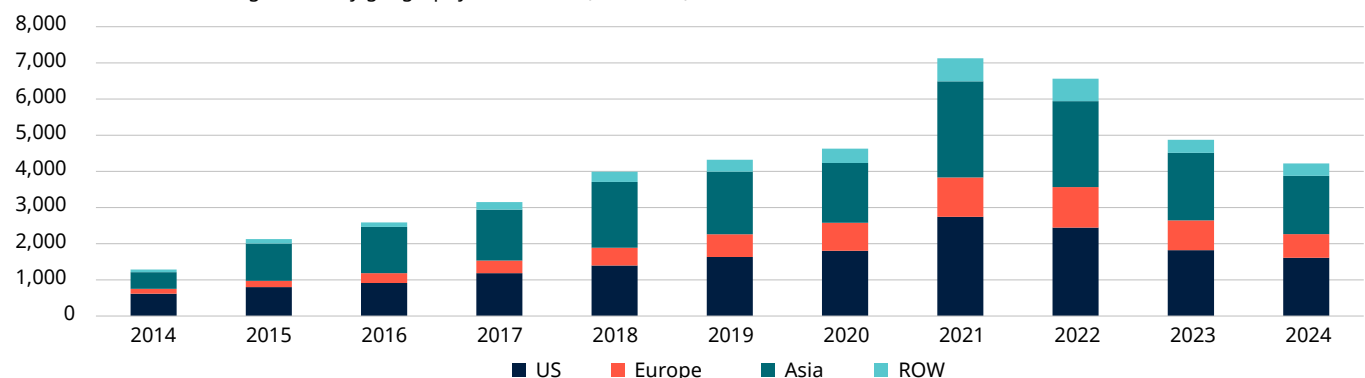
and despite a challenging market, venture-backed biotech firms accounted for more than 20 major exits in excess of \$1 billion.

Looking ahead: Why the coming years could be strong vintages

The past few years have seen extraordinary fluctuations in venture investment volumes: a record surge in venture activity during the 2021–2022 boom, followed by a correction in late 2022–2023 amid higher interest rates and market uncertainty. Investors also pulled back during that period as valuations reset, but far from collapsing, venture funding and the engine of innovation, company creation, merely reverted to more normalised levels.

Figure 3: Company creation has normalised to 2018 levels

Series A venture financing rounds by geography, 2014–2024 (# of deals)



Source: Pitchbook, Schroders Capital, 2025.

The coming years may provide strong vintage years for venture capital, with potential for a rebound in deal activity, recovering valuations, and improving exit markets. In particular, the debut of advanced AI systems like ChatGPT in late 2022 has unleashed a new wave of innovation and investor excitement in artificial intelligence (AI).

In just the first half of 2025, [US startup funding totalled \\$162.8 billion](#) – a 75% jump over the prior year – driven primarily by major investments in AI. Importantly, much of this surge has come from outside the traditional venture sphere, with corporates and strategic investors buying into AI growth potential, particularly at later stages and in larger funding rounds. While this reflects the scale of opportunity in this theme, it also brings challenges, including more intense competition for deals and potential misalignment between capital inflows and long-term value creation. This is an area requiring careful management, which we will cover in more depth later in the paper.

2 Five success factors for institutional investors

As we have shown, venture capital offers tremendous promise, but it also comes with distinctive risks that institutional investors must manage. The ‘power-law’ nature of venture returns means that a majority of investments will yield modest or even negligible outcomes, while a few outlier winners in a portfolio will generate the bulk of the performance – and so potential outperformance.

Studies have shown that roughly 20% of venture-backed companies account for around 80% of total returns across a broad portfolio. Partly as a result of this, the dispersion in performance among venture managers is very wide – the difference between top-quartile and bottom-quartile venture funds can be in the order of 15% per year in realised returns (more on this below).

In other words, venture capital has the potential to generate significant outperformance and can produce highly differentiated returns compared to other asset classes, including private equity more broadly. However, outcomes depend on picking the right managers and companies. As such, a considered, research-driven approach is essential to achieving long-term portfolio success.

Below, we outline **five critical success factors** for institutional investors allocating to venture capital, explaining how each can enhance the likelihood of strong, consistent performance. These principles form a playbook for constructing a venture programme that has the potential to capture outsized returns, while mitigating risks.

At the same time, venture firms themselves are navigating a more selective fundraising market amid a tighter liquidity environment. Investors have become more cautious due to broader portfolio markdowns and liquidity constraints, leading to a [33% year-over-year drop in new venture capital raised](#) by funds in the first half of 2025.

We believe this dynamic – abundant innovation and potential investment opportunities on one hand, and constrained capital supply outside of the AI theme on the other – is the headline story in venture today, and makes investing in the segment a particularly attractive proposition. For long-term institutional investors, this presents a window to commit to the breakthrough companies of tomorrow on more attractive terms, provided one has the discipline and strategy to capitalise on the moment.

1. Prioritise early-stage and emerging themes

Seed and Series A rounds typically offer lower entry valuations, greater innovation exposure, and stronger long-term return potential. Success in these earlier-stage segments depends on continually identifying and backing the next waves of disruption early, not backing yesterday’s winners.

Earlier-stage companies also benefit from a wider range of exit options. A successful young start-up can raise follow-on rounds or find a strategic acquirer relatively early. In contrast, late-stage ventures often rely on exiting via public IPO markets, which can be lucrative but fickle.

On entry valuations, median pre-money valuations by stage show that earlier-stage rounds (Seed/Series A) are completed at materially lower valuations vs later-stage rounds (see Figure 4), and have avoided the exuberance and volatility of later-stage pre-IPO and growth capital rounds (Series D+), which saw significant price inflation in 2021-early 2022 as excess capital flooded into the market, followed by a steep correction (see Figure 5).

In practice, this greater stability in valuations also supports lower volatility over time. Early-stage venture portfolios were less impacted by the 2022–2023 valuation reset, while many later-stage deals suffered steep markdowns.

Figure 4: Early-stage valuations are materially lower than later-stage

Global median pre-money valuations by stage
Pre-money valuation (\$m)

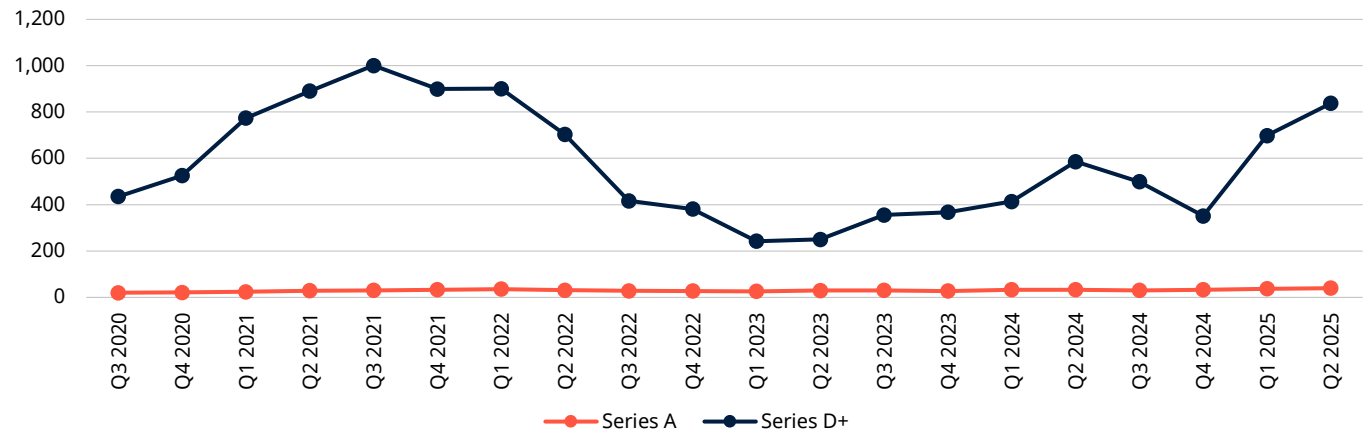
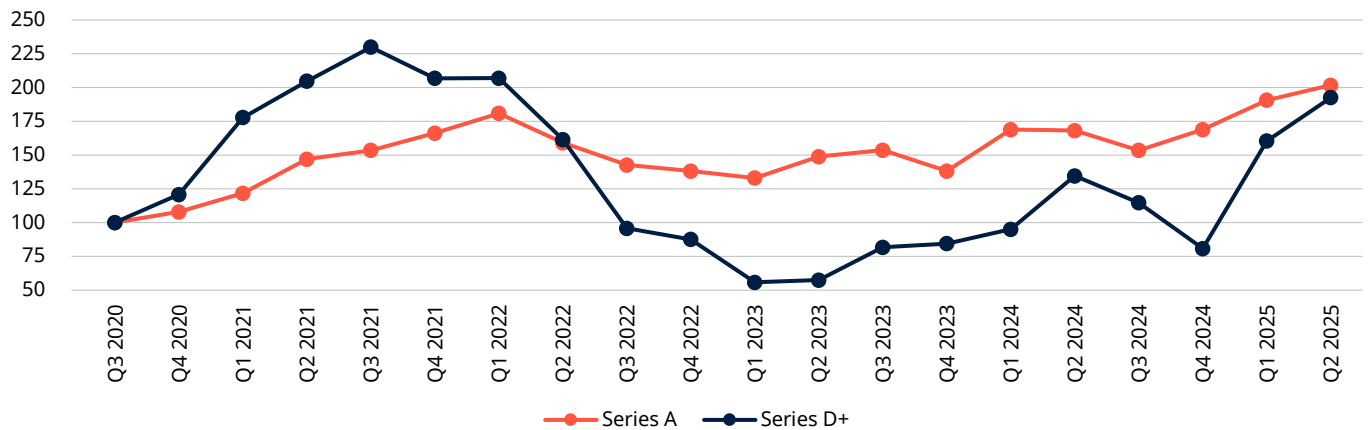


Figure 5: Greater stability in valuations for early-stage vs. late-stage rounds

Global median pre-money valuations by stage
Pre-money valuation (rebased to Q3 2020, %)



Past performance is not a guide to future performance and may not be repeated.

Source: PitchBook Data, Inc. as of 23 August 2025, Schroders Capital, 2025. Figure 5 shows change in pre-money valuations, rebased to Q3 2020.

Emphasising earlier-stage investments goes hand-in-hand with backing the next generation of mega-themes and breakthrough businesses, rather than chasing last cycle's ideas. Technology and market trends move quickly; the areas that produced yesterday's biggest winners may already be saturated.

For example, 10–15 years ago top venture firms were heavily investing in then-nascent themes like social networking, cloud computing, and SaaS. Those themes have since largely played out, and venture attention has shifted to new frontiers, such as

generative AI, autonomous vehicles, space tech, advanced therapeutics, climate tech, and more. The pace of change means some of today's hot areas can fade quickly, giving way to the next set of 'mega-themes'.

Institutional investors must distinguish durable, scalable domains from short-lived trends and establish exposure early. In practice, that often means partnering with specialist venture managers who bring deep technical insight and networks, and who see new waves forming bottom-up – start-up by start-up.

2. Concentrate on quality density

A critical driver of venture outcomes is the quality of the venture managers (GPs) and deals an investor can access. The venture market's return distribution is heavily skewed: [top-tier funds consistently outperform](#), and they are often the ones backing the eventual breakout companies of new innovation waves.

It is therefore important to maximise 'portfolio quality density' – and to understand what that means in practice. In short, it is not simply an obsession with trying to identify the best individual funds or direct investments to include in a portfolio. Rather it is about constructing a portfolio in such a way as to maximise the opportunity for (and share of) exposure to high-quality investments with the potential to outperform.

An institutional investor should therefore concentrate their primary fund commitments in high-calibre venture funds

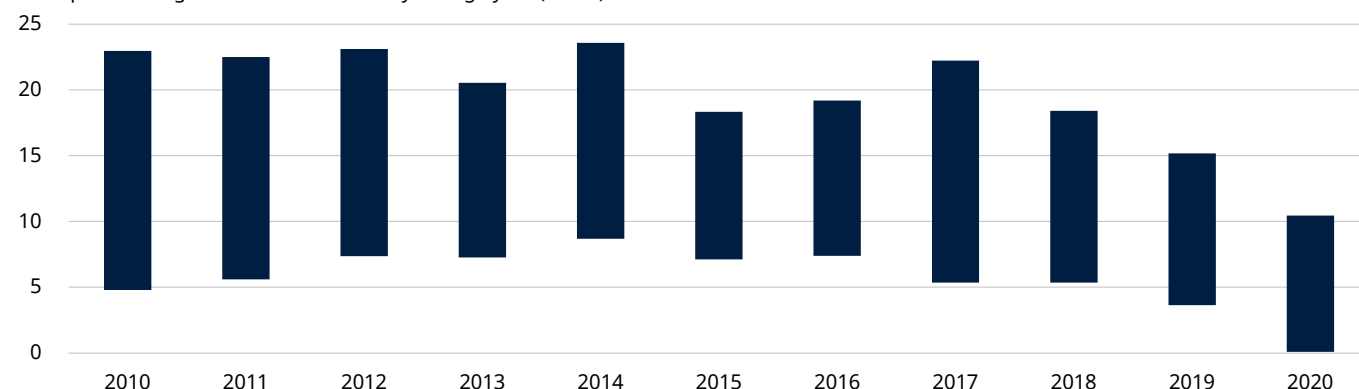
– those with proven track records of spotting and building winners. Top-quartile managers tend to see the best deal flow and consistently attract the most talented founders (success begets success) – and they also have the experience and resources to add value to start-ups.

In addition, most persistently successful managers have institutionalised governance and processes that allow smooth generational succession. They typically maintain size discipline in their seed and early-stage funds, preventing strategy drift, while adding separate later-stage funds for different opportunities. By contrast, in buyouts, repeated upsizing often leads to strategy drift toward larger deals.

The performance numbers underscore this imperative. Data covering funds with vintage years between 2010–2020 showed that top-quartile venture funds outperformed bottom quartile funds by up to 18 percentage points per year (see Figure 6), compounding into vastly different outcomes over a fund's life.

Figure 6: Venture fund performance dispersion is wide

Interquartile range for Venture net IRR by vintage year (% IRR)



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Source: Cambridge Associates Benchmark, Schroders Capital, 2025. Note: based on Cambridge Associates (CA) data as of 31 March 2025 (latest available). The views shared are those of Schroders Capital and may not be verified or lead to favourable investment outcomes.

The challenge is that gaining access to these top managers can be hard; most are 'access restricted', having higher demand from LPs than they can accommodate to manage their fund to an appropriate size. Thus, institutions need to cultivate relationships and be ready to commit when opportunities arise to invest with elite GPs.

Complementing this focus on established leaders, investors should also consider selectively supporting emerging venture managers that have the potential to become tomorrow's top-tier firms. Many new venture funds are launched by experienced investors spinning out of blue-chip firms, or by successful former entrepreneurs entering investing.

If they succeed, an early LP can benefit from both strong returns and a lasting strategic relationship. However, identifying these future stars in an industry of thousands of is difficult. Investor edge comes from maintaining deep networks across the global venture ecosystem to spot new managers early, combined with a highly selective approach and backing only the most compelling few.

As a rule of thumb, an institutional venture programme might build a 'core-satellite' mix: a core comprising 10–15 established, top-tier venture firms globally, combined with a few carefully chosen emerging managers that have distinctive expertise or access.

3. Access outstanding companies through multiple avenues

In addition to committing capital to venture funds (primary fund investments), institutional investors can enhance their venture portfolios by utilising multiple investment avenues.

Specifically, investing via secondaries and co-investments can increase concentrated exposure to the most promising and fastest-growing start-ups, and enhance the overall efficiency of deployment. Each avenue serves a distinct but complementary role in the portfolio.

Secondary investments involve buying an existing LP's stake in a venture fund, or (more rarely in the case of venture capital), investing alongside a fund manager in select portfolio companies that are being re-backed through a continuation investment with the aim of realising additional upside potential. These deals can be highly attractive for a few reasons.

Firstly, secondaries allow investors to accelerate their exposure to established companies that are often the most prized assets in a fund. As these companies are typically mid-to-late in their investment life, this can help to mitigate the 'J-curve' effect –

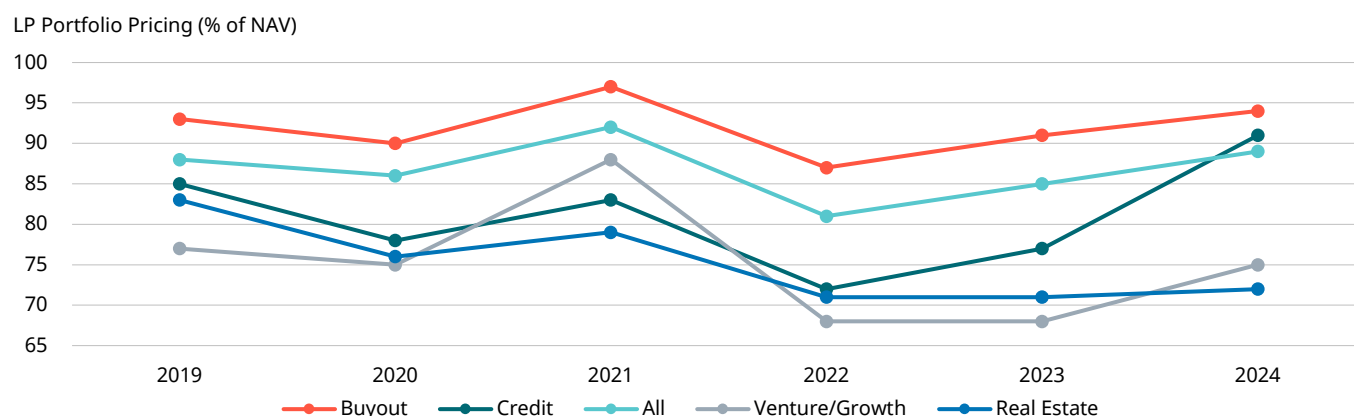
the early period in a primary fund's life where fees weigh on returns before gains materialise. By acquiring exposure later in the cycle, investors can step into portfolios closer to value realisation, often at attractive terms.

Venture capital secondaries frequently trade at a significant discount to the net asset value of their underlying holdings, which provides an immediate uplift for buyers and can further enhance returns. This reflects not only supply-demand imbalances, but also the fact that leading managers are highly selective in approving potential buyers, thereby restricting the buyer universe.

At the same time, large discounts can in some cases signal lower-quality funds, or portfolios where valuations remain inflated following a correction. As secondaries are generally more cyclical, a thorough understanding of these dynamics is essential.

Over the six years between 2019–2024, the average secondary purchase of venture fund interests occurred at 25–32% discount to NAV. Such discounts are significantly above the average discount to NAV for secondary funds more broadly (8–19%) and private equity buyout funds specifically (3–13%).

Figure 7: Venture secondary discounts are typically broader averages



Source: Jefferies Global Secondary Market Review, January 2025.

Co-investments are direct investments made alongside a venture fund into specific portfolio companies – and are another powerful investment tool. A venture GP may invite LPs to co-invest in a start-up, often a larger later-stage round of one of the GP's existing star companies, to supplement the fund's capital. For earlier-stage investments, invitations to co-invest will be more selective, and focused on investors that have a very strong relationship with the GP, or that can bring specific value-add to the portfolio company.

Co-investments allow an LP to double down on the most promising companies emerging within their GP's funds that they have indirectly backed through earlier rounds. They represent an opportunity to put additional money into a company in which the investor has high conviction, often on the same terms as the lead investor – and with no additional fees or carry.

By selectively co-investing in the emerging breakout companies of their top funds, institutional investors can increase their concentration to potential winners in their portfolio, thus improving 'quality density' further. This targeted allocation can materially boost returns, given the power-law outcomes in venture, and can help deploy capital efficiently by putting more dollars to work without incurring full fund fees.

That said, co-investments should be approached cautiously and selectively. An LP must be able to evaluate each investment on its own merits independently and quickly. They also need to be able to proactively map themes, diligently track target companies, and engage early with GP pipelines to identify likely co-investment opportunities well before formal processes typically get underway.

4. Diversify smartly

As noted above, while focus on quality is paramount, the critical factor is constructing a portfolio with the greatest chance of uncovering winners. Thus a venture capital programme should also be properly diversified to capture the full opportunity set in an increasingly global innovation landscape, and to mitigate risk.

‘Smart diversification’ in venture capital operates on multiple levels: number of investments, variety of sectors and themes, range of managers, and geographical spread. The goal is to avoid heavy concentration in any single company, fund, sector or location that could turn out poorly, and to increase the chances of identifying the big winners wherever they arise.

Importantly, smart diversification also reflects the highly diverse nature of start-ups, which are fundamentally uncorrelated to wider public markets – and even each other. For example, a biotechnology company in phase I clinical trials for a new blockbuster drug will have entirely different success factors and return drivers compared to a software company developing new enterprise applications based on AI technology.

Thus, an institutional venture programme should build breadth by investing in many companies over time, typically through a range of fund commitments that themselves each invest in 30–50 companies. At the aggregate portfolio level, an LP might indirectly hold positions in hundreds of underlying startups, dramatically improving the probability of the portfolio including the outlier successes that generate huge value.

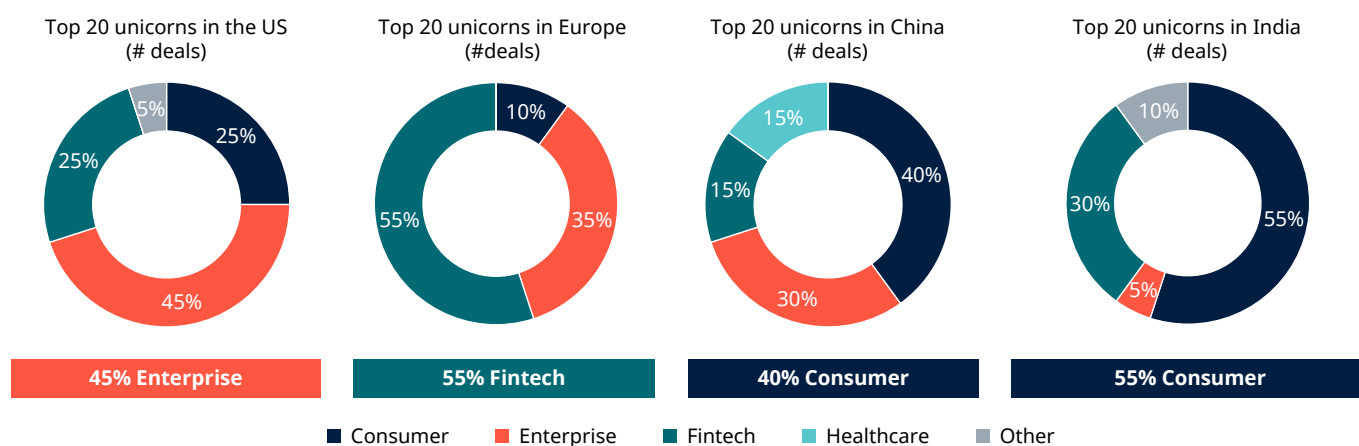
However, diversification should be deliberate rather than indiscriminate; it must be ‘smart’ in the sense of maintaining high standards and focusing on resilient, uncorrelated return drivers. A diversified portfolio should therefore include exposure to multiple high-potential sectors, to global innovation centres outside the US, and to a mix of high-quality managers and strategies, reflecting a broad range of specialist investment expertise.

As above, this can be complemented with concentrated exposure via secondaries and co-investments; ‘smart diversification’ is about finding the sweet spot between concentration and over-dispersion.

A well-diversified venture programme might, for example, comprise 15–20 core and emerging manager relationships (manager diversification), each holding 30–50 companies (company diversification), spanning 5–6 key sectors (sector diversification) and 3–4 major geographies (global diversification). Venture themes differ meaningfully by region, underscoring the benefits of geographic diversification (see Figure 8).

Within this framework, the programme rebalances regularly – refreshing fund commitments and, where appropriate, using secondaries and co-investments as deliberate tools to deepen key exposures and improve entry points – all while keeping quality as the gating criterion.

Figure 8: Differing strengths across innovation centres – top 20 unicorns by region



Source: CBInsights, Pitchbook, Schroders Capital, 2025.

5. Stay disciplined through cycles

Venture is a long-term, inherently cyclical asset class, making it easy for investors to be swept up by waves of euphoria or fear. Discipline is therefore key – but, crucially, the form that discipline takes varies by investment type.

Fund commitments (primaries): For primary fund investments, the key is to deploy capital across vintages in a consistent manner. Primary funds provide built-in time diversification: capital is deployed over several years, across market conditions and company stages, and exits typically occur much later.

Trying too hard to time vintages is usually counterproductive. Historical evidence suggests that even investments made at the peak of a cycle can turn out acceptably well if one is with top managers, and that some of the best-performing fund vintages commence in the aftermath of a market correction. Because venture funds invest over multiple years, commitments made at a peak will still span five to ten-year horizons, catching a range of entry points and exit environments.

For example, LPs who committed to venture funds in 2000 at the peak of the dot-com bubble found that the pooled IRR was only -0.07%, according to Cambridge Associates data – and top-tier funds still delivered positive, low single-digit IRRs despite the subsequent crash. Meanwhile, those who completely ‘shut off’ VC after the 2000 bust missed out on

the mid-2000s resurgence and the exceptional vintages of the post-GFC tech boom.

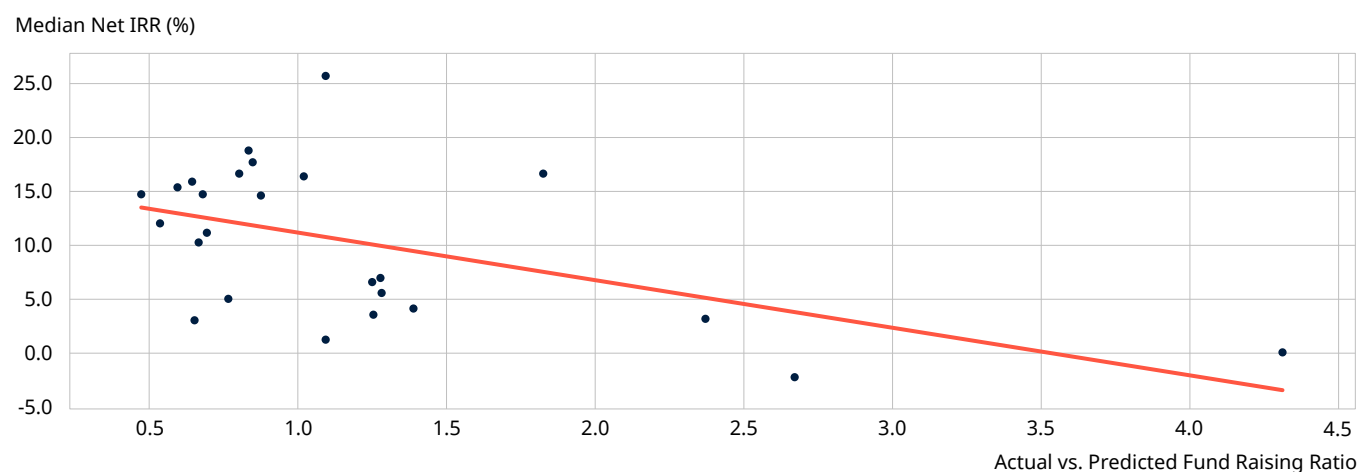
Similarly, funds raised in 2006, just before the global financial crisis, still produced solid returns on average – 9% IRR for the pooled 2006 vintage, and 12% for top-quartile funds, according to Cambridge Associates data.

The practical advice is to maintain an allocation plan – for example, committing a set amount or percentage each year – and to resist the temptation to dramatically cut back after a downturn, or to significantly overshoot allocations in frothy times. A pacing band, for example holding commitments to within 15% above or below plan, can be a useful guide. Steady commitment also sends a positive signal to top GPs that an investor is reliable through cycles, which can improve access.

Secondaries and co investments (directs): At the same time, discipline means being vigilant about market excesses. Being cognisant of where we are in the cycle inevitably matters much more for secondaries and co-investments, given that these are more concentrated investments.

Schroders Capital's Fundraising Indicator identifies a clear inverse relationship between fundraising momentum and subsequent returns. Excess capital raising tends to bid up entry prices and fund weaker companies, dampening later performance (see Figure 9).

Figure 9: Excess fundraising is negatively correlated to performance



Past performance is not a guide to future performance and may not be repeated.

Source: Preqin, Schroders Capital, 2025. Actual versus predicted fundraising shows the ratio of actual funds raised in a given year compared to the expected amount based on Schroders Capital's fundraising indicator forecasts. Median net IRR and fundraising data sourced from Preqin, including both open and closed funds. Fundraising levels are inflation adjusted.

We saw this in 2021–early 2022: record fundraising and investment led to soaring valuations, and by late 2022–2023 those late-stage deals experienced significant write-downs. An investor practicing cycle discipline would have recognised the red flags of that frenzy – unprecedented multi-billion-dollar ‘mega-rounds’, companies achieving \$10 billion+ valuations with little revenue, crossover investors piling in – and would have avoided overcommitting at those lofty prices.

Instead, one might reserve dry powder to add direct investments to the portfolio when the tide goes out. A disciplined LP would tighten focus to fundamentals: continue to deploy with core primary managers and selectively back the best early-stage and fundamentally strong opportunities, but avoid doubling down on speculative late-stage deals or overly crowded themes. At some points in of the venture cycle, it might even be beneficial to switch from being a buyer to a seller of venture secondaries.

3 Making a venture programme successful today

The current market environment for venture capital is a study in contrasts. On one hand, the pace of innovation and the emergence of transformative new companies is as strong as ever (if not stronger, given breakthroughs in areas like AI). On the other hand, the market is recovering from a period of excess and facing short-term headwinds in fundraising and liquidity.

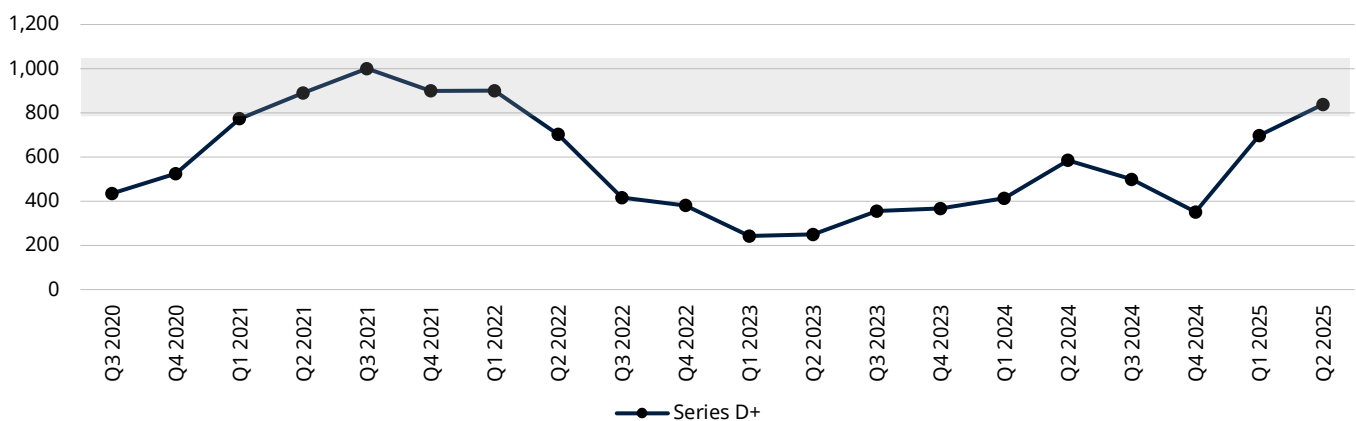
To build a successful venture investment programme today, institutional investors should apply the above playbook of success factors in a nuanced way, seizing the unique opportunities of the moment while being alert to risks that have arisen from the recent cycle.

Stay early-stage

As of 2025, we are in the early stages of a new innovation upswing following the correction of 2022–2023. The ‘boom-bust’ cycle of the past few years has reset the playing field advantageously for new investments. Specifically, we believe the best opportunities continue to be found in the earlier stages of the start-up venture lifecycle; valuations for late-stage rounds have come down significantly from 2021 highs, but are once again rising.

Figure 10: Late-stage valuations once again rising and approaching 2021 levels

Global median pre-money valuations by stage
Pre-money valuation (\$m)



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Source: PitchBook Data, Inc. as of 23 August 2025, Schroders Capital, 2025. The views shared are those of Schroders Capital and may not be verified.

Overall, entry prices for investors are generally more reasonable than during the hyper-competitive 2021 era. At the same time, the innovation pipeline is surging with new ventures, particularly driven by the AI revolution. [Nearly two-thirds of all venture capital deal value](#) in 2025 to date is related to AI.

This presents a huge opportunity for investors to benefit from what many consider a once-in-a-generation technological shift as the AI techstack is constructed in the coming years. However, it also demands careful discernment to avoid AI investment areas that might be overheating, especially in those later-stage rounds.

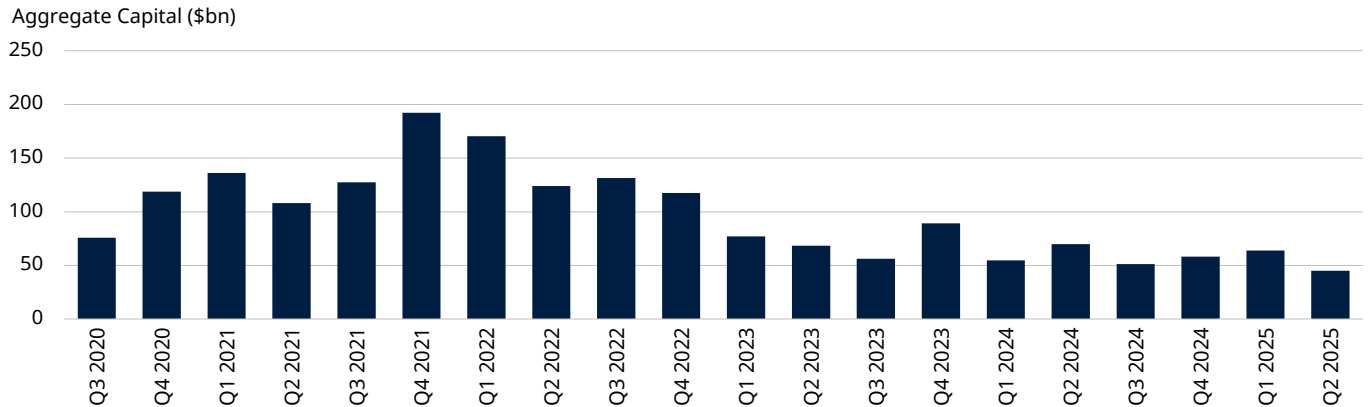
In practice, this means relying on experienced venture GPs who have been investing in AI for years, understand its

nuances and can spot emerging areas – and at the same time leveraging co-investment opportunities to selectively double down on the truly standout winners in the portfolio that are reasonably valued.

Capitalise on opportunities to add quality...

Concurrently, investors must navigate a challenging fundraising and liquidity climate. In common with wider market trends, US venture fundraising in 2023 fell to about \$67 billion – the lowest in six years – and the [number of funds raising dropped sharply](#). This retrenchment has continued through 2024 and into 2025 (see Figure 11), weighing more on emerging and mid-tier managers. Leading franchises remain access-restricted, though LPs may see occasional openings.

Figure 11: Venture and growth fundraising has remained subdued



Past performance is not a guide to future performance and may not be repeated.

Source: Preqin Pro. Data as of 5 August 2025, Schroders Capital, 2025. Includes closed funds only. Data grouped by the year in which the fund held its final close. Fund count includes funds with undisclosed final close fund size. The views shared are those of Schroders Capital and may not be verified. There can be no assurance that any objective or intended outcome will be achieved.

Therefore, a venture programme should lean into maintaining or expanding commitments to quality GPs, even as others pull back. This might involve re-upping with existing managers at similar or higher levels, and being ready to step into any allocation gaps left by more constrained LPs.

LPs should also remain open to adding emerging managers, but as noted earlier extreme selectivity and deep due diligence remain paramount.

... and to double-down on high-potential opportunities

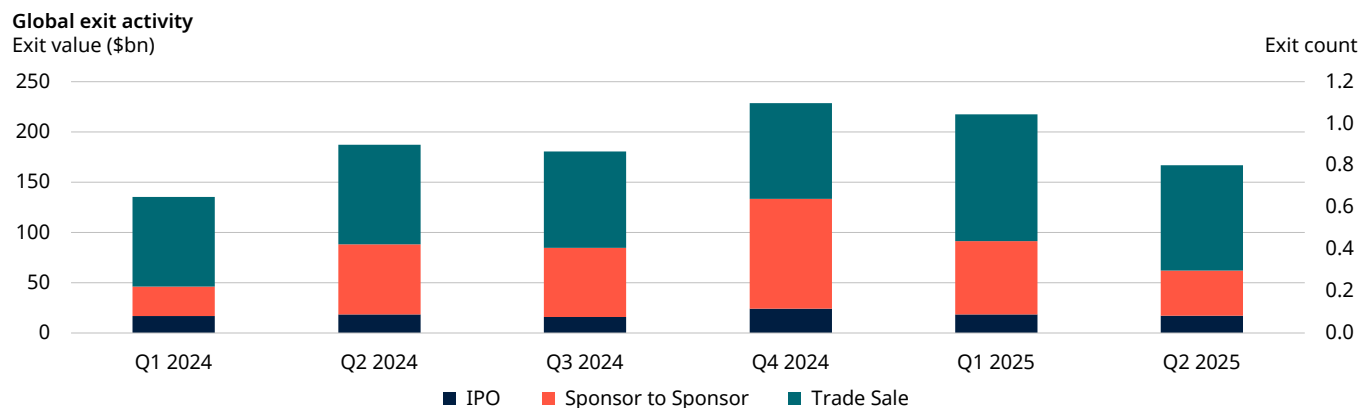
The current secondary market can help lift programme returns, but it requires caution. Activity has increased as LPs seek liquidity, including sales of fund interests and direct stakes in unicorns. Reports point to a large overhang of assets from liquidity-driven sellers, often at double-digit discounts. Meanwhile, late-stage valuations – especially in AI – have risen again. This mix makes outcomes more uneven and calls for strict price discipline, careful bottom-up diligence, and close

review of valuations and terms before investing in secondaries.

On the co-investment side, conditions are supportive, but the same caution applies: price discipline, bottom-up diligence, and close review of valuations and terms – round structure, preference stack, dilution, and governance – are essential prior to committing. With many funds conserving capital, GPs may be more open to inviting LPs into follow-on rounds to extend runway for leading companies. Early engagement can surface opportunities, yet underwriting thresholds should remain unchanged and adverse-selection risk carefully managed.

Private equity exit activity improved through 2024 and into early 2025 (see Figure 12), although venture exit volumes fell again in Q2 2025. Even so, a cluster of venture-backed IPOs in September 2025 has renewed hopes that the listing window is reopening. If that momentum persists, companies now raising private rounds could be IPO candidates in late 2025–2026, offering secondaries participants and co-investors a potentially faster path to liquidity – albeit with continued market and execution risk.

Figure 12: Exit activity has picked up in 2024 and 2025



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Source: PitchBook Data, Inc. as of 13 August 2025, Schroders Capital, 2025. Includes Buyout and VC/Growth. Completed exits. Sponsor-to-sponsor data includes GP-led continuation vehicles. The views shared are those of Schroders Capital and may not be verified.

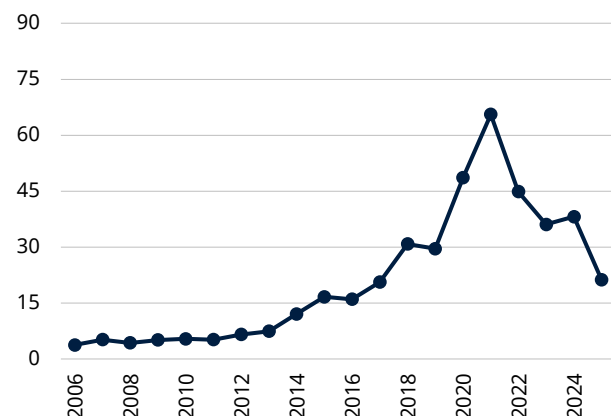
Continue to diversify smartly

Maintaining geographic and sector diversification remains important in the current environment. AI-led momentum is strongest in US technology start-ups, yet innovation is far broader than AI and the US. Activity remains robust across Europe's deep tech and biotech ecosystems, China's innovation hubs, and India (e.g. in fintech and SaaS).

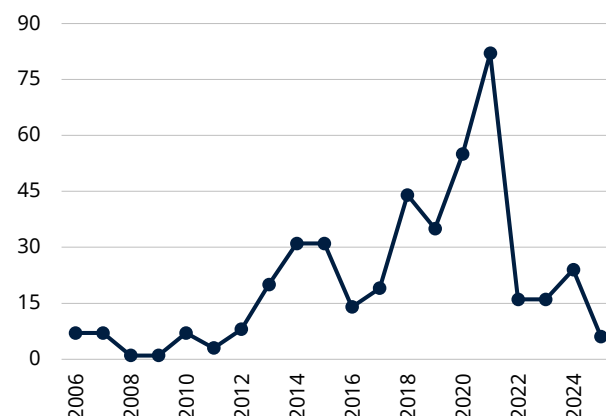
Sector dynamics are diverging. AI is booming, attracting substantial capital and driving later-stage valuations, while other technology segments – such as fintech and climate tech – continue to benefit from durable secular tailwinds. In contrast, biotechnology and life sciences have experienced a marked slowdown in funding and valuations (see Figure 13), with this reset creating contrarian entry points into a segment supported by long-term growth drivers and healthy exit routes – including to well-capitalised pharmaceutical acquirers.

Figure 13: Biotech VC market cooled further, opening contrarian opportunities

Venture capital investment in biotech deals
\$ invested per year (\$bn)



US based VC backed biotech IPOs
IPO count



Past performance is not a guide to future performance and may not be repeated.

Source: PitchBook Data, Inc. as of 1 September 2025, Schroders Capital, 2025. The views shared are those of Schroders Capital and may not be verified.

Remain disciplined

Discipline is the thread that connects this playbook. With late-stage valuations – particularly in AI – rising while fundraising and exit indicators remain mixed, the appropriate stance is steady, programmatic deployment with a clear pacing framework.

Pacing should follow the allocation plan with measured adjustments rather than stop-start timing. For late-stage exposure, accessed via co-investments or secondaries, investors should seek to avoid situations where valuations reflect inflated euphoria or sit materially ahead of fundamentals, proceeding only where pricing and terms are appropriate for risk.

Data and analytics – for example relating to funding flows, capital call and distribution rates, round-to-round step-ups, stage-level pre-money valuations, and secondary-market discounts – can be used to calibrate commitment pacing and investment decisions against the framework.

Applied alongside an early-stage bias, a consistent focus on quality density, and smart diversification across managers, sectors and geographies, this discipline positions venture programs to capture the return potential of the next wave of innovation, while managing risk through cycles and maintaining rigorous investment standards.

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