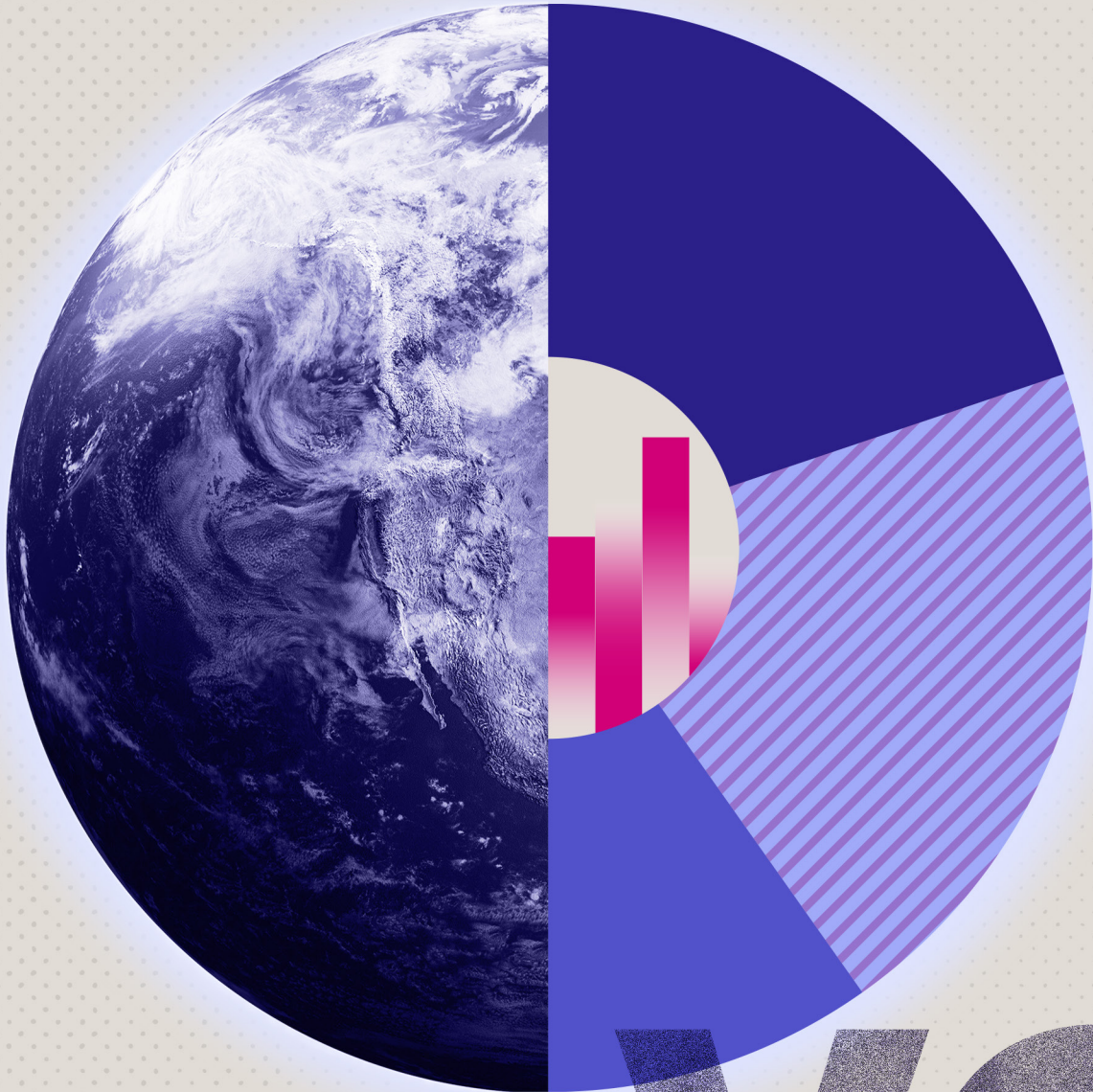


insights⁺

Preqin Global Report

Venture Capital 2025



VC

PREQIN

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Executive summary

Fundraising remains weak in a tumultuous year for performance, but the outlook for 2025 may be brighter



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The venture capital (VC) asset class failed to keep up with investor expectations in 2024, with exits to the third quarter significantly down on 2023. Although 2023 was not, in and of itself, a bad one for exits compared with the last 10 years, the rapid growth of assets under management – which stand at more than \$3tn as of March 2024 – has brought with it greater expectations regarding distributions back to investors.

The higher interest-rate environment was part of the problem, but now that the Federal Reserve has begun cutting rates, this should act as a tailwind for VC. Fundraising remains soft, as investors are being cautious in the short term, but this is not reflective of allocations in the longer term, for which investors retain a positive view. Fundraising remains a virtuous cycle tied to distributions; when exits are low, fundraising struggles – and we do not expect this to change until exits, which distribute capital back to investors, improve.

Deal activity remained weaker than in 2023, as less capital flowing into the asset class from fundraising meant less capital deployed into deals. But not every part of VC was affected. Artificial intelligence, for example, is seeing outsized deal activity and valuations to match, bucking the trend of reduced valuations elsewhere in VC.

Investors have plenty of choice, given that there are more than 7,200 funds in market raising capital, as of September 2024. But with so many competing funds, first-time managers are struggling. In the future we may see a shakeout, with newer fund managers that have struggled to deliver strong performance unable to raise follow-on funds.

The outlook for VC looks to be better going into 2025. Lower rates in the US may prompt an improvement in performance and exits. We expect early-stage VC to be better positioned than later stages over the coming year. Nonetheless VC remains the best method for investors looking to gain exposure to innovation and technological disruption.

The past year has been one of significant growth for Preqin and the Research Insights team. Thanks to our clients' continued support, we have been able to significantly expand our research output. In this year's global report, we are pleased to showcase some of the most relevant and impactful research from throughout the year, such as our VC forecasts, VC fund terms and fees, along with our year in review, survey on VC investors and managers, and predictions for the asset class.

Key findings

1 Exits expected to improve in 2025

VC fund managers expect exit opportunities to improve, with 62% saying that 2025 will have increased exit activity. That said, in our last survey in November 2023, 40% of managers said they expected exits to increase over 2024 – and this did not materialize. However, the 75 basis-point cut to US interest rates over September and November will be a tailwind to the exit environment. Two main areas managers expect to see more exits are trade sales (60%) and IPOs (47%).

2 Deal activity weak but some areas faring better

By the end of the third quarter of 2024, 14,056 VC deals had been recorded at an aggregate value of \$201bn, suggesting 2024 will underperform 2023 in terms of value and volume. Some pockets of the asset class were buoyant, however, including artificial intelligence (AI), cloud computing, fintech and clean tech. IT and healthcare typically account for the majority of VC deal flow and the same is true so far this year. Both are expected to record similar aggregate deal values as last year; IT is currently at \$90.2bn, vs. \$127.3bn for 2023, and healthcare is at \$37.8bn, vs. \$48.8bn. Regionally, the decline in Asia deal activity, on the back of a severe pullback in exits and fundraising, has made the biggest dent in the global total, whereas North America is currently expected to improve on 2023 – its weakest year for deals since 2018 – in terms of aggregate deal value.

3 Fundraising hamstrung by lackluster exit environment

Fewer and less profitable exits means less capital making its way back to LPs – and therefore less capital ready to be deployed back into new funds. During the first three quarters of 2024, 800 funds (down from 1,645 in 2023) raised a total of \$84.8bn (down from \$135.9bn). Capital gravitated towards the larger funds as smaller funds struggled to close. One of the factors contributing to the growing concentration of fundraising in 2024 has been the drop in new managers (who also tend to raise smaller funds) coming to market. Unsurprisingly, first-time managers bore the brunt of the reduction in capital flowing to the asset class, raising just \$4.62bn (down 77%) across 106 closed funds in the first nine months of 2024. The share of VC capital being raised by first-time managers as a proportion of total VC capital stands at 5%, the lowest since Preqin began gathering data.

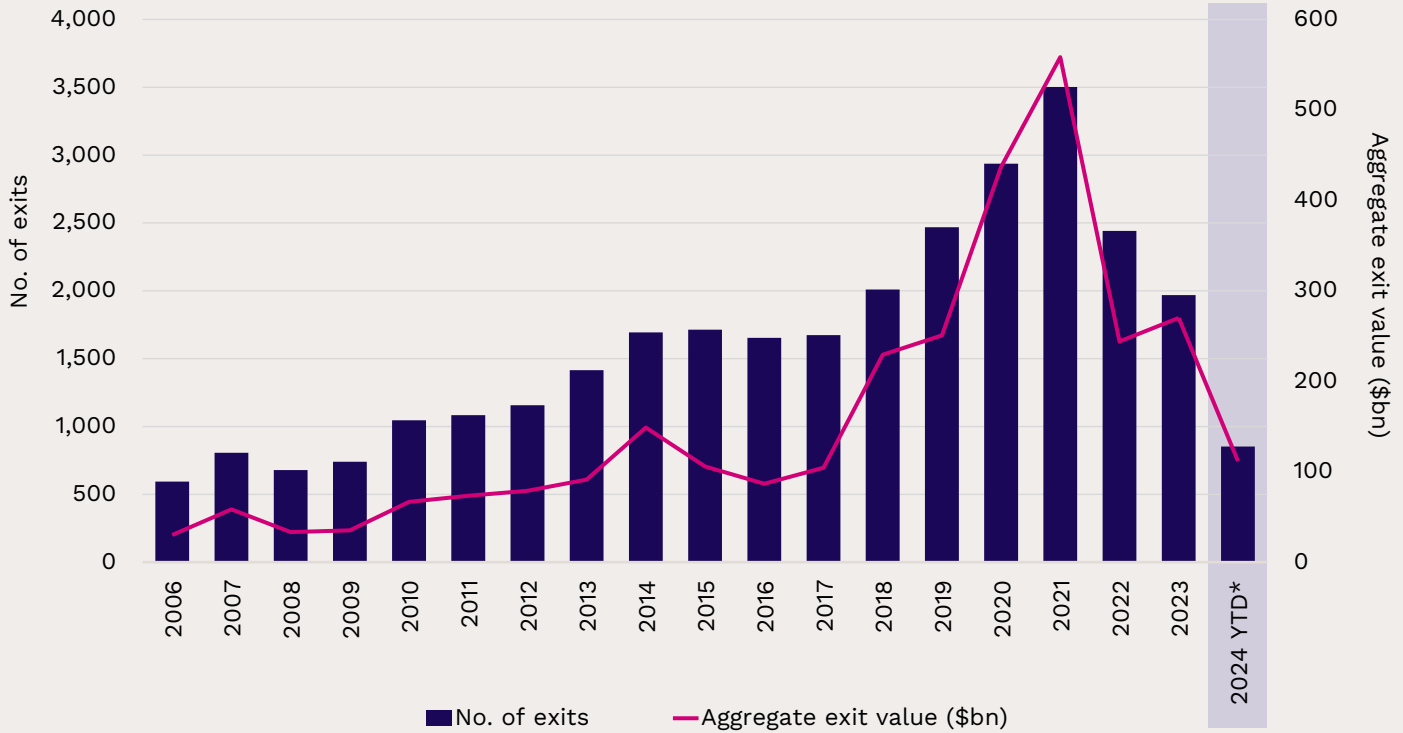
4 VC management fees have been the highest; now they're higher still

Over the past 20 years, VC mean investment period management fee rates have often been the highest among asset classes. Both mean and median were up on last year's values and at their highest levels since 2011. The median reached 2.05%, up from 2.00% where it had plateaued since 2012. The mean, which had been hovering around 2.00% since 2019, was up significantly, at 2.24%.

Chart of the year

Venture capital hamstrung by lackluster exits

Annual global venture capital-backed exits



*YTD = to end Q3 2024

Source: Preqin Pro

“ Fewer and less profitable exits mean less capital making its way back to LPs ”

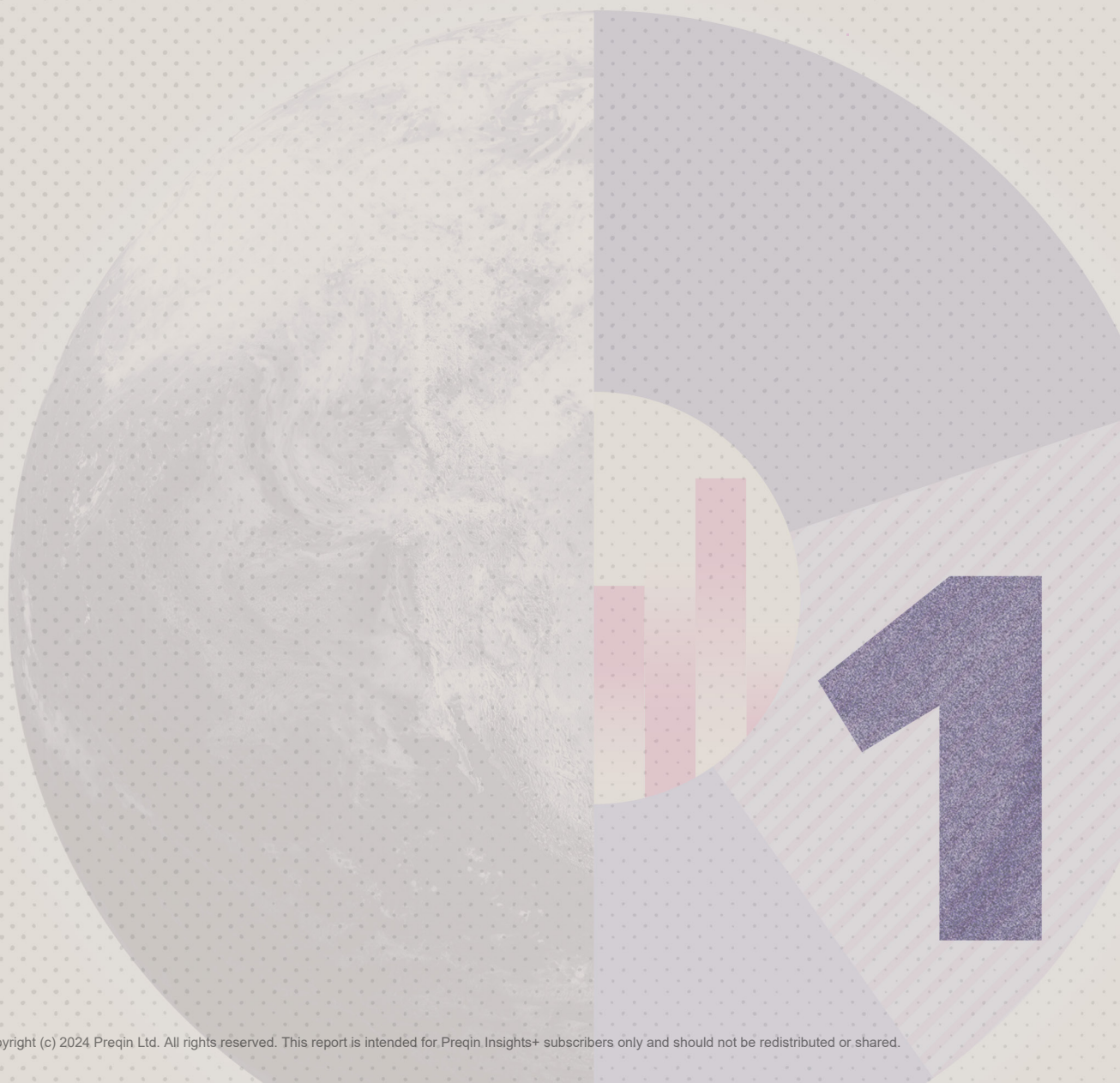
Venture capital distributions back to limited partners have been meager due to the trickle of exits over the year. By the third quarter, exits totaled 852, with an aggregate value of \$112bn, trending downwards from 2023. All regions have seen a significant reduction in the number of exits.

Although we still have one more quarter to go at the time of writing, 2024 looks set to be the weakest year for aggregate exit value since 2017, and the weakest for exit volumes since 2012. Due to this, secondaries have been playing a greater role in providing liquidity – to LPs within their portfolios and to GPs looking to realize DPI. There remains a significant amount of residual capital in vintages older than 2014 that will need to be realized by GPs.

Fewer and less profitable exits mean less capital making its way back to LPs – and less capital ready to be deployed back into the asset class via new funds. During the first three quarters of 2024, 800 funds (down from 1,645 in 2023) raised a total of \$84.8bn (down from \$135.9bn). This led to a greater concentration of capital in the larger funds, as smaller funds struggled to close.

→ Year in review: 2024

We examine whether venture capital has reached a bottom in 2024 or if there may be further to fall





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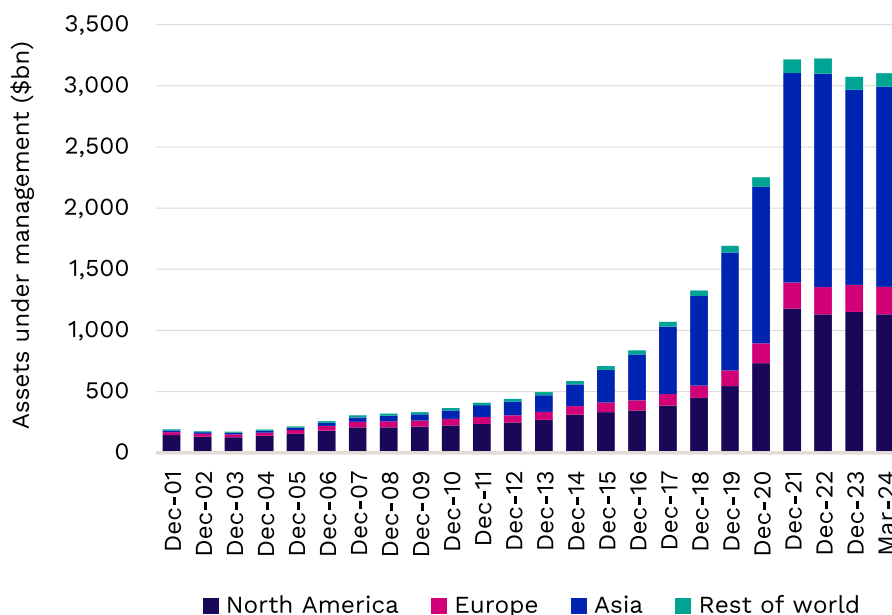
In 2024, venture capital (VC) remained in the quagmire of much of 2023, as valuations and performance were tempered by higher interest rates. However, we may now be at a turning point. The US Federal Reserve's (Fed's) 50-basis point cut in September and a further quarter point in November, were welcome signals for VC, with inflation now approaching its target 2%. If we see further rate cuts in 2025 this will be a tailwind for the industry.

VC hovers at around \$3tn in assets under management

VC assets under management (AUM) reached \$3.1tn according to our latest quarterly data in March 2024. Preqin's new AUM methodology¹ suggests the Asia region accounts for the bulk of this (\$1.6tn), followed by North America (\$1.1tn) and Europe (\$0.2tn) (Fig 1.1).

Fig. 1.1: Asia is largest region for VC AUM

Venture capital assets under management by region focus



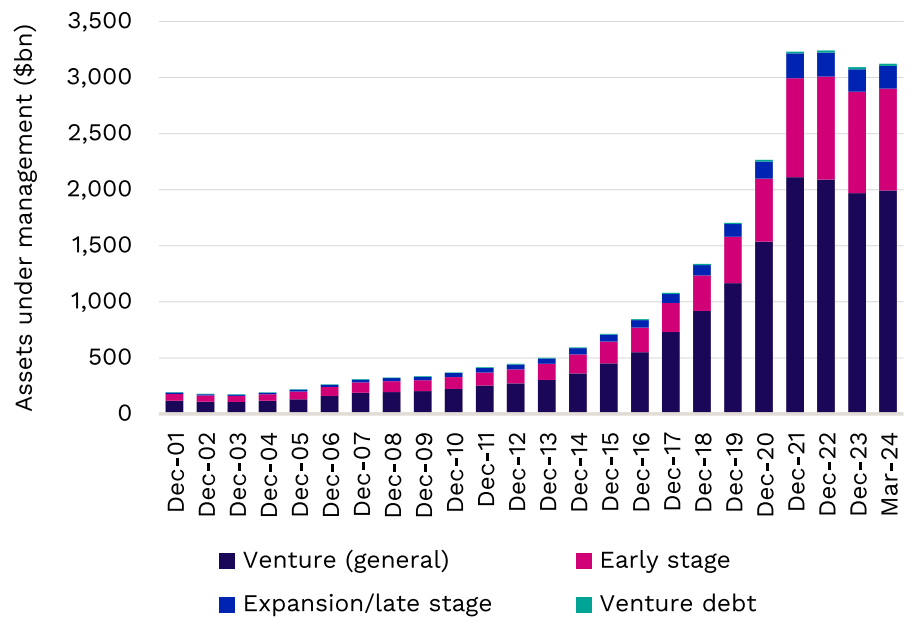
Source: Preqin Pro

VC AUM has stagnated over the past three years, led by a downturn in valuations and weak fundraising. Venture (general) strategies by and large remain the largest proportion of assets managed, at 64% (\$2.0tn), followed by early stage at 29% (\$909bn) and late stage at a meager 6% (\$202bn) (Fig. 1.2).

¹ <https://www.preqin.com/help-center/articles/view/updates-to-aum-methodology>

Fig. 1.2: Venture (general) remains largest strategy

Venture capital assets under management by fund type

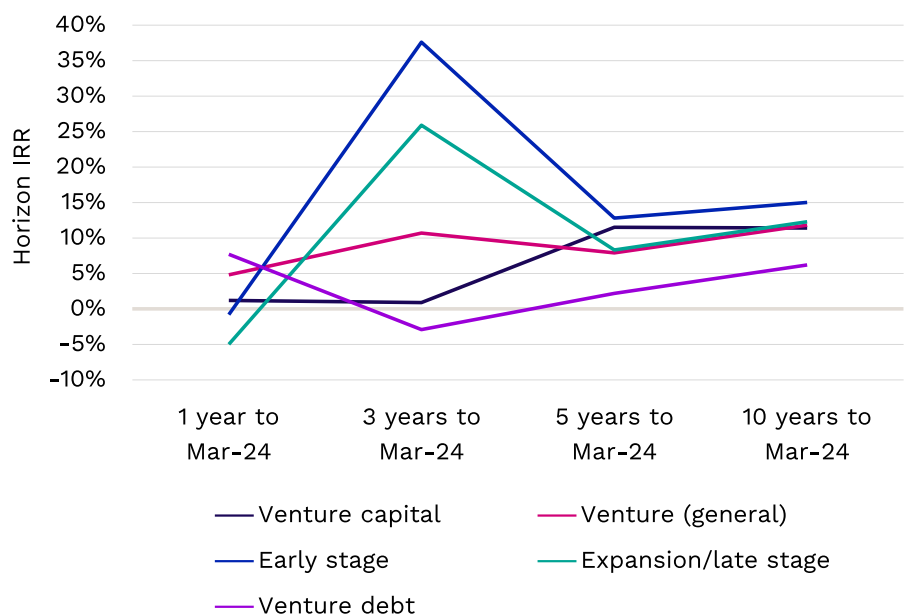


Source: Preqin Pro

Late-stage strategies have grown over the past decade, but not as fast as the rest of the asset class, with its proportional representation in AUM falling from 9.4% in 2014 to 6.4%. A contributing factor to this trend has been performance; horizon IRRs for late-stage/expansion strategies have underperformed early-stage by 2.7% (12.3% vs. 15.0%) over the past 10 years to March 2024 (Fig. 1.3). Late-stage strategies have also faced headwinds recently, including the difficult exit market, leading to -5% IRR over the past 12 months.

Fig. 1.3: Venture capital still delivers over the longer term

Horizon IRRs: venture capital vs. public markets



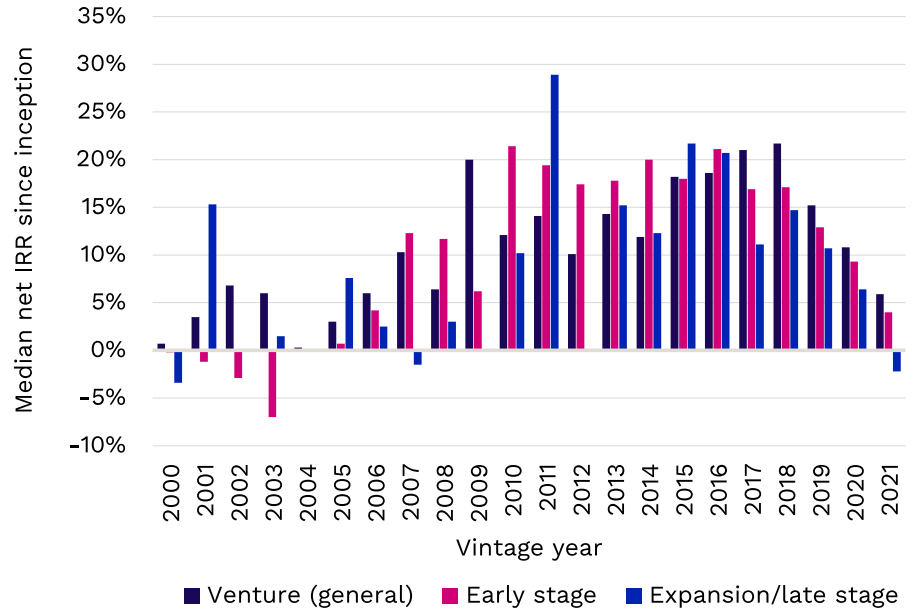
Source: Preqin Pro

Recent vintages struggle to perform

In general, performance has been struggling over the past three vintages for which we have data (2019-2021), agnostic of strategy and region (Fig. 1.4, Fig. 1.5), although late stage/expansion has underperformed other strategies.

Fig. 1.4: Performance for recent vintages hit hard

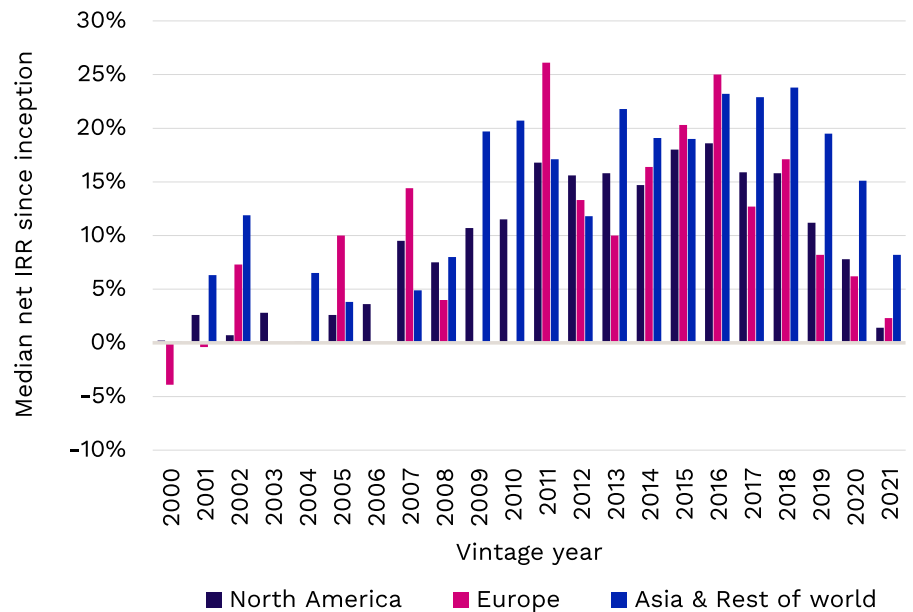
Median net IRRs by fund type and vintage year



Source: Preqin Pro

Fig. 1.5: Lower performance for recent vintages impacting all regions

Median net IRRs by fund type and vintage year



Source: Preqin Pro

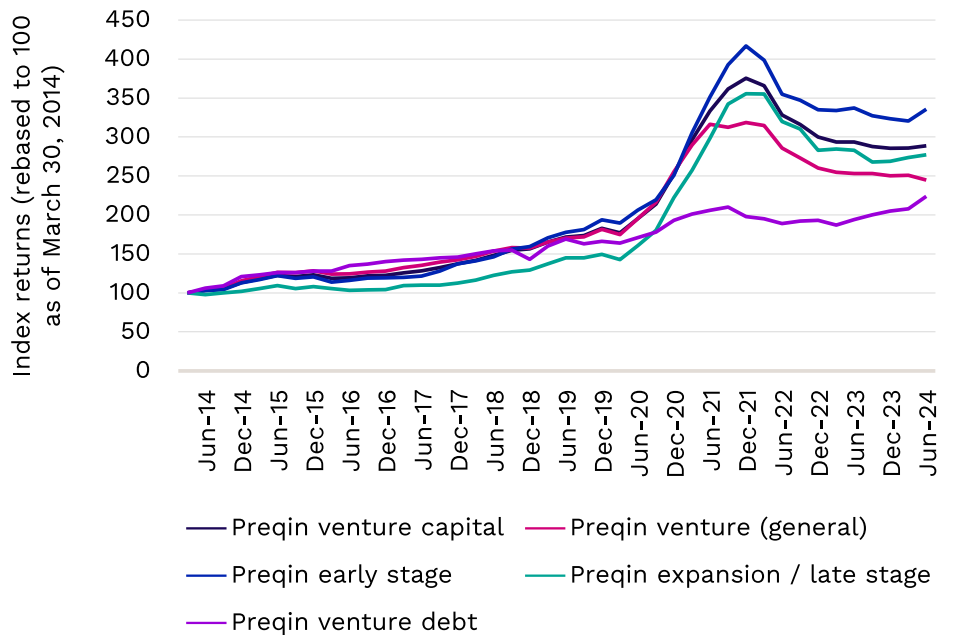
Noting this, it appears the Preqin Venture Capital Index may have reached the bottom of the trough in December 2023 in terms of performance, with several quarters of contractions after a peak in December 2021 (Fig 1.6). During the last major downturn, in the 2000s, it took until 2004 for VC to see a recovery in deals activity and fundraising – and even longer (until 2014) for the VC benchmark index to top its 2000 peak.

Performance expected to pick up from lower valuation base

Historical performance for VC over the past 10 years (14.5%) has seen the asset class outperform all but private equity (16.0%), but at a higher level of risk (Fig. 1.7). We expect VC performance to improve marginally over our forecast six-year horizon to 15.6%, helped by current lower valuations. For more of our forecasts see ‘Venture capital: Preqin’s forecasts through 2029’ chapter.

Fig. 1.6: Venture capital appears to have reached a trough

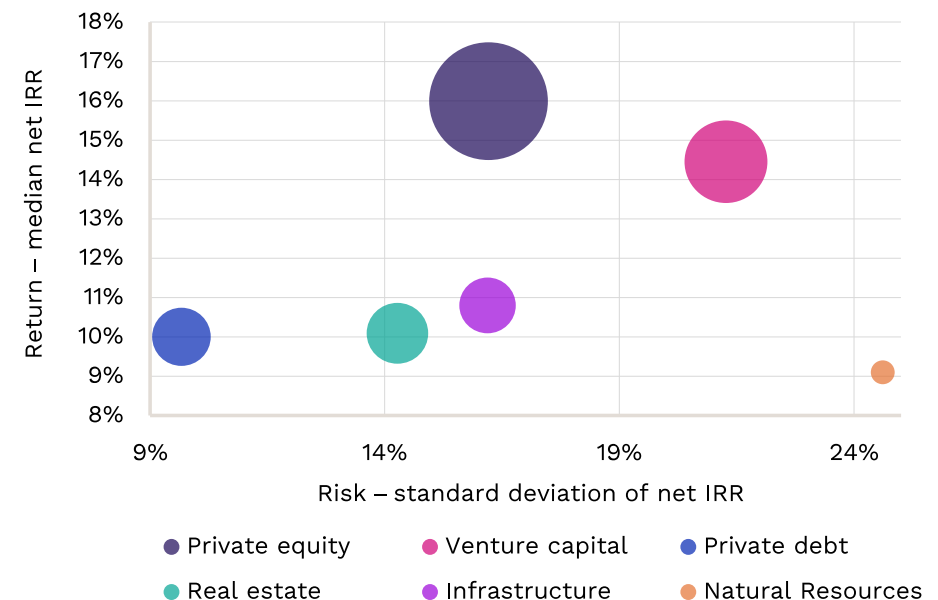
Preqin private capital quarterly index by strategy



Source: Preqin Pro

Fig. 1.7: Venture capital provides high returns but high risk

Risk/return by asset class (vintages 2014–2024)



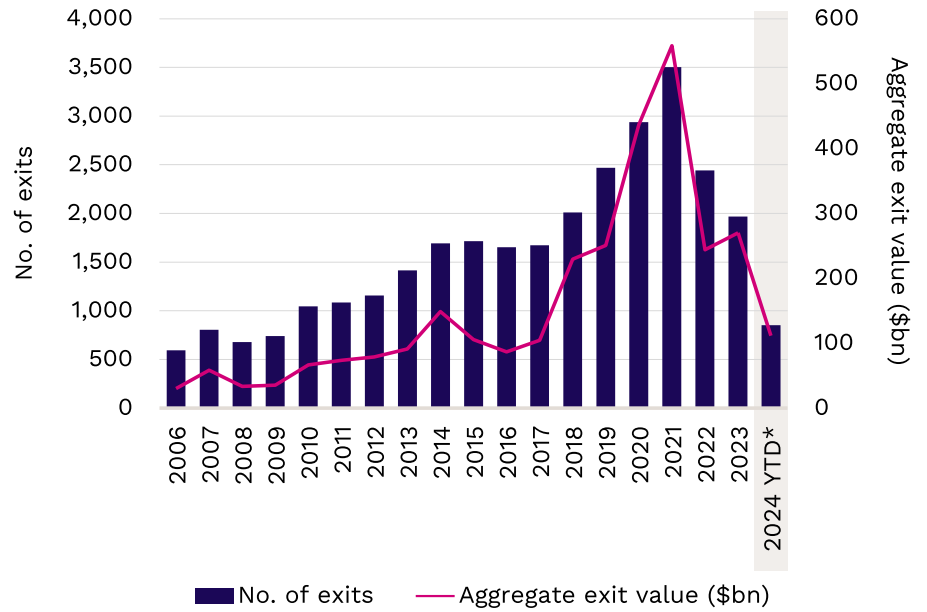
Source: Preqin Pro

Distributions have not kept up with needs of LPs

Distributions back to limited partners have been meagre due to the trickle of exits over the year. By the third quarter, exits totaled 852, with an aggregate value of \$112bn (Fig. 1.8), continuing the downward trend from 2023. Asia suffered the biggest drop, down from 369 exits to 128 and from \$38bn to \$4.6bn, but North America also recorded a significant reduction in both number and value of exits (Fig. 1.9). Exit activity fell most severely in the IT, healthcare and consumer discretionary sectors.

Fig. 1.8: Number of exits continues to fall

Annual global venture capital-backed exits*

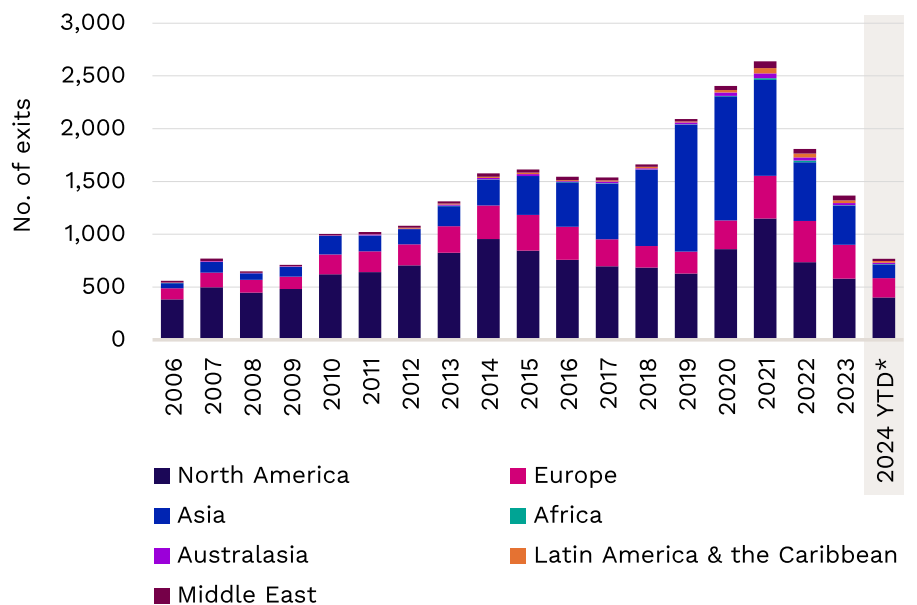


*YTD to end Q3 2024

Source: Preqin Pro

Fig. 1.9: Asia sees greatest contraction

Number of venture capital-backed exits by region*



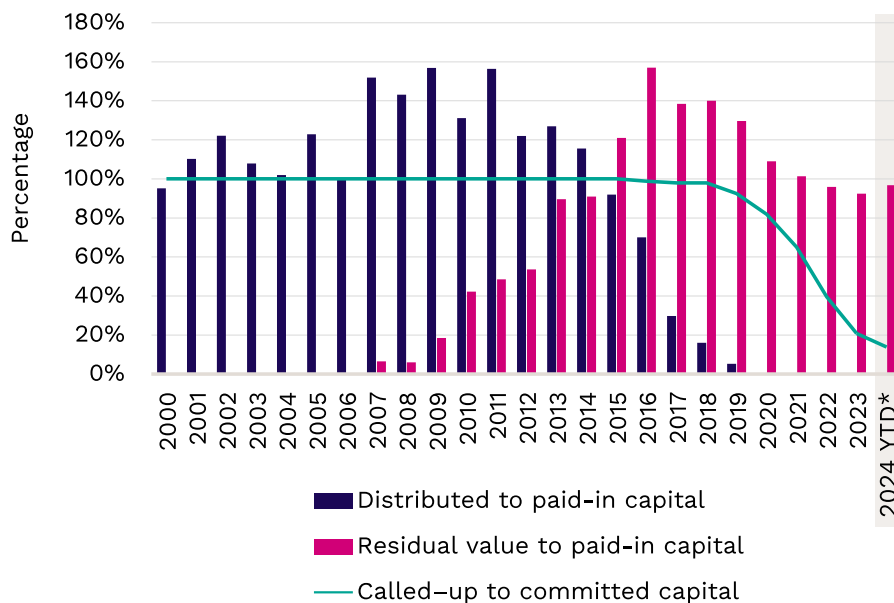
*YTD to end Q3 2024

Source: Preqin Pro

Although we still have one more quarter to go, 2024 looks set to be the weakest year for aggregate exit value since 2017, and the weakest for exit volumes since 2012. Due to this, secondaries have been playing a greater role in providing liquidity – to LPs within their portfolios and to GPs looking to realize DPI. There remains a significant amount of residual capital in vintages older than 2014 (Fig 1.10) that will need to be realized by GPs.

Fig. 1.10: Significant amount of capital still locked up in older vintages

Median called capital, DPI, and RVPI by vintage year*



*YTD to end Q3 2024

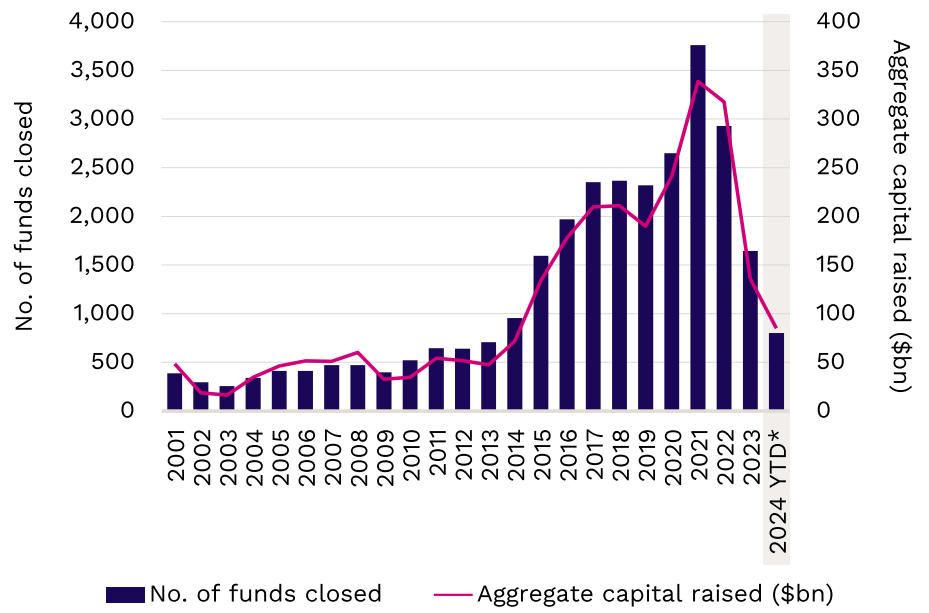
Source: Preqin Pro

Fundraising hamstrung by lackluster exit environment

Fewer and less profitable exits means less capital making its way back to LPs – and less capital ready to be deployed back into the asset class via new funds. During the first three quarters of 2024, 800 funds (down from 1,645 in 2023) raised a total of \$84.8bn, down from \$135.9bn in 2023 (Fig. 1.11). Capital concentrated in the larger funds as smaller funds struggled to close (Fig. 1.12).

Fig. 1.11: Fundraising on track to be below 2023

Global venture capital fundraising, 2001–2024 YTD*

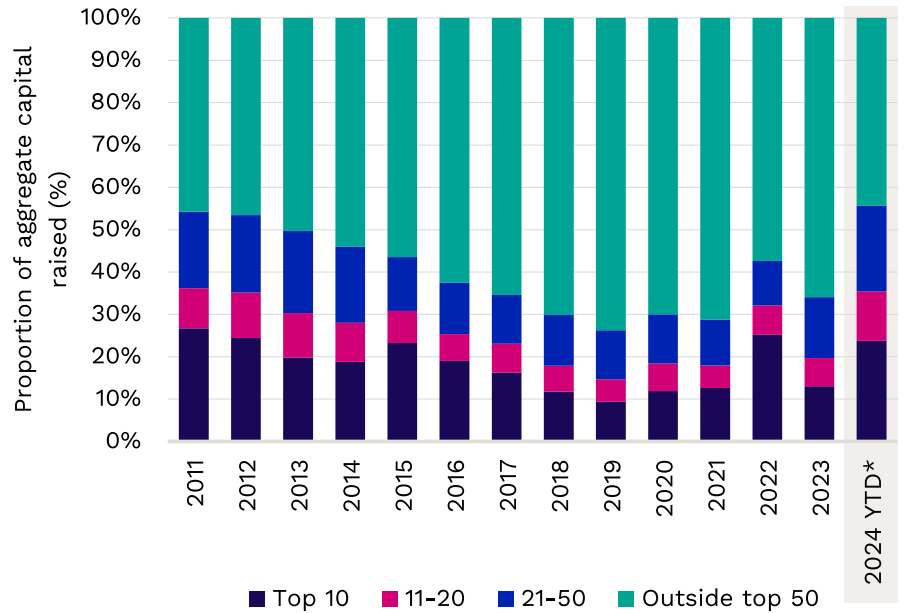


*YTD to end Q3 2024

Source: Preqin Pro

Fig. 1.12: Greater concentration from fewer funds closing

Proportion of aggregate capital raised by the largest venture capital funds closed*



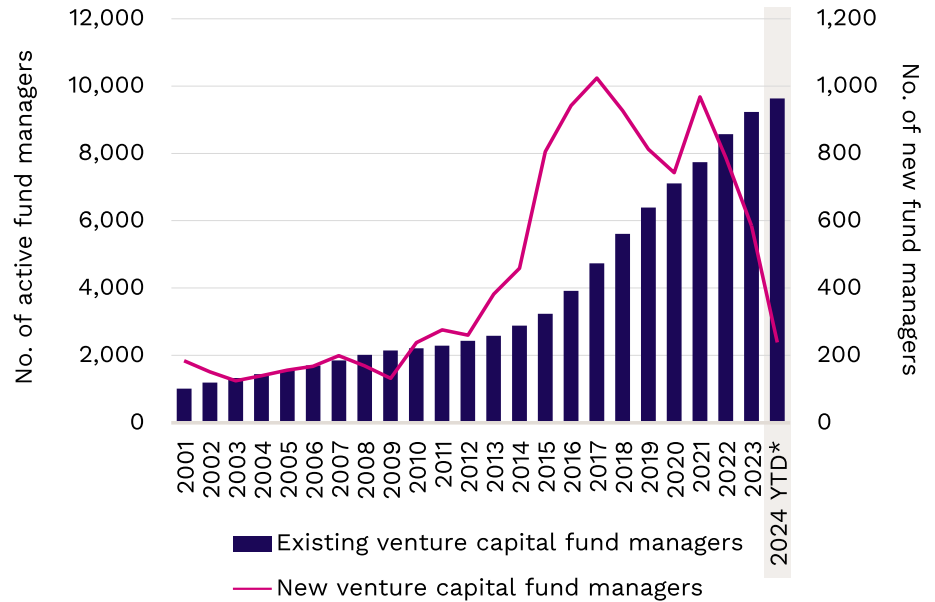
*YTD to end Q3 2024

Source: Preqin Pro

One of the factors contributing to the growing concentration of fundraising in 2024 has been the drop in new managers (who also tend to raise smaller funds) coming to market (Fig. 1.13).

Fig. 1.13: Fewer managers are setting up shop

Number of new and existing active fund managers over time*



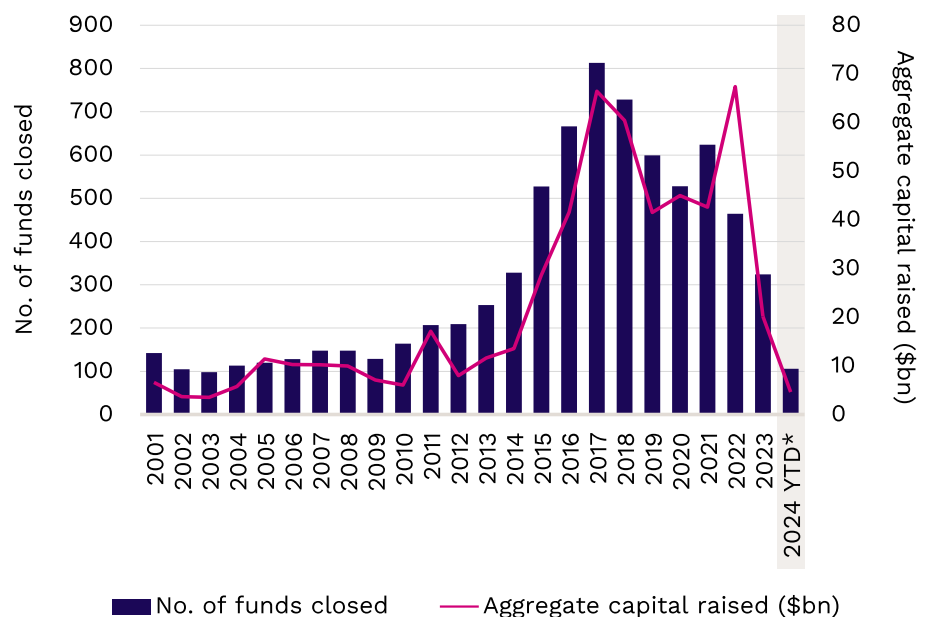
*YTD to end Q3 2024

Source: Preqin Pro

Unsurprisingly, first-time managers bore the brunt of the reduction in capital flowing to the asset class, raising just \$4.62bn (down 77%) across 106 funds in the year to Q3 2024 (Fig. 1.14). The share of VC capital being raised by first-time managers as a proportion of total VC capital stands at 5%, the lowest since Preqin began gathering data (Fig. 1.15).

Fig. 1.14: First-time managers hit hardest by tough fundraising environment

First-time venture capital fundraising*

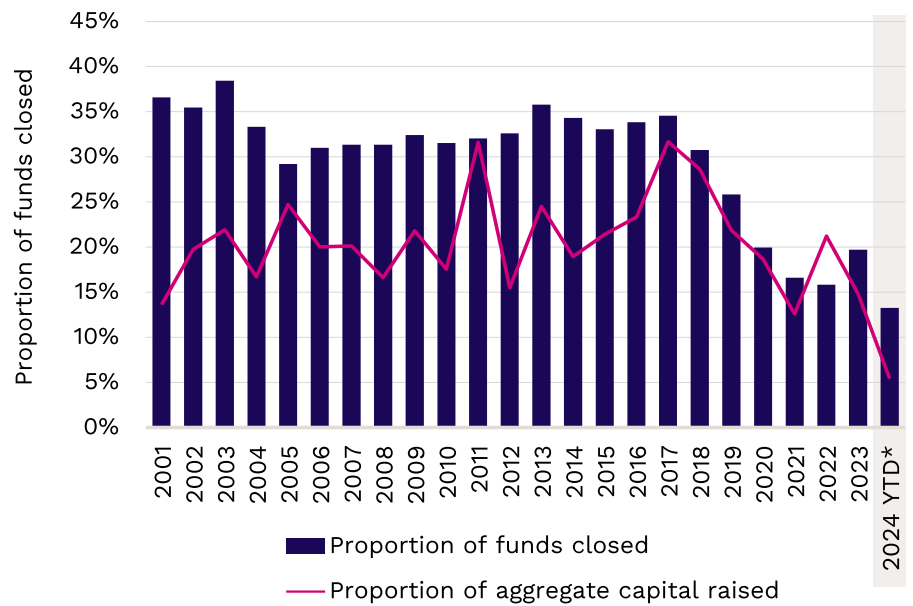


*YTD to end Q3 2024

Source: Preqin Pro

Fig. 1.15: Proportion of first-time funds is shrinking

First-time venture capital fundraising*



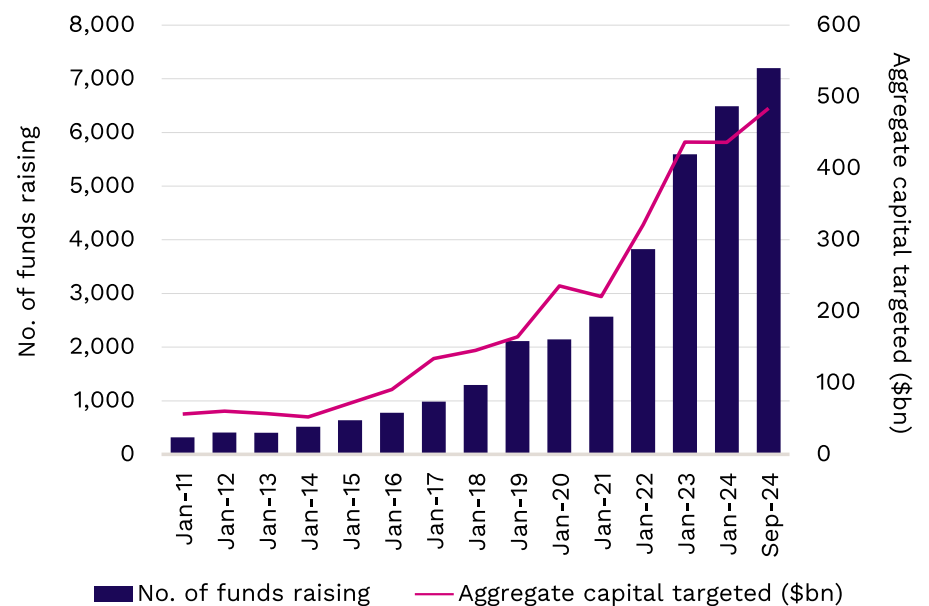
*YTD to end Q3 2024

Source: Preqin Pro

That said, lower rates make VC more attractive, and will drive more capital into the asset class. As of September 2024, there were 7,200 funds in market, targeting \$483.9bn (Fig. 1.16). The number of funds in market continues to provide a wide diversity of strategies to investors, even though their growth rate has slowed and the amount of capital raised (\$84.8bn for 2024 to the third quarter) is significantly below the 10-year yearly average of \$203bn.

Fig. 1.16: Pace of growth for funds in market is slowing

Venture capital funds in market



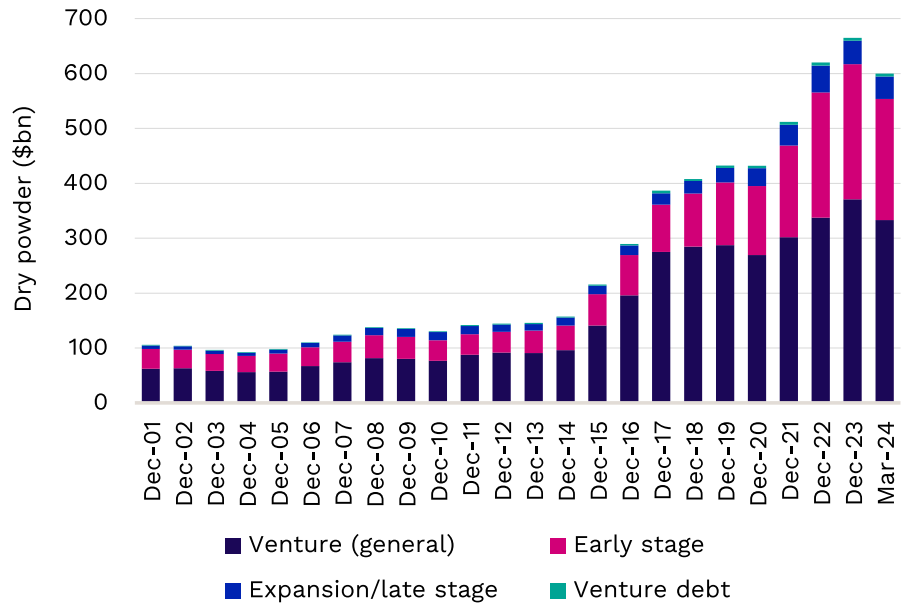
Source: Preqin Pro

Weaker fundraising is impacting availability of dry powder

Less capital being raised has led to a reduction in dry powder, down from \$665bn in December 2023 to \$600bn at the end of the first quarter of 2024 and this impacts dealmaking activity (Fig. 1.17). By the third quarter of 2024, 14,056 VC deals had been recorded at an aggregate value of \$201bn (Fig. 1.18), suggesting 2024 will underperform 2023 in terms of value and volume.

Fig. 1.17: Dry powder falls

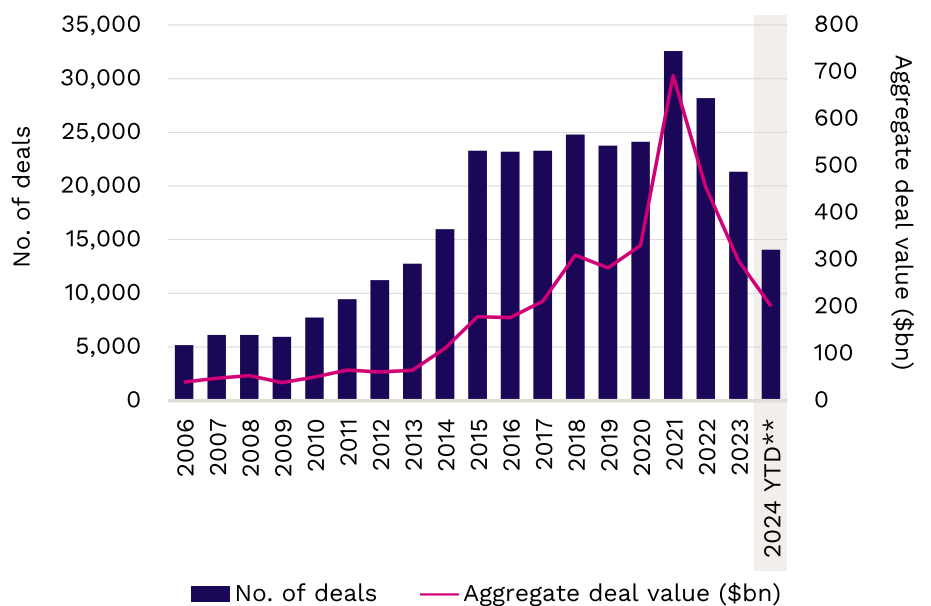
Venture capital dry powder (\$bn) by fund type



Source: Preqin Pro

Fig. 1.18: Deal activity remains slow

Annual global venture capital-backed deals*



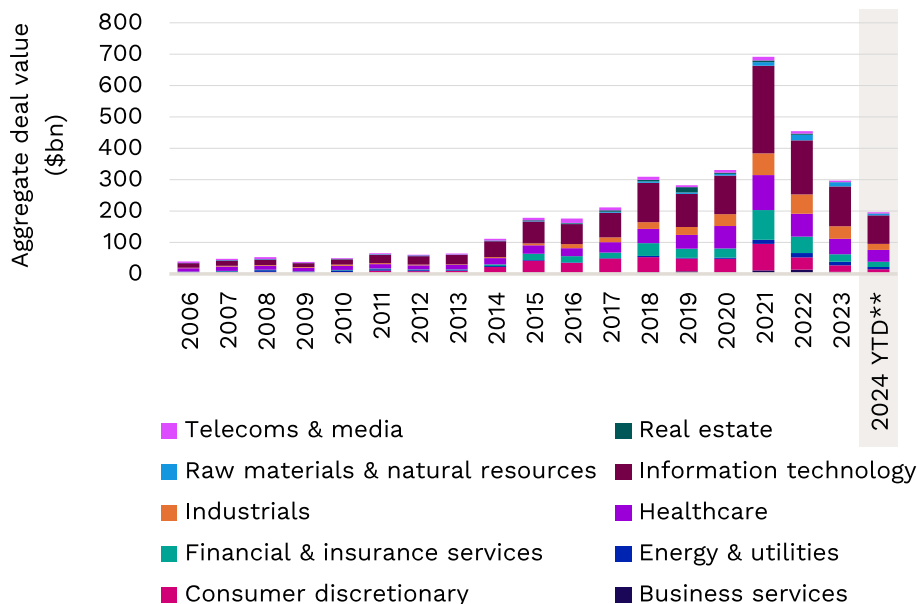
Source: Preqin Pro

*figures exclude add-ons, grants, mergers, sec. stock purchase and venture debt
 **YTD to end Q3 2024

Still, some pockets of the asset class were more buoyant, including artificial intelligence (AI), cloud computing, fintech and clean tech. IT and healthcare typically account for the majority of deal flow and the same is true this year so far, with both targeting similar aggregate deal values as last year; IT is currently at \$90.2bn, vs. \$127.3bn for 2023, and healthcare is at \$37.8bn, vs. \$48.8bn last year (Fig. 1.19).

Fig. 1.19: Healthcare most resilient to fall in activity

Annual aggregate value of venture capital-backed deals by sector/industry*



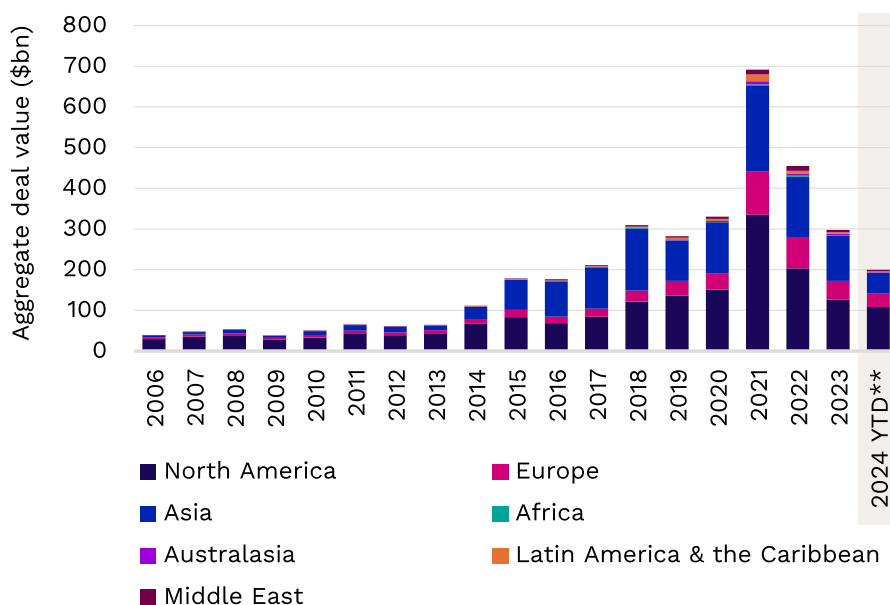
Source: Preqin Pro

*figures exclude add-ons, grants, mergers, sec. stock purchase and venture debt
 **YTD to end Q3 2024

Regionally, the drop in Asia deal activity, on the back of a severe pullback in exits and fundraising, has made the biggest dent in the global total, whereas North America is currently expected to improve on 2023 – its weakest year for deals since 2018 – in terms of aggregate deal value (Fig. 1.20).

Fig. 1.20: Asia sees greatest contraction

Annual aggregate value of venture capital-backed deals by region*



Source: Preqin Pro

*figures exclude add-ons, grants, mergers, sec. stock purchase and venture debt
 **YTD to end Q3 2024

2024 has carried through many of the themes we saw in 2023. Weakened fundraising, deals and exits over the last few years is being reflected in the performance of recent vintages. If history is any measure of what is to come, we may be coming to the end of a more challenging time for the asset class, now that interest rates appear to have peaked and inflation is under control – albeit longer-term rates may be higher than in the recent past. Valuations, which have contracted since the 2021 peak, may give the current vintage a tailwind for performance. But lower valuations are not uniform across the asset class; demand is high in areas such as AI, where investors are prepared to pay a premium for exposure.

Our 2024 predictions have proved somewhat mixed

Our prediction at the end of 2023 – that VC investors would negotiate fees downwards – has not come to fruition. There has been some downward pressure on management fees in all other private capital asset classes, but VC has been the exception. Read more about venture capital fees in the ‘Venture capital fees and terms’ chapter.

We also predicted fundraising would take until 2025 to improve – and this has so far proved accurate. However, the second half of this prediction, that smaller managers may be acquired or merge, has not materialized, with few VC fund mergers despite this occurring in other parts of the private capital industry.

Our prediction that there would be more VC secondary deals looks to be correct, with reports that secondaries transactions have picked up since 2023. A weak exit environment and the need for liquidity is driving selling pressure on the secondary market. With the growth of the VC asset class, we are also seeing the ecosystem for VC secondaries grow to cater for the greater need.

However, the pickup in deal activity we predicted for 2024 has not materialized. Dry powder has been falling, as VC fund managers draw down on capital raised, while fundraising has remained limited – leading to fewer and smaller deals. Most likely there will be no pickup in activity until the fundraising environment improves and the mood becomes more optimistic.

Three trends shaping private capital in 2025

Why fund managers are bullish about investment opportunities ahead – and still need to focus on value creation

In 2024, private capital continued to experience the effects of macroeconomic headwinds: low distribution rates, a shrinking pool of active investors, and a sluggish exit market. Many general partners (GPs) took a more cautious approach to deploying capital, focusing on opportunities with solid traction and a path to profitability.

However, the industry also saw large pockets of growth,¹ especially in sectors like artificial intelligence (AI) and healthcare. Assessing the landscape, 2024 was largely a year of normalization for private capital. While global VC investment declined to \$59.3bn in Q3 2024, a 20% decrease year on year, the quarterly average in the first three quarters of 2024 was almost the same as the first three quarters in 2019, before the pandemic hit, according to Preqin data.

Now, with less macroeconomic uncertainty thanks to declining interest rates and the US election behind us, many investors are optimistic about a more active year in 2025.

GPs are more bullish on deal-making opportunities

In our recent survey of nearly 300 private capital professionals in Private Capital Predictions for 2025,² 72% expect higher deal volume in 2025 compared with 2024, and they're re-doubling their efforts on deal sourcing in anticipation. This optimism appears rooted in two primary factors: a more promising economic outlook and growing pressure on GPs to deploy capital.

There are some tailwinds for private markets. For a start, inflation has moderated, and elevated valuations have begun to adjust. We saw the Fed cut rates in September and November, and private markets continue to sit on high levels of dry powder, \$880bn for growth equity and venture capital investors as of November 2024.

'We've never been as excited about the opportunity in front of us,' said Alexander Ross, General Partner at UK-based venture capital firm Illuminate Financial, on an Affinity webinar about benchmarking success.³ 'There aren't just lots of tailwinds from the macro side, but also opportunities if you build the relationships and dig under the hood.'

That said, many funds are experiencing slower capital deployment and declining fund graduation rates. As investment periods close, there's increasing pressure on funds to deploy their capital. Fund managers will be hoping for more favorable private market conditions in 2025. 'The very best funds recognize that good deals will always be able to



Ray Zhou
Co-Founder,
Affinity

get done,' Adam Shuaib, Partner at UK-based fund Episode 1 Ventures, said on our webinar.⁴ 'If you want to win those deals you need to stay ahead of the pack.'

AI is a key driver of deal activity

While healthcare and fintech companies featured prominently in private capital activity in 2024, it was AI that stole the headlines. In Q3 2024, AI companies accounted for a fifth of all venture funding, according to Preqin. But it was the mega deals from numerous AI companies throughout the year, including xAI's \$6bn raise in May and OpenAI's \$6.6bn raise in October, that caught people's attention.

It's clear that AI is transforming the industry – not just in terms of investments made, but in how private capital firms operate, driving their efficiency and productivity. Firms are figuring out where AI adds the most value in their investment processes and where it's just noise. Compared with last year, there has been a substantial decrease in investors using AI to make investment decisions, from 40% to just 13%, Affinity data⁵ shows.

What remains unclear is the extent to which AI is a bubble. A key question in 2025 will likely be the scope of AI's capabilities, including how close we are to realizing them and which industries will see the most impact. Since the vast majority of AI revenue remains captured by a small handful of companies (and few application businesses have achieved significant scale), the risk of an impending and painful reset is there – not unlike the one we saw across tech as a whole in 2022.

Shuaib at Episode 1 urges caution: 'If you look at the Gartner Hype Cycle, you have this period of inflated expectations and then this trough of disillusionment. I think in 2025, the AI bubble is going to burst to some degree. I think people will realize that companies branding themselves as AI are not AI at all, and there's just a lot of AI-washing going on – we've seen plenty of it.'

¹ <https://www.bain.com/insights/global-venture-capital-outlook-latest-trends-snap-chart/>

² <https://bit.ly/affinity-predictions-report-2025>

³ <https://bit.ly/affinity-private-capital-trends-webinar>

⁴ <https://bit.ly/affinity-private-capital-trends-webinar>

⁵ <https://bit.ly/affinity-predictions-report-2025>

Value creation is front and center

A consistent theme in private capital – especially VC – over the past several years has been the dismal state of fundraising. Fund count is projected to end 2024 at the lowest level in almost 10 years, according to Preqin data. Limited partners (LPs) are exercising more caution with emerging managers and concentrating their capital with fewer, larger players.

Competition is intense. Joe Schorge, Founder and Managing Partner at UK-based Isomer Capital, a private investment firm focused on European venture capital, said: ‘LPs are spoilt for choice. They might invest in your fund, but there are 100 other funds that they also could invest in. Having seen both sides of fundraising as a GP and LP, what I want to hear is why you’re the best, why your thesis is powerful, why you have some competitive advantages to what you’re doing.’

GPs need to concentrate on what differentiates their fund and firm to drive success in an already challenged arena. Our data reflects this tougher fundraising environment, with 7% more investors⁶ indicating they see the same or fewer opportunities for fundraising in 2025. This doesn’t bode well, given the suboptimal fundraising conditions in 2024.

⁶ <https://bit.ly/affinity-predictions-report-2025>

Aside from market factors, there’s one key fundraising challenge that’s top of mind for 50% of the investors we surveyed: proving the value of their existing funds. LPs have limited incentives to surrender more capital when their existing investments haven’t paid off.

The heat is on for GPs – and not just those looking to fundraise soon – to return capital to investors. The ones who don’t deliver value now risk sacrificing their track record when it’s inevitably time to raise again. Therefore, GPs are focused on driving value creation by growing revenue in their portfolio companies.

Gearing up for growth

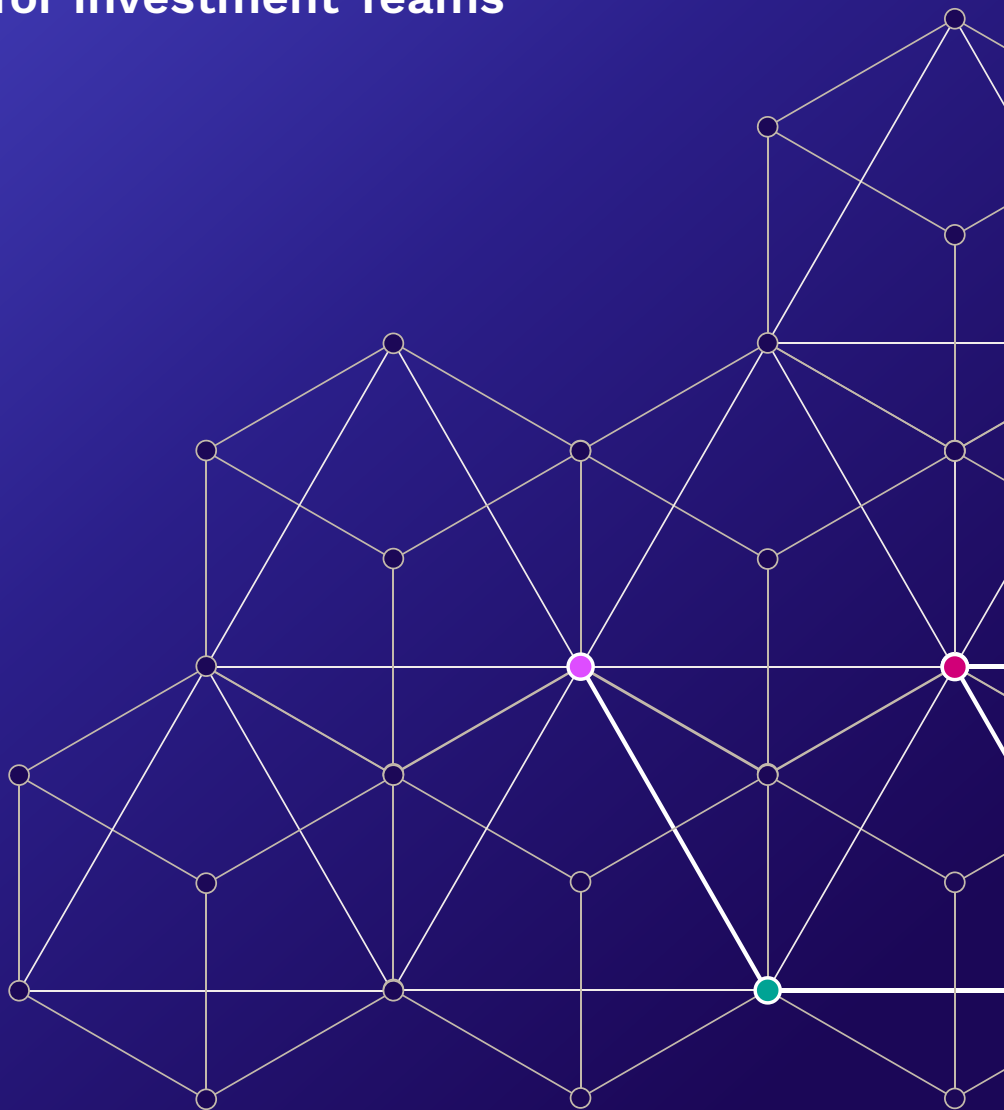
Private capital faces familiar and emerging challenges – from economic pressures to growing competition for LP commitments and the race to create value. However, there are signs that 2025 holds a more promising year for activity and growth, especially for firms with the right strategies. For private capital investors, 2025 will be a year to differentiate and drive value.

Ray Zhou, Co-Founder of **Affinity**, believes every opportunity begins with a relationship—and knows that business networks become unwieldy and harder to leverage as they grow larger. In response, he co-founded Affinity, whose CRM automatically captures and organizes communication data, combining it with other datasets to provide the relationship intelligence needed in industries where relationship-building is foundational to deal-making.

A native of the Bay Area, Ray met Affinity’s Co-Founder, Shubham Goel, at Stanford, where they studied computer science. Affinity is now used by over 3,000 relationship-driven organizations worldwide, including more than 50% of the top venture capital firms. For more information, visit affinity.co

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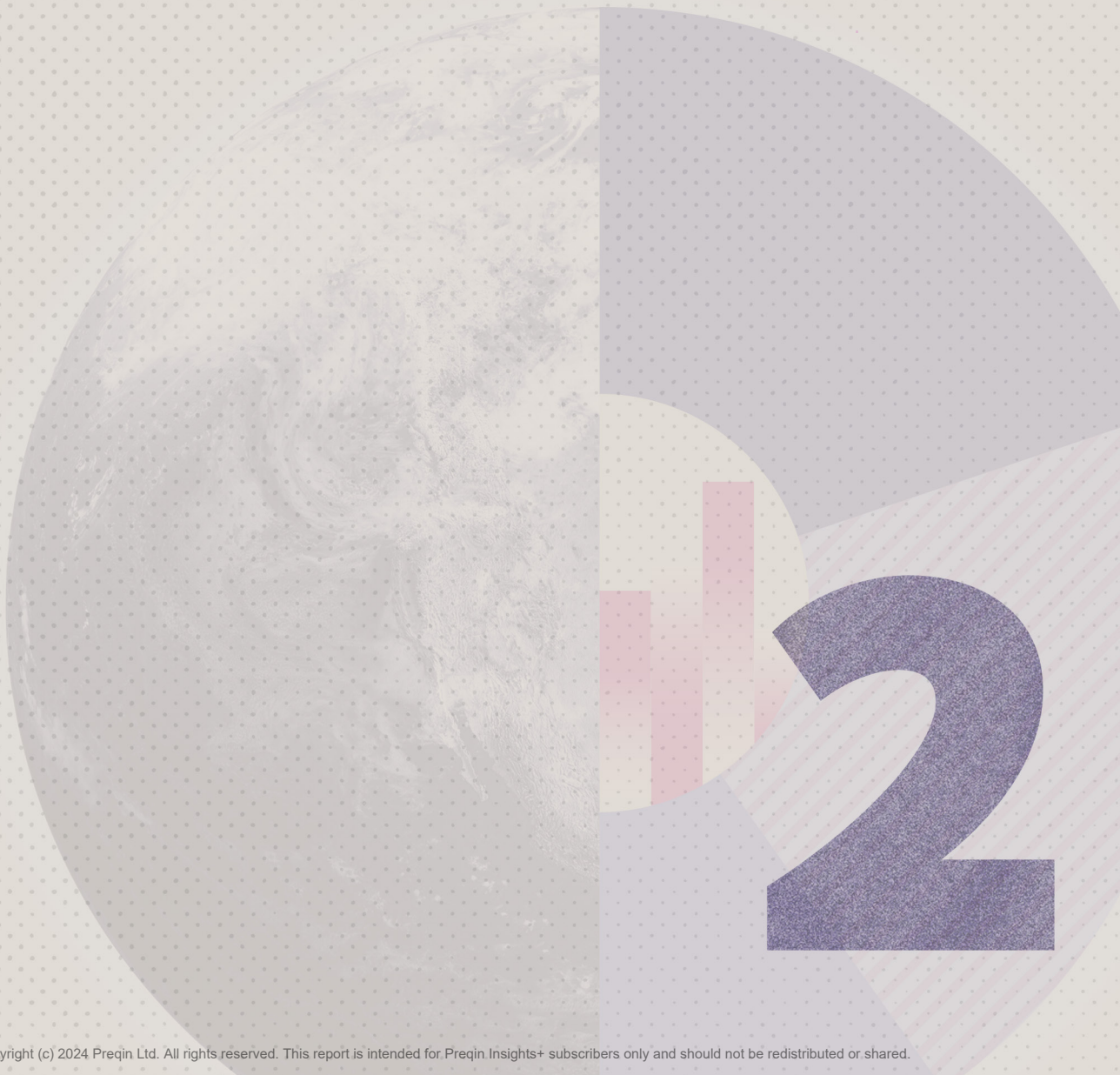
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PREQIN

→ **Venture capital:**

Preqin's forecasts through 2029

Venture capital assets growth is expected to slow, while longer-term performance remains robust





Michael Patterson, CFA
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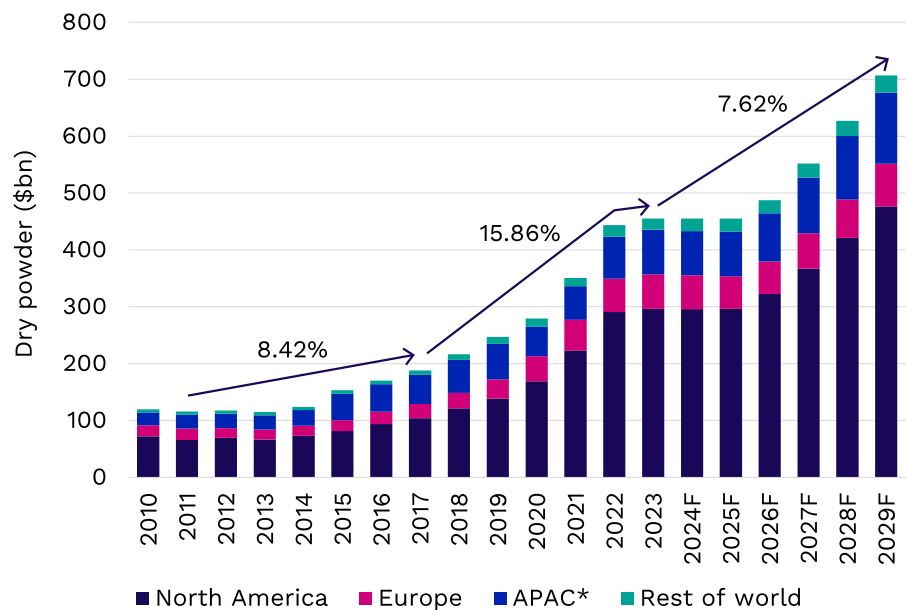
The venture capital (VC) industry has faced several headwinds over the past year, including asset valuations, the exit environment, and interest rates. However, there may be some relief ahead. September’s 50-basis point rate cut by the US Federal Reserve benefits the VC environment.

Early-stage VC set for strongest assets growth

Dry powder growth is predicted to slow down over the forecast horizon, stagnating through 2024F and 2025F before returning to growth in the later part of the period. We predict a compound annual growth rate (CAGR) of 7.6% from the end of 2023 to 2029F, meaning dry powder will reach \$707bn by the end of the forecast period (Fig. 2.1). Dry powder as a percentage of total assets under management (AUM) is forecast to fall from 24.6% to 19.7%, due to a more challenging fundraising environment, while fund managers holding assets for longer periods will contribute to less dry powder relative to unrealized assets.

Fig. 2.1: Dry powder to remain flat from 2024 to 2025

Venture capital dry powder by primary region of focus



Source: Preqin. All figures are nominal

*Dry powder figures exclude funds denominated in yuan renminbi

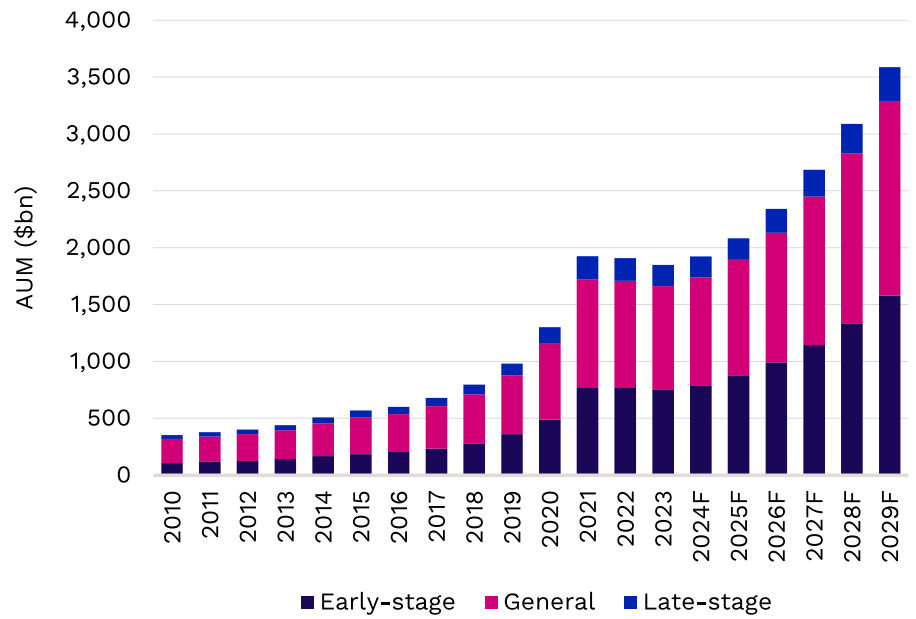
**Values relate to end of year

We have enhanced our methodology for calculating private capital assets under management - more information available on request

We forecast the strongest AUM growth among VC strategies from end-2023 to 2029F will be for early-stage, at 13.2% (Fig. 2.2), followed by venture (general) at 11.1%. Late-stage, forecast to grow at 8.1%, will be weighed down by the challenging exit environment, as well as greater regulatory scrutiny on mergers and acquisitions. North America will continue to be the center for VC, growing at a CAGR of 12.8% over the forecast period to reach \$2.31tn in 2029F, as the maturity of the market attracts capital (Fig. 2.3).

Fig. 2.2: Late-stage to grow the slowest

Global VC AUM* by sub-strategy



Source: Preqin. All figures are nominal

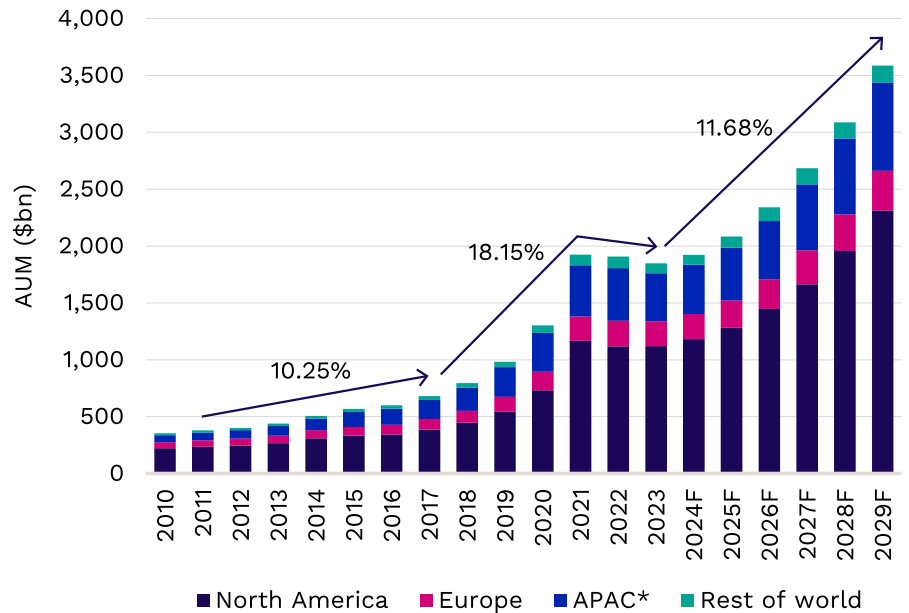
*AUM figures exclude funds denominated in yuan renminbi

**Values relate to end of year

We have enhanced our methodology for calculating private capital assets under management - more information available on request

Fig 2.3: AUM growth for VC is slowing

VC AUM by primary region focus



Source: Preqin. All figures are nominal

*AUM figures exclude funds denominated in yuan renminbi

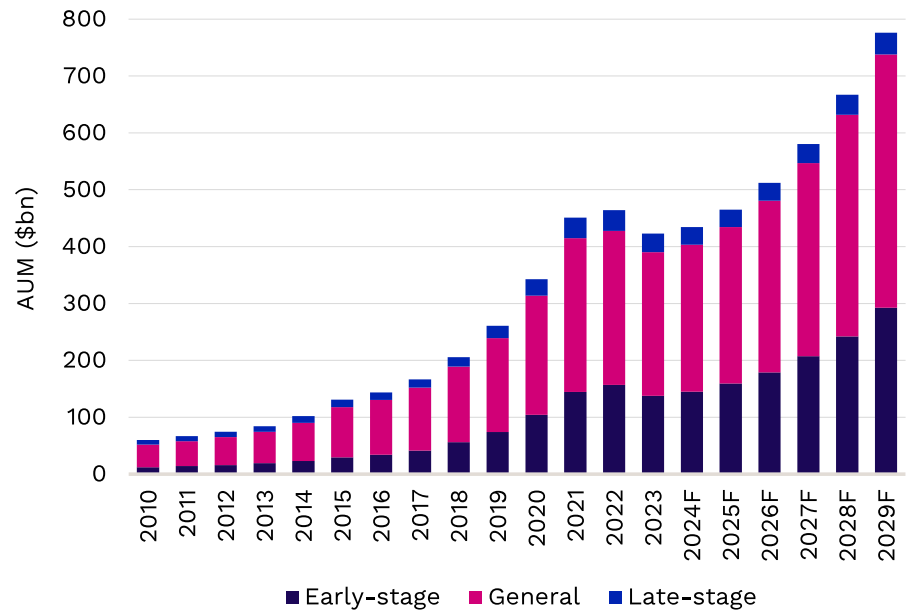
**Values relate to end of year

We have enhanced our methodology for calculating private capital assets under management - more information available on request

Robust growth (10.7%) is predicted for APAC, reaching \$776bn, and Europe will grow slowest, reaching \$347bn at a CAGR of 8.1%, due to its more fragmented market and lower appetite for risky assets. For APAC, late-stage is expected to experience the slowest growth in AUM, at a CAGR of 2.8%, reaching \$38bn in 2029F, as stronger distributions mute growth (Fig. 2.4).

Fig. 2.4: APAC late-stage expected to struggle

APAC-focused venture capital AUM* by sub-strategy



Source: Preqin. All figures are nominal

*AUM figures exclude funds denominated in yuan renminbi

**Values relate to end of year

We have enhanced our methodology for calculating private capital assets under management - more information available on request

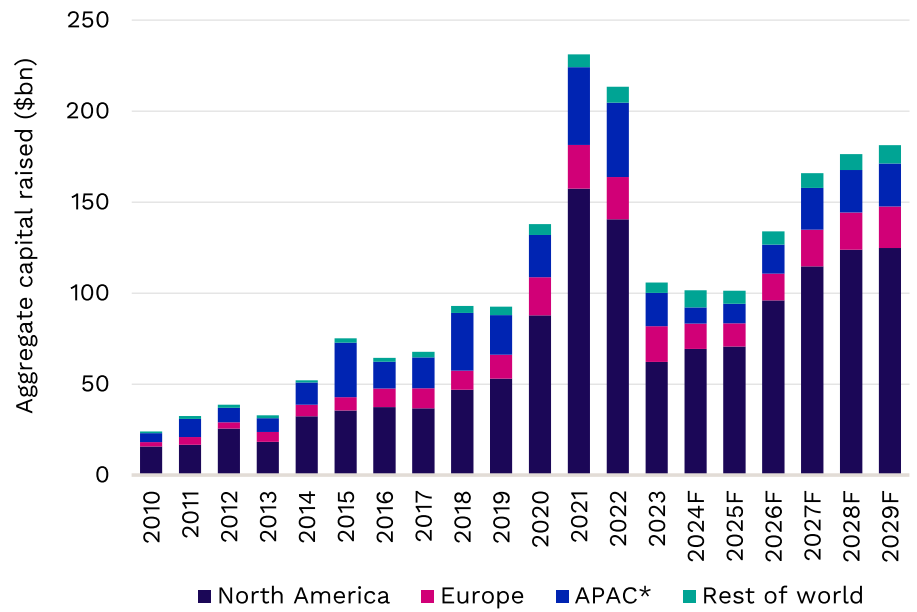
Fundraising expected to remain flat over 2024 and 2025

Fundraising is forecast to reach \$181bn in 2029F, growing at a CAGR of 9.4% over end-2023 to 2029F (Fig. 2.5). This high figure is due to growth rebounding from 2023, when fundraising fell to \$106bn (versus \$213bn in 2022). The steep decline followed a strong period for VC fundraising in 2021, when there was a strong exit environment and high valuations. This drove record distributions back to investors, which were recycled back into the asset class, driving the elevated levels of fundraising.

Following the strength of 2021 and 2022, VC fundraising faced more headwinds that dragged total CAGR across regions and strategies in the 2020–2023 period down to -8.5%. Within that figure, though, some region-strategy pairings achieved positive fundraising growth. Early-stage strategies in North America, Europe, and the rest of the world recorded CAGRs of 2.9%, 6.3%, and 8.4% respectively, and late-stage strategies in APAC recorded 4.4% CAGR (Fig. 2.6). Later stages in North America and Europe have borne the burden of the difficult exit environment and lower valuations achieved at exit and this is reflected in fundraising for those strategies. Investors remain optimistic about earlier stages, however. Total AUM has continued to increase as the difficulty in exits has kept more assets locked up in VC.

Fig. 2.5: Global VC fundraising to recover in 2026

VC historical and forecast fundraising by region

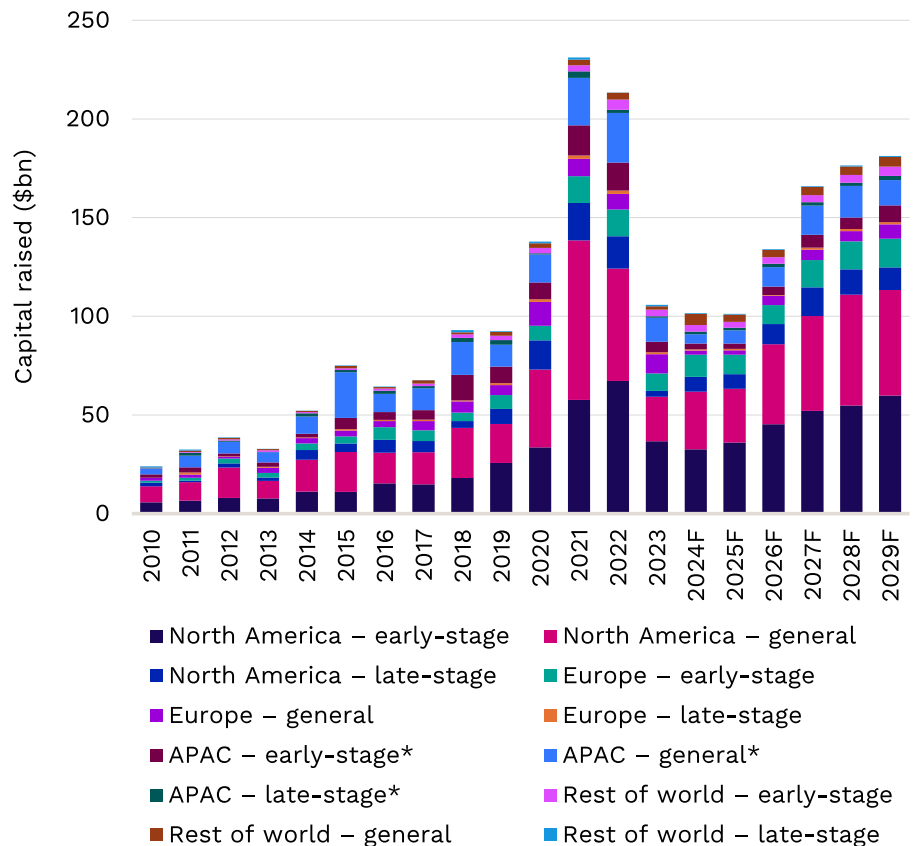


Source: Preqin. All figures are nominal

*Capital raised figures exclude funds denominated in yuan renminbi
 **Values relate to end of year

Fig. 2.6: Early-stage North America and Europe, as well as late-stage APAC, only areas of positive growth

Regional venture capital historical and forecast fundraising by sub-strategy



Source: Preqin. All figures are nominal

*Capital raised figures exclude funds denominated in yuan renminbi
 **Values relate to end of year

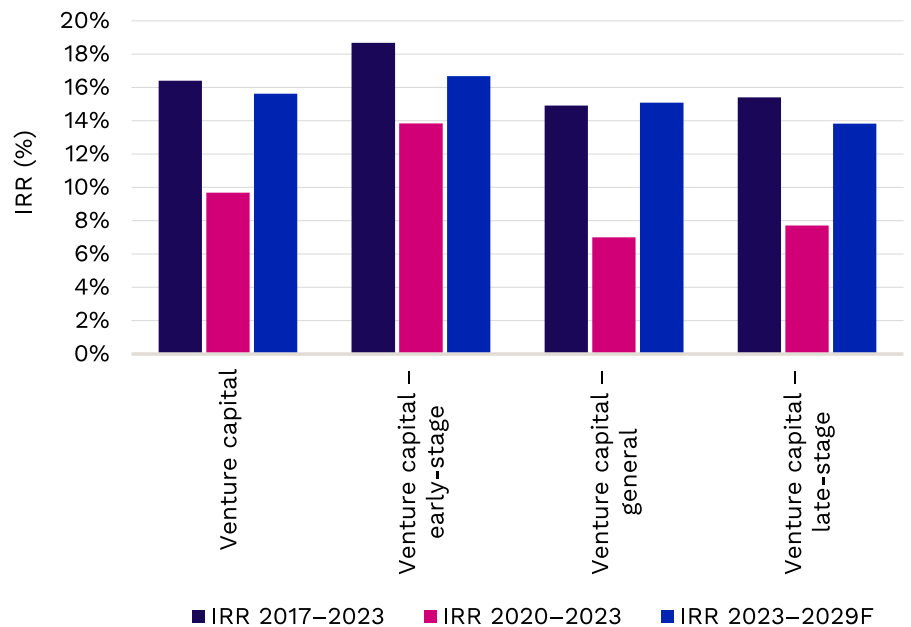
Our outlook for VC fundraising is muted for all major regions for 2024F and 2025F, and the expectation is that it may take until 2026F before optimism from investors converts into greater commitments. Investor sentiment is improving on VC, but with slower distributions from VC funds in the current environment, and with some investors close to their target allocations for the asset class, fundraising challenges remain.

Longer-term performance positive, but headwinds in the short term

Our VC performance expectations are lower for the near term, but we expect things to pick up closer to 2029F. Internal rate of return (IRR) is forecast to be 15.6% for end-2023 to 2029F (Fig. 2.7). Less capital going into the asset class in the near term will help drive better performance from less competition on deals at the latter end of our forecast horizon, and early-stage is expected to be one of the drivers of this, with an IRR of 16.7% for end-2023 to 2029F. Late-stage strategies are expected to underperform the rest of the asset class, with a forecast IRR of 13.8%, while the performance of Europe is expected to lag that of other major regions (13.8%). This is due to the aforementioned challenging near-term exit environment and asset valuations, as well as regulatory hurdles in Europe that are expected to impact performance.

Fig. 2.7: Performance to remain robust over the longer term

Venture capital historical and forecast performance*



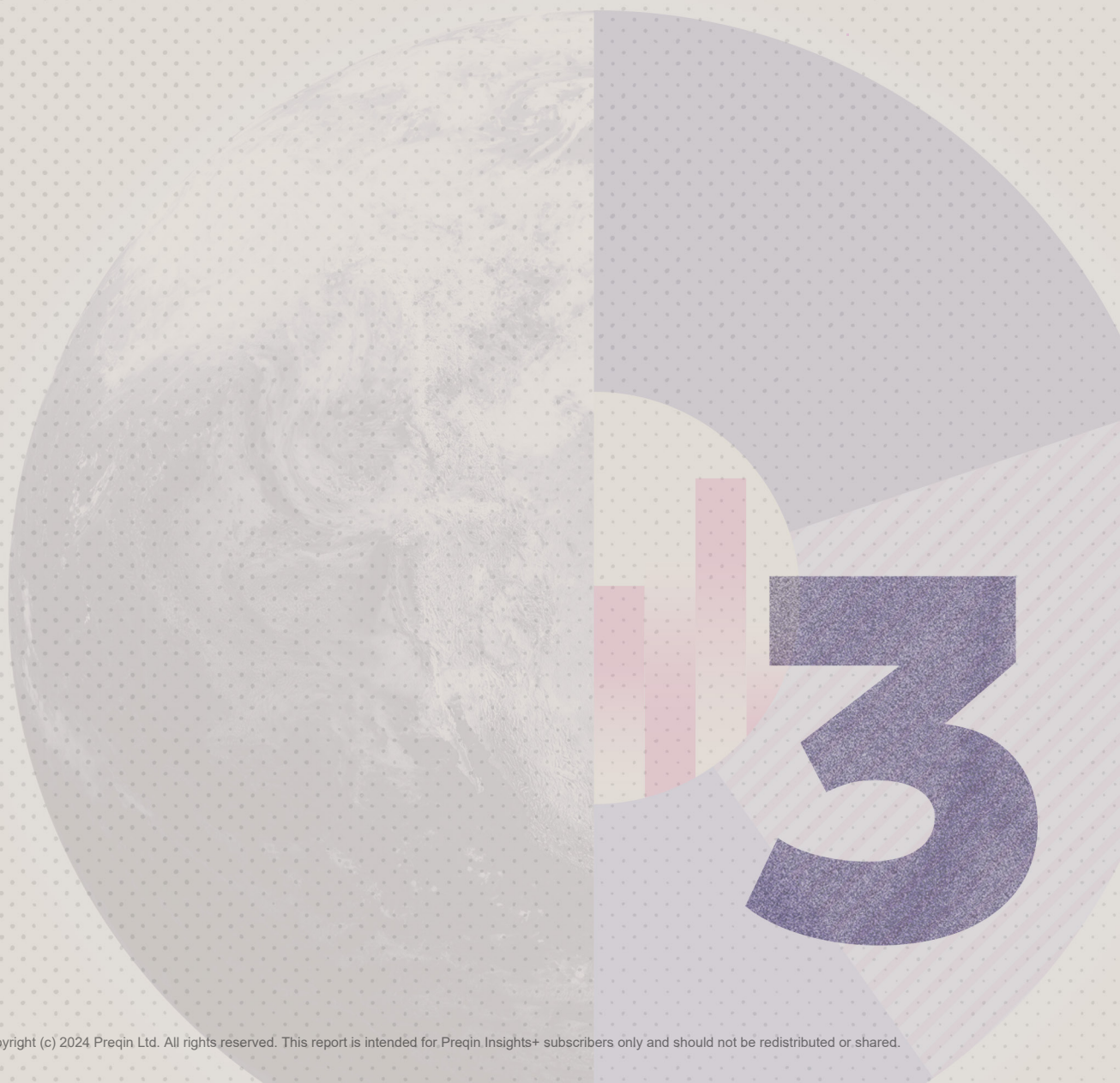
Source: Preqin. All figures are nominal

*When we calculate performance we exclude funds denominated in yuan renminbi

**Values relate to end of year

→ Weighing VC's dry powder

With high levels of dry powder stuck in the 2021 and 2022 vintages, deployment may revert to slower historical mean



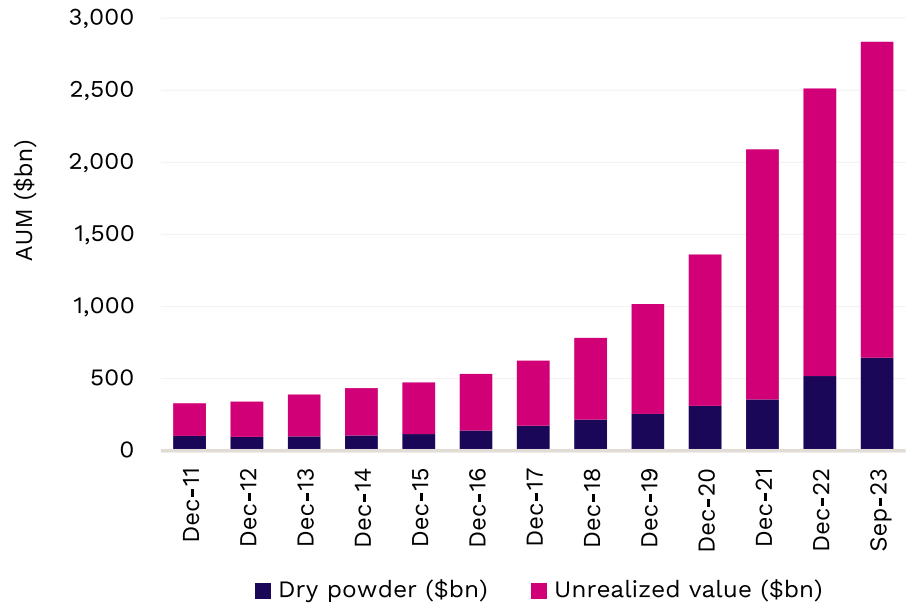


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Venture capital (VC) assets under management (AUM) has increased more than sixfold in the past decade, from \$435bn in December 2014 to \$2.8tn in September 2023. Dry powder has grown at a similar rate, from \$106bn to \$645bn (Fig. 3.1). VC funds have been growing capital inflow to match the growth of the asset class, and there have been more than enough opportunities available for managers to deploy capital into new start-ups.

Fig. 3.1: VC has grown more than sixfold since 2014

Venture capital assets under management

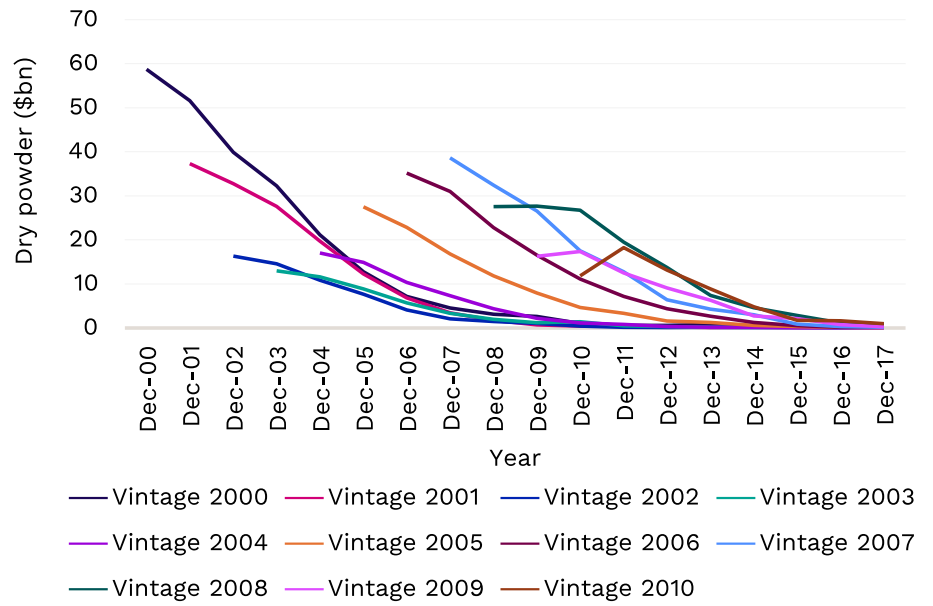


Source: Preqin Pro

Looking at dry powder by fund vintage, drawdowns have evolved over the past two decades (Fig. 3.2, Fig. 3.3). Over the past 10 years, as more capital entered the asset class, deployment kept pace until the 2021 vintage, when there was a severe deterioration in deals activity. One result of this 10 years of growth has been an increase in more specialized fund strategies.

Fig. 3.2: Fundraising and deployment slows at the end of the Global Financial Crisis and dotcom bust

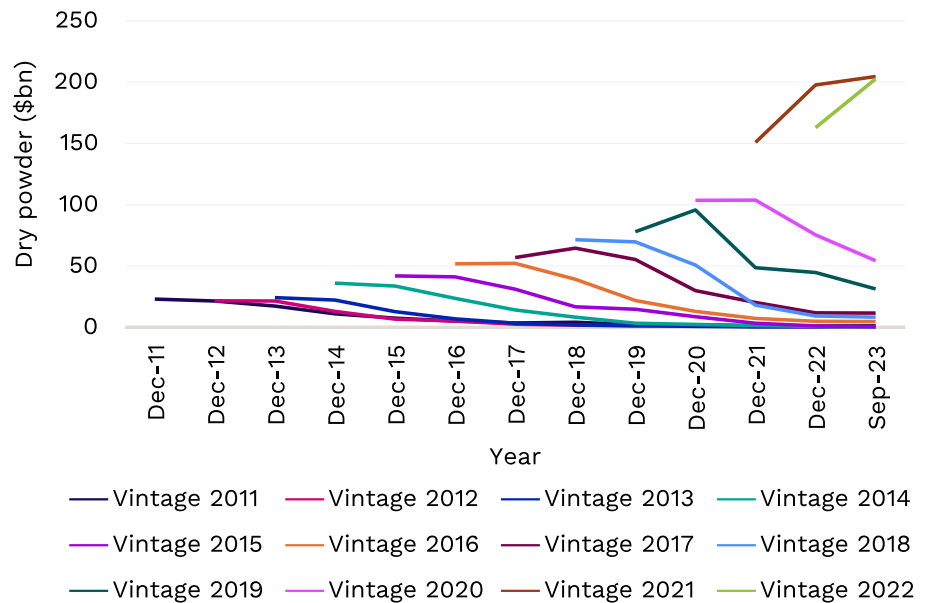
Venture capital assets under management



Source: Preqin Pro

Fig. 3.3: Faster pace of deployment reverses in 2021 and 2022 vintages

Venture capital dry powder drawdowns by vintage year

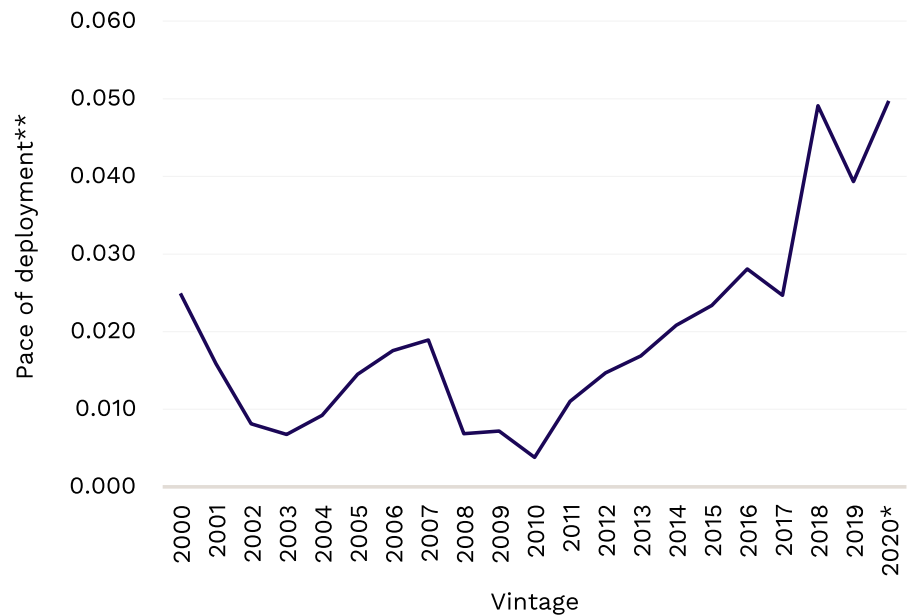


Source: Preqin Pro

We measured the rate of deployment for the first four years of life for a given vintage and used the steepness as a measure of the pace of deployment. The greater the value, the faster the deployment of dry powder (Fig. 3.4).

Fig. 3.4: Pace of dry powder deployment accelerates to 2020

Pace of deployment of venture capital dry powder measured by steepness of the slope during the first four years of a vintage’s life



Source: Preqin Pro

*3.75 years measured for this vintage

**The pace of deployment is the steepness of the slope of dry powder, for the first 4 years of vintage since inception

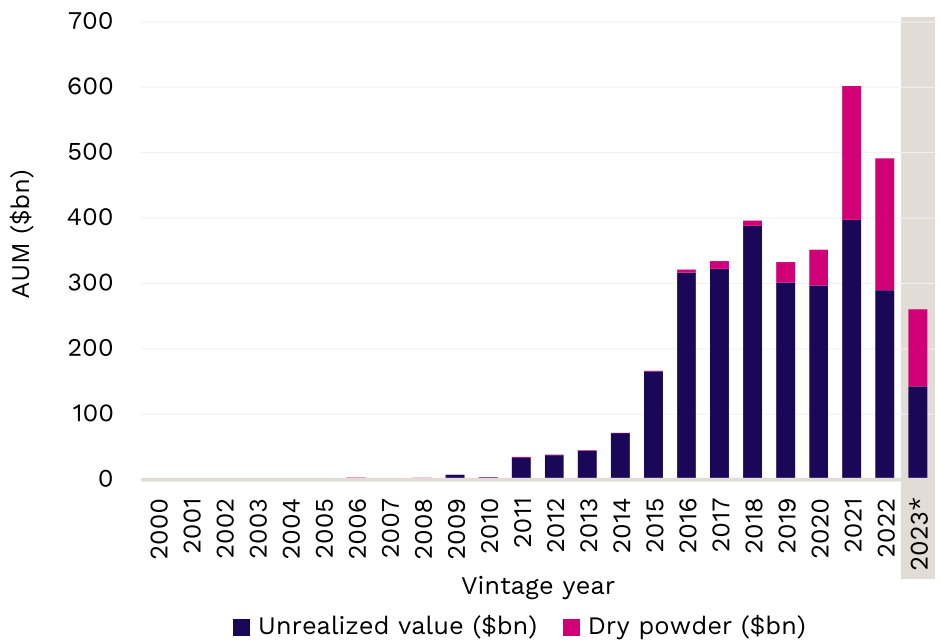
The rate of deployment has changed pace in line with the macroeconomic environment and the health of the VC ecosystem over the past 20 vintages. The bursting of the dotcom bubble and the Global Financial Crisis (GFC) affected the rate of capital deployment early on for vintages raising during this period, as fewer exits impacted the recycling of capital back into the asset class. This caused the pace of dry powder deployment into deals to slow and the amount of capital raised in later years to decrease. More recently, there’s been a notable increase in the pace of deployment from vintages 2014 to 2020, which is the most recent vintage for which we have data.

Pace of deployment slows for 2021 and 2022 vintages

Global VC has faced headwinds recently. The rate of deployment of dry powder for vintages post-2021 is decreasing, as it did in the early 2000s and during the GFC. The change to the interest-rate environment seen in the 2008–2022 period, during which time rates were close to zero, has negatively impacted valuation multiples as well as exit and deal activity. As a result, the pace of deployment for post-2021 vintages may continue to slow down and revert to the historical mean.

Fig. 3.5: VC dry powder highest in 2021 vintage

Venture capital assets under management by vintage year



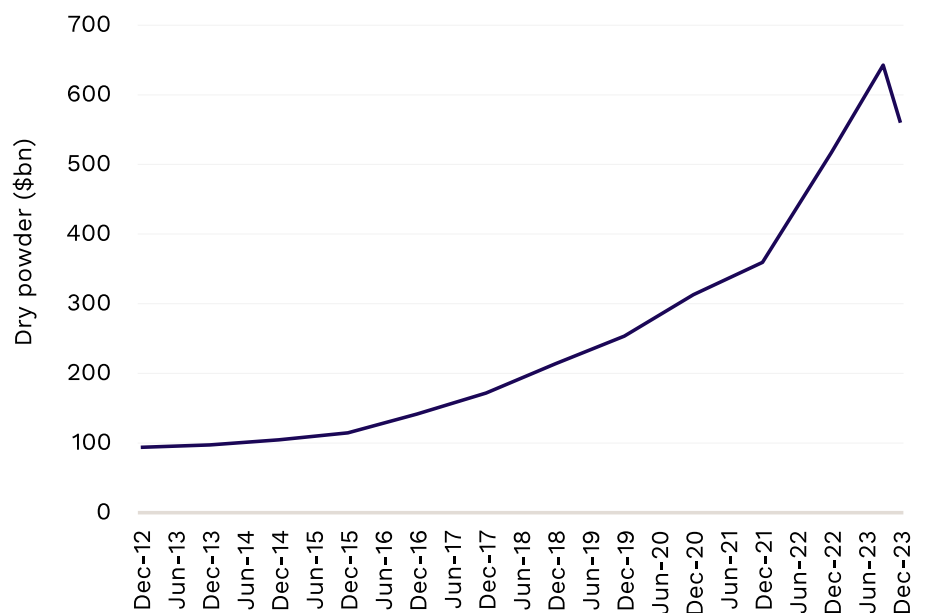
Source: Preqin Pro

*Data as of September 2023

This is already being reflected in the level of dry powder in post-2021 vintages (Fig. 3.5). A substantial proportion of dry powder from the 2021 vintage – \$204.7bn, or 31.7% of dry powder across all vintages as of September 2023 – remains. The 2022 vintage has \$201.3bn in dry powder. Total dry powder appears to have peaked early in 2023, after a decade of consistent growth, and is now down to \$559.9bn in December 2023 (Fig. 3.6). A tougher fundraising environment has forced managers to take a more conservative approach when deploying capital and stretch out capital deployments to avoid having to raise a new fund. As a result, deals activity has remained weak.

Fig. 3.6: Dry powder peaked in September 2023

Venture capital dry powder



Source: Preqin Pro

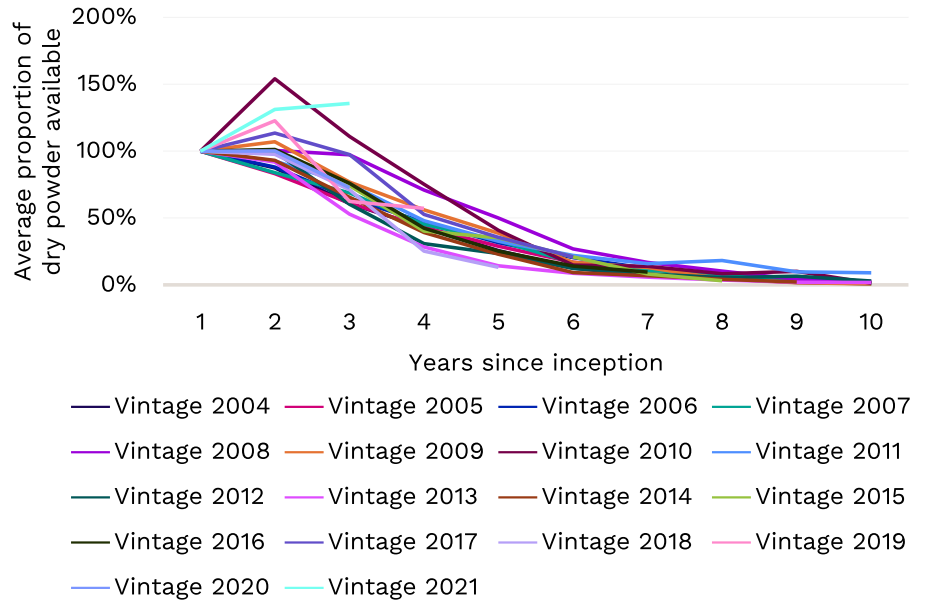
Greatest variance in deployment is across vintages

From 2005 to 2020, there are some differences across vintages, strategies, and regions in the deployment of dry powder. For investors looking to manage cash flows for capital calls, the largest variance in capital deployment is dictated by the given vintage year, rather than the region or the strategy (Fig. 3.7). However, there are differences across strategies and regions, too.

Early-stage strategies see a faster drawdown, on average, than late-stage and general strategies (Fig. 3.8). This may be due to the more complex due diligence and greater amounts deployed by late-stage and general funds.

Fig. 3.7: Vintage year has most influence on dry powder level

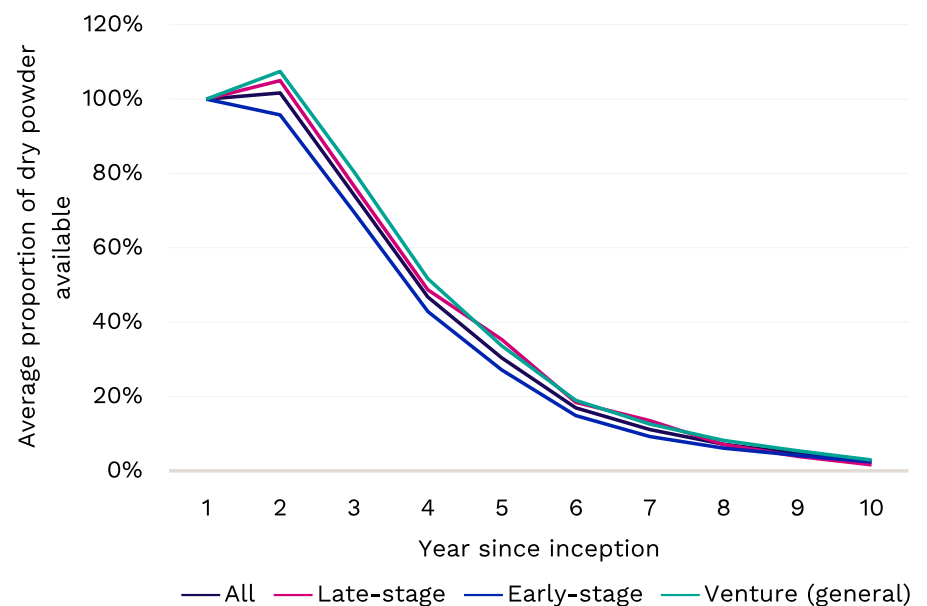
Dry powder drawdown by vintage year



Source: Preqin Pro, as of May 2024

Fig. 3.8: Early-stage funds are faster to draw dry powder

Average proportion of dry powder available from year one by strategy, years 2005 to 2020

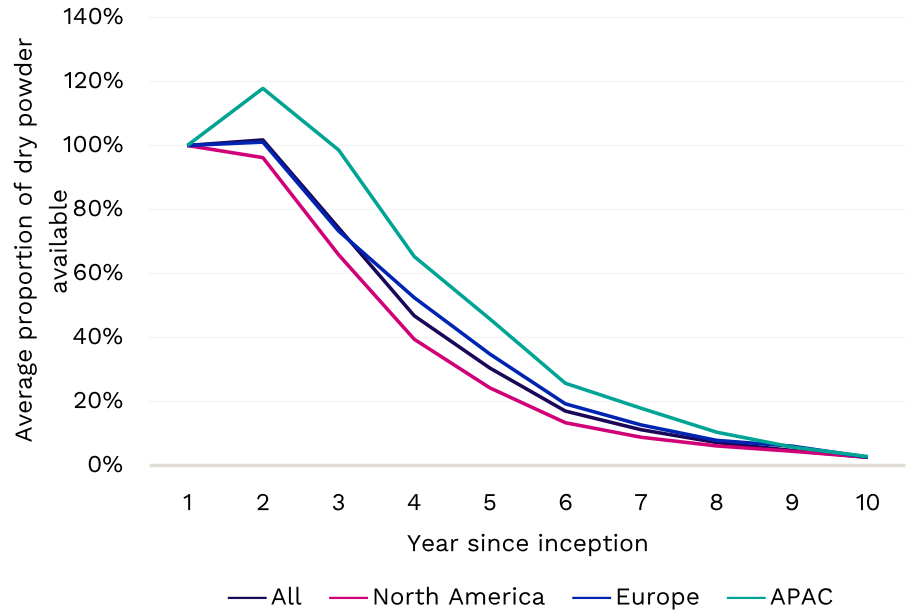


Source: Preqin Pro, as of May 2024

North America-focused funds deploy dry powder the fastest, with APAC significantly slower than other regions (Fig. 3.9). The increase in the average pace of capital deployment for APAC-focused funds in the second year since inception suggests that funds tend to remain open for longer periods of time to raise capital, with a significant amount of capital being raised in the second year of the fund's life. This is due to regional nuances. APAC has a less established fundraising environment and VC ecosystem than North America.

Fig. 3.9: APAC deploys dry powder at slowest rate

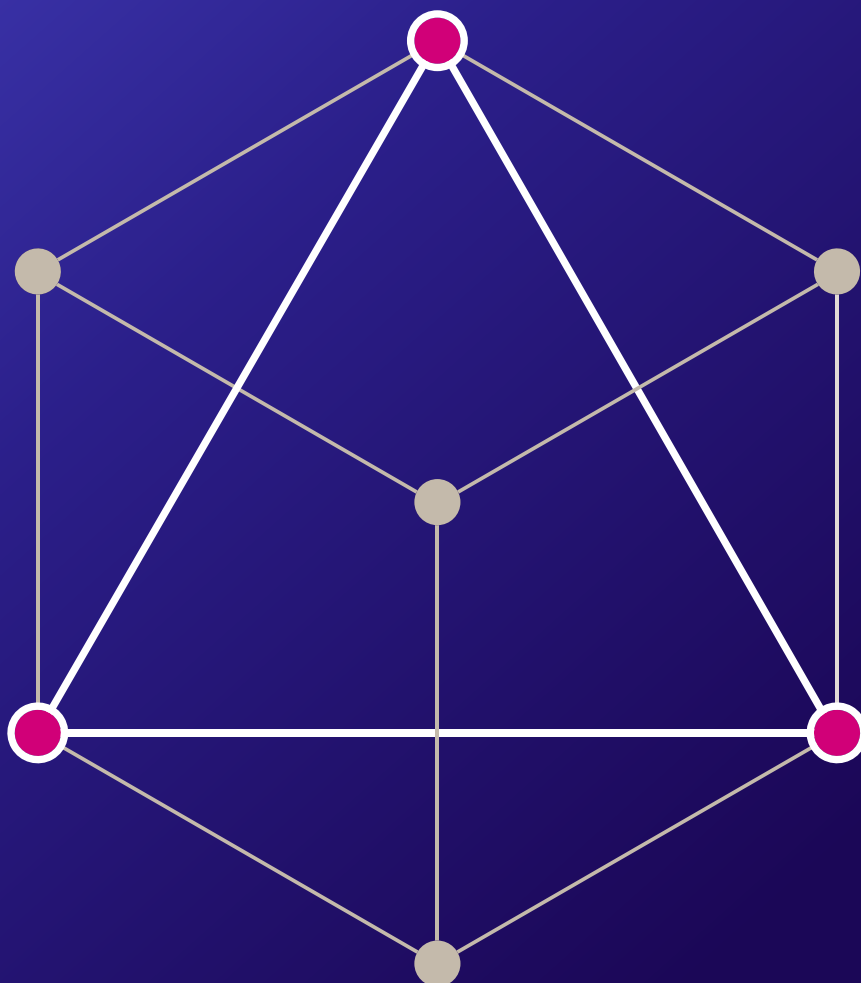
Average proportion of dry powder available from year one by region focus, 2005 to 2020



Source: Preqin Pro

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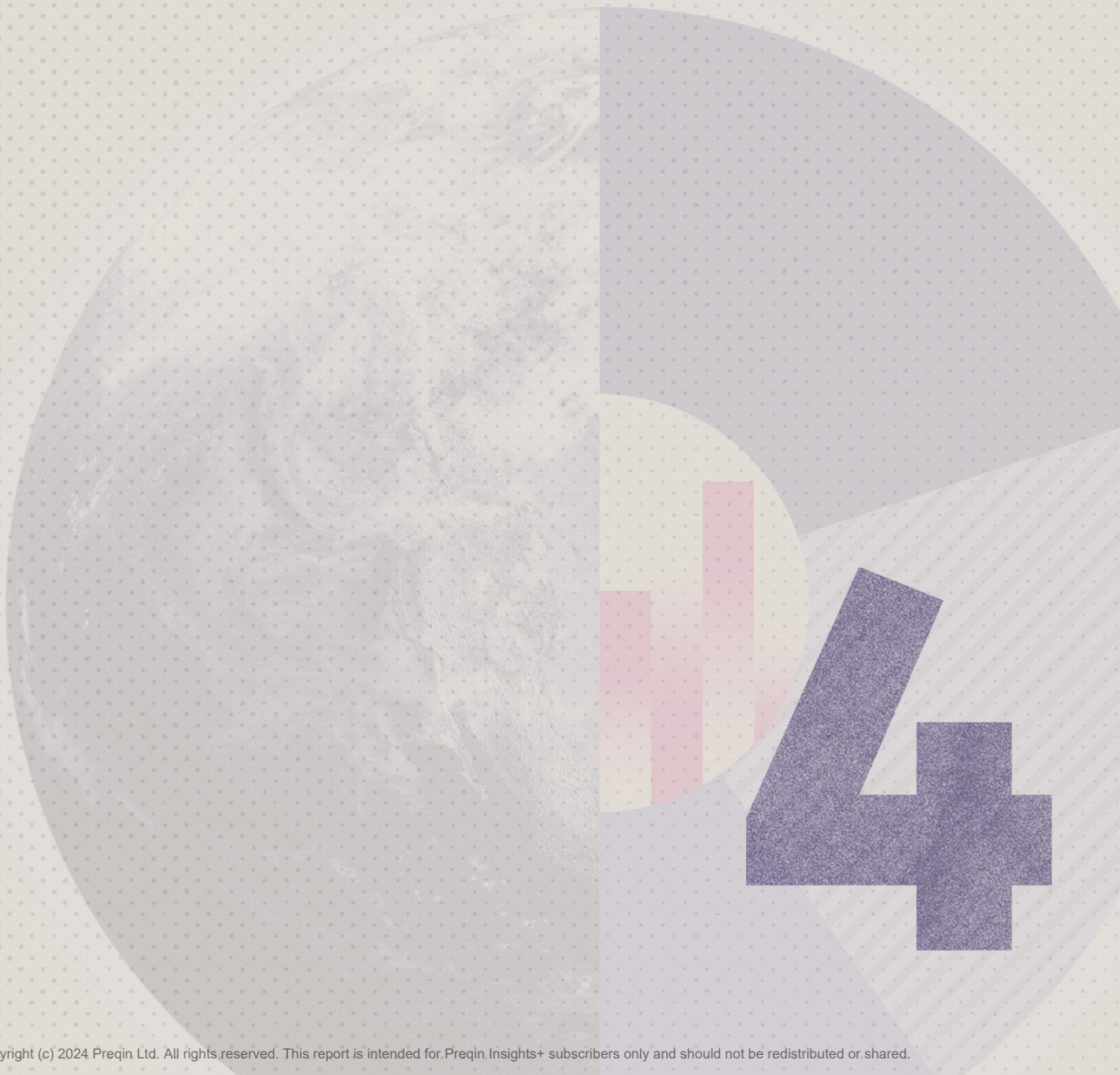
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PREQIN

→ Scanning biotech VC

Demographics and disease will continue to drive venture capital into biotechnology over the long term





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The US remains the largest market for healthcare globally, with total healthcare expenditure expected to grow from \$4.5tn in 2022 to \$7.7tn in 2032.¹ Private markets have been pivotal in funding innovation to meet the demand for healthcare services as aging populations across the OECD drive demand further.

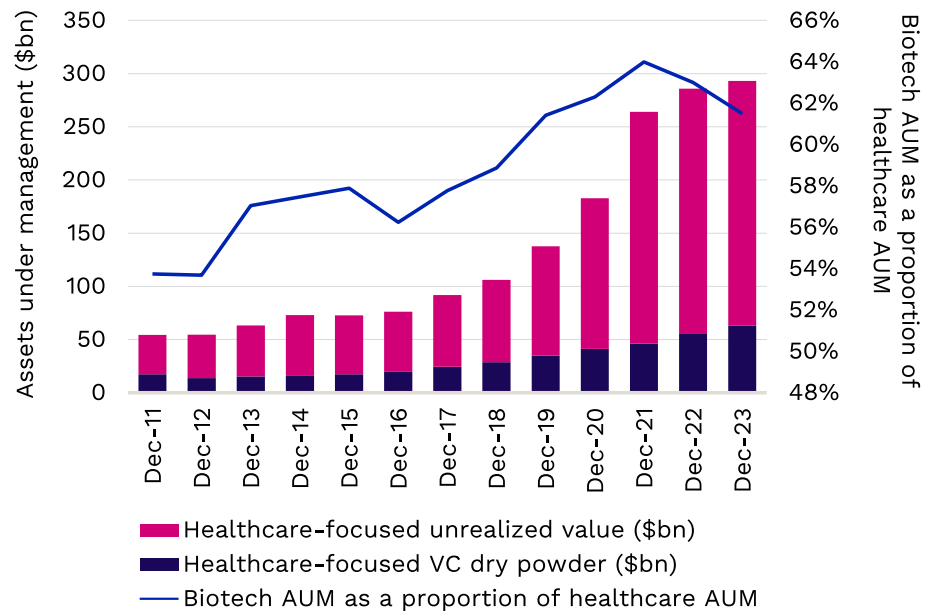
Venture capital (VC) has played a key role in the development of technology in healthcare. As part of this, biotechnology (biotech) has been capturing a greater share of unrealized value.² There continues to be ample opportunity for biotech as recent innovations and developments in research drive higher-quality treatments for cancer, obesity, women’s health, and neurodegenerative and cardiovascular diseases, all of which are areas of interest for the coming decade.

Biotech now represents more than 60% of healthcare VC AUM

Healthcare assets under management (AUM) in VC have been growing rapidly over the past 10 years, from \$63bn in 2013 to \$293bn at the end of 2023 (Fig. 4.1). Biotech has increased as a share of healthcare AUM over this period, from 57% in 2013 to 61% at the end of 2023, reaching \$180bn.

Fig. 4.1: Biotech still highest share of healthcare-focused VC

VC healthcare AUM (dry powder and unrealized value)



Source: Preqin Pro

Stronger fundraising for healthcare and biotech has helped fuel AUM growth. However, in line with the wider VC asset class, fundraising has recently been falling for healthcare, from \$42.8bn in 2021 to \$21.7bn in 2023. Furthermore, there’s been a greater drop-off in fundraising for VC biotech strategies since 2021, from \$32bn to \$12bn in 2023.

Exit environment drags stellar performance of biotech VC

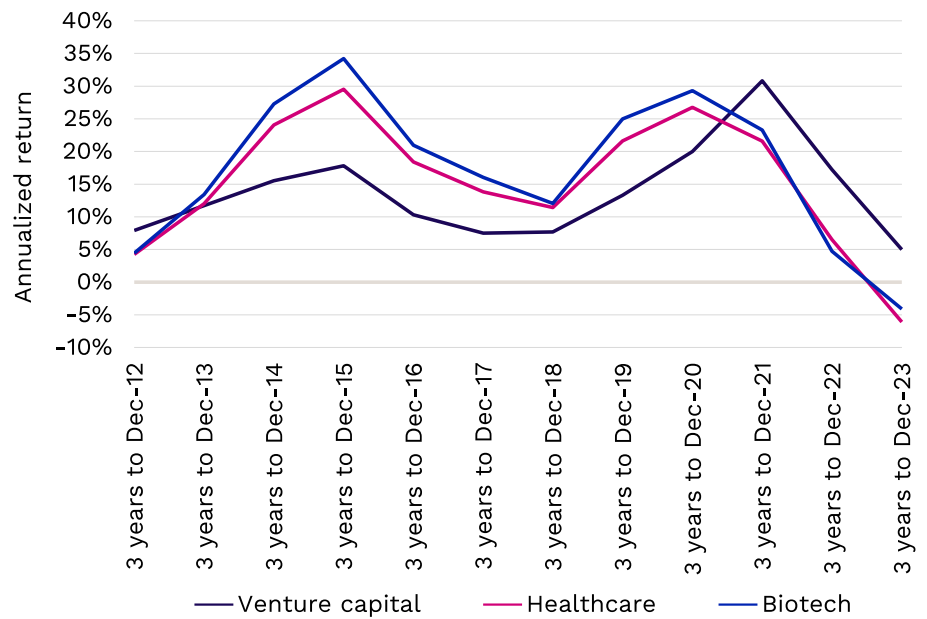
A more challenging VC exit environment has meant biotech and healthcare fund returns have underperformed the rest of the VC asset class since 2021. This followed a period from 2014 to 2020 in which both were consistent outperformers for rolling three-year horizon IRRs, with biotech outperforming the general healthcare industry (Fig. 4.2).

¹ According to the Centers for Medicare & Medicaid Services, a federal agency within the US Department of Health and Human Services: <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected>

² Biotechnology is listed as a subset of healthcare in Preqin Pro

Fig. 4.2: Biotech VC performance turns weaker

Venture capital: rolling three-year horizon IRRs by strategy

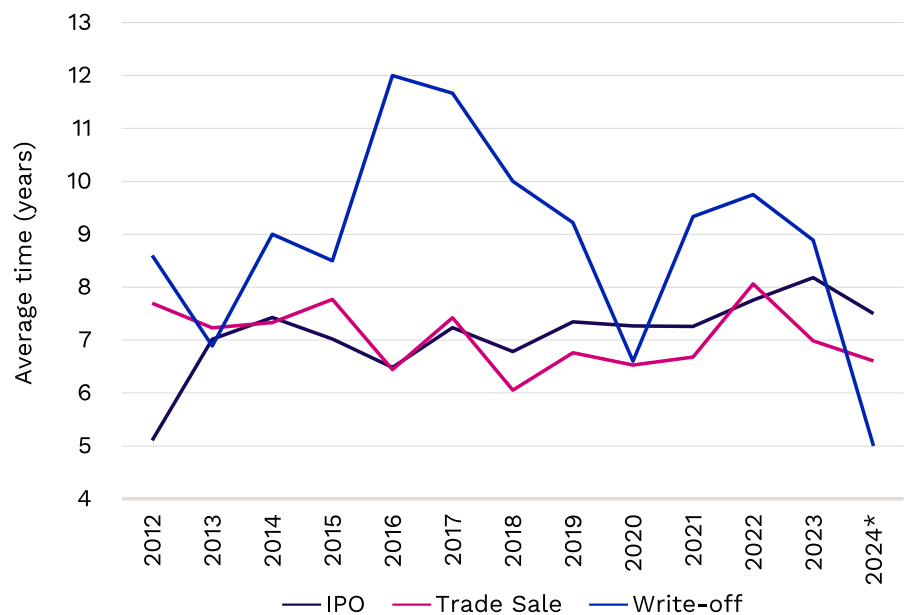


Source: Preqin Pro

Although biotech and the general healthcare industry’s three-year horizon IRRs were -4% and -6% respectively as of December 2023, this can be viewed as a temporary setback and may not be indicative of their longer-term performance. This is because vintages that are early in their lifecycle still have time for investments to mature and drive better performance over a 10-year lifespan, which is typical for VC funds. Exit horizons for biotech remain further out than for the rest of VC and healthcare, with an average holding period until exit of 7.7 years (Fig. 4.3). This is due to the longer periods of time required to develop and bring to market new therapies.

Fig. 4.3: Exit horizons reach 7.7 years on average

VC biotech historical exit horizons by type



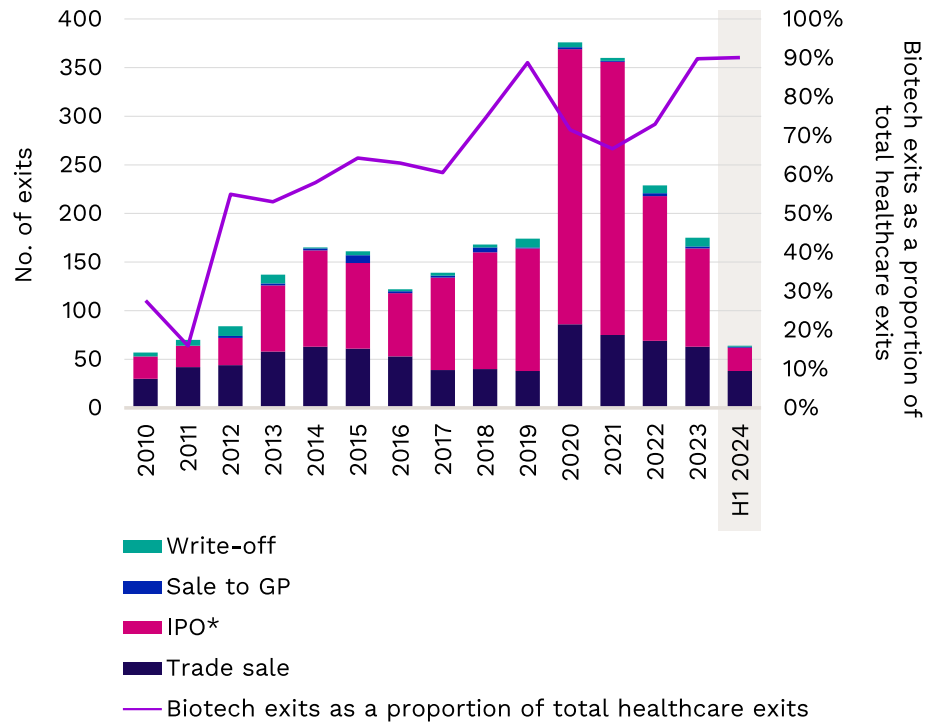
*2024 data as of July 27, 2024

Source: Preqin Pro

Some of the larger VC biotech deals over the past 10 years have been in cell therapy, the use of AI in drug discovery, and the development of biomarkers to identify disease. Biotech has been driving an increasing share of aggregate exit value for the entire VC asset class, up from 21% in 2023 to 38% in the first half of 2024, providing a more consistent source of liquidity to investors. This has been a growing trend in the healthcare industry: biotech accounted for 90% of healthcare exits in 2023, at \$57bn – up from just 55% (\$15bn) in 2012 (Fig. 4.4, Fig. 4.5). This is fueled by breakthroughs in life sciences research opening avenues for either new or improved therapies.

Fig. 4.4: Nine in 10 VC exits in healthcare are biotech

VC-backed biotech number of exits by type*

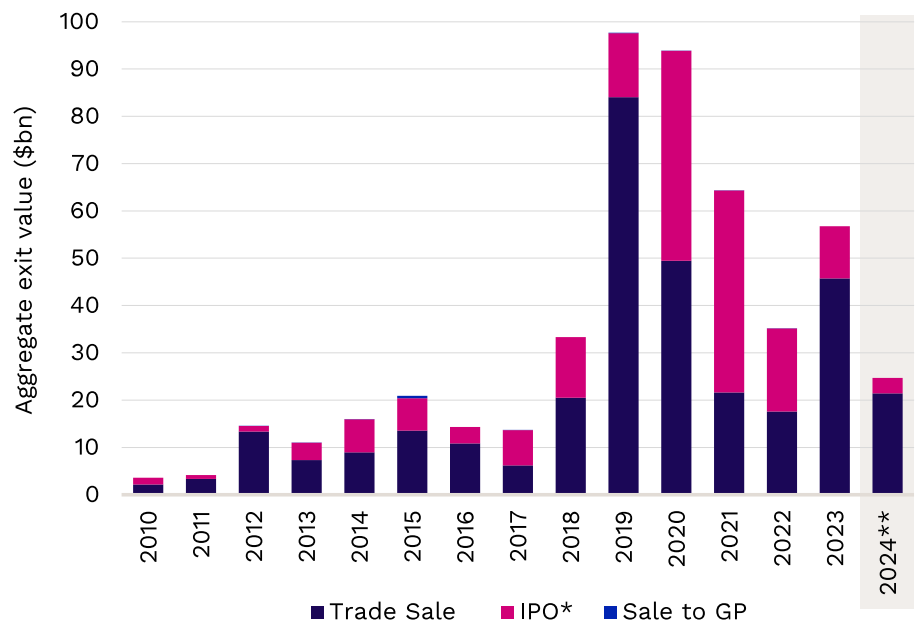


Source: Preqin Pro

*IPO Includes IPO and private placement. Trade sale includes trade sale, merger, sale to management

Fig. 4.5: Higher-value biotech exits seen by trade sale

VC-backed biotech aggregate exit value by type



Source: Preqin Pro

*IPO Includes IPO and private placement. Trade sale includes trade sale, merger, sale to management
 **2024 data as of July 27, 2024

Trade sales to larger biopharma are the main route to exit, making up the bulk of aggregate exit value for biotech start-ups in recent years. This is because larger biopharmaceutical companies need to acquire promising biotech start-ups³ to bolster sales pipelines as patents near expiration. Some of the most active acquiring firms are Bristol-Myers Squibb Company, Merck & Co, Novartis International AG, and Gilead Sciences, according to Preqin Pro. However, IPOs were responsible for a lot more of the overall exit value in 2021 and 2022, due to a particularly buoyant period for public listings in general. One such example was the US IPO of Sana Biotechnology for \$588mn in February 2021.

Many biotech start-ups require large capital investments following exit to progress promising therapeutic candidates through clinical trials. This is evident in the 20 largest exits over the past 10 years, of which only one was through an IPO; the rest were acquisitions by established and cash-rich biopharmaceutical companies (Fig. 4.6). April 2024's \$4.9bn trade sale of Alpine Immune Sciences, a biotech firm which focuses on therapies for autoimmune and inflammatory diseases, to Vertex Pharmaceuticals Incorporated, a large biopharmaceutical company, is the largest transaction to date in 2024.

3 <https://www.goldmansachs.com/insights/articles/pharmaceutical-companies-have-700-billion-for-acquisition>

Fig. 4.6: Celgene completes the largest biotech deal in the past decade

Top 20 largest biotech VC exits, last 10 years

Company (country)	Deal date	Deal type	Deal value (\$mn)	Acquiror	First funding stage known	From first funding to exit (years)
Celgene (US)	03-Jan-2019	Trade sale	74,000	Bristol-Myers Squibb Company	2/15/07	12
Karuna Therapeutics, Inc. (US)	22-Dec-2023	Trade sale	14,000	Bristol-Myers Squibb Company	8/2/18	5
MyoKardia, Inc. (US)	05-Oct-2020	Trade sale	13,100	Bristol-Myers Squibb Company	9/11/12	8
Prometheus Biosciences, Inc. (US)	16-Apr-2023	Trade sale	10,800	Merck & Co., Inc.	9/26/17	6
AveXis, Inc. (US)	09-Apr-2018	Trade sale	8,700	Novartis International AG	1/9/15	3
GRAIL, Inc. (US)	21-Sep-2020	Trade sale	8,000	Illumina, Inc.	1/10/16	4
Stemcentrx (US)	28-Apr-2016	Trade sale	5,800	AbbVie	3/11/11	5
Abcam plc (US)	28-Aug-2023	Trade sale	5,700	Danaher Corporation	6/3/11	12
Global Blood Therapeutics, Inc. (US)	08-Aug-2022	Trade sale	5,400	Pfizer Inc.	5/31/12	10
Tesaro, Inc. (US)	03-Dec-2018	Trade sale	5,100	GlaxoSmithKline Plc	5/26/10	8
Alpine Immune Sciences, Inc. (US)	10-Apr-2024	Trade sale	4,900	Vertex Pharmaceuticals Incorporated	11/18/14	10
Forty Seven, Inc. (US)	02-Mar-2020	Trade sale	4,900	Gilead Sciences, Inc.	2/24/16	4
Turning Point Therapeutics, Inc. (US)	03-Jun-2022	Trade sale	4,100	Bristol-Myers Squibb Company	1/2/14	8
Advanced Accelerator Applications S.A. (France)	30-Oct-2017	Trade sale	3,900	Novartis International AG	10/17/03	14
Principia BioPharma Inc. (US)	17-Aug-2020	Trade sale	3,680	Sanofi S.A.	2/10/11	9
Auspex Pharmaceuticals, Inc. (US)	30-Mar-2015	Trade sale	3,500	TEVA Pharmaceuticals	5/7/08	7
Chinook Therapeutics Inc. (US)	12-Jun-2023	Trade sale	3,500	Novartis International AG	2/6/19	4
BeiGene Ltd. (China)	15-Dec-2021	IPO	3,431	N/A	11/1/14	7
Translate Bio, Inc. (US)	03-Aug-2021	Trade sale	3,200	Sanofi S.A.	11/30/11	10
Morphic Holding, Inc. (US)	08-Jul-2024	Trade sale	3,200	Eli Lilly and Company	6/30/16	8

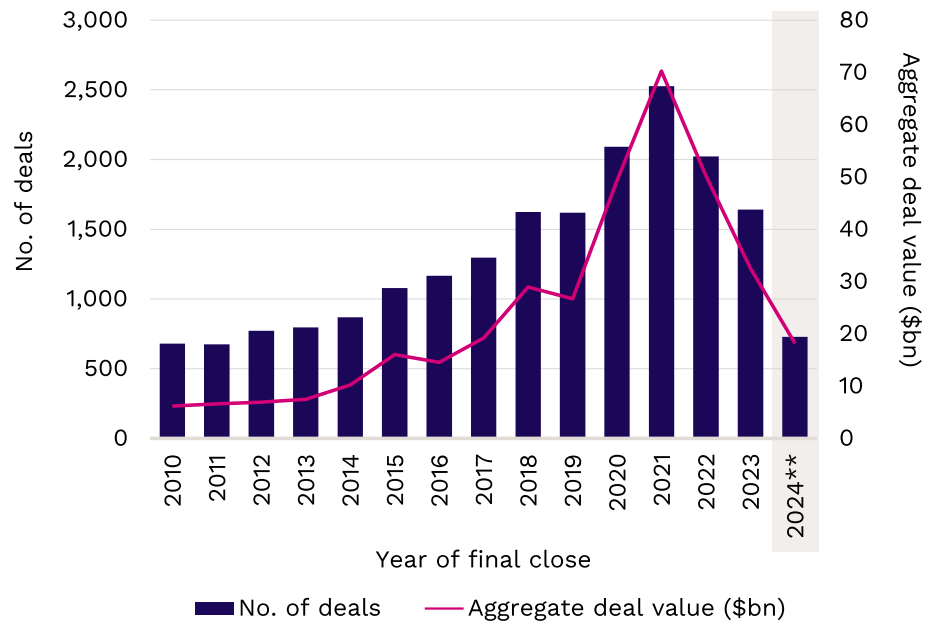
Source: Preqin Pro, data as of July 2024

Biotech deal activity has been impacted less than VC generally

Deal activity is still in decline from the 2021 peak, when 2,527 biotech deals recorded an aggregate deal value of \$70.3bn (Fig. 4.7). In 2023 there were 1,641 deals with an aggregate value of \$32.5bn. Biotech tends to be higher on the risk spectrum, but while high interest rates have made investing in bets with longer investment horizons less favorable, there has not been an outsized impact to the volume or aggregate value of deals compared with the rest of the VC asset class.

Fig. 4.7: Biotech deal activity continues to weaken

VC biotech deals*



Source: Preqin Pro

*Figures exclude add-ons, mergers, grants, secondary stock purchases, and venture debt
 **2024 data as of July 27, 2024

Macro and political uncertainties remain for the healthcare industry. Policy reforms, such as the Inflation Reduction Act (IRA) introduced under the administration of US President Joe Biden, may have longer-term consequences that impact which start-ups receive investment. However, it is still too early to tell how much of an effect the finer details of the IRA, including drug pricing,⁴ will have, or if it will be kept in its current form by the new administration in 2025. Structural drivers may provide optimism for VC funds elsewhere. Rapid growth in investment in the APAC healthcare market,⁵ with deals increasing from \$1.4bn in 2012 to \$13.3bn in 2023, reflect consumers’ increasing willingness to spend more on their health and on better services. North America and Europe have grown at a slower pace, from \$10.7bn to \$31.0bn and \$1.7bn to \$7.9bn respectively, from 2012 to 2023.

In addition, biotech is positioned well for a lower-interest-rate environment, but some US policy risk may emerge in 2025 based on some of the views held within the Trump administration⁶. The US Federal Reserve (Fed) reduced rates in September by 50-basis points and again by 25-basis points in November. A prevailing softer stance from the Fed going into 2025 would provide a tailwind that could drive more exits via IPO.

4 <https://www.ft.com/content/718b52e8-9c57-4dcf-b2f4-84cf8d7da21c>

5 <https://www.bain.com/insights/asia-pacific-front-line-of-healthcare-2024/>

6 <https://www.bbc.co.uk/news/articles/c4gx3kkz8z3o>

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PREQIN

→ Performance and valuations

Venture capital performance stabilized in early 2024, following a market trough





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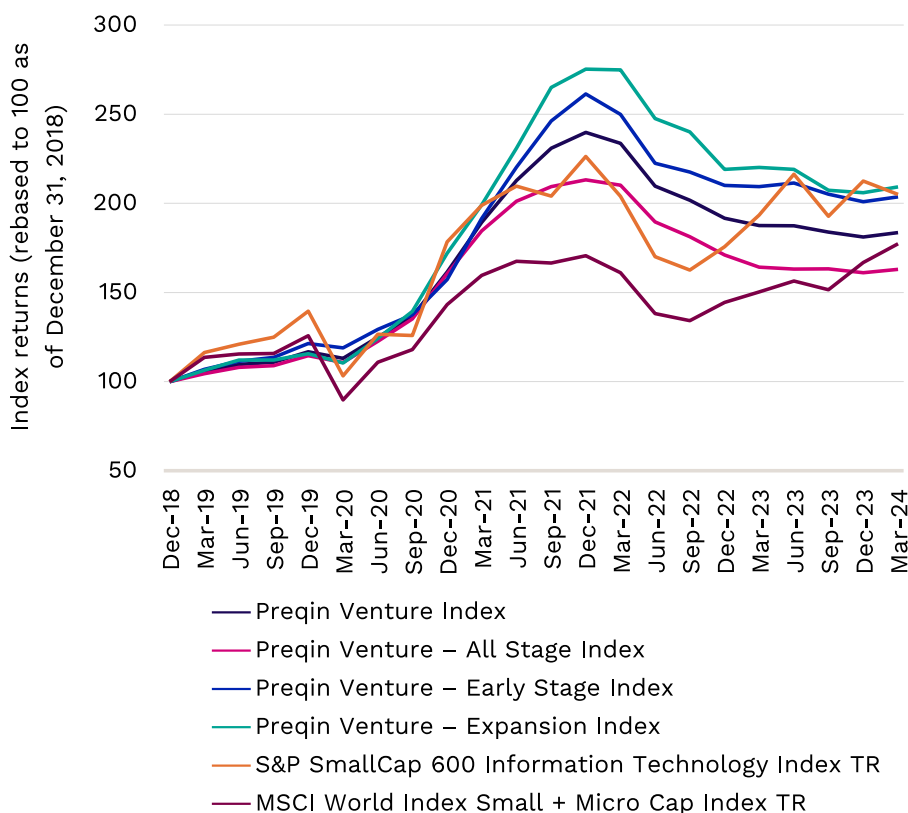


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Venture capital (VC) investments are facing a decline in performance. This is in stark contrast to the period from the start of the COVID-19 pandemic until the end of 2022, during which VC funds outperformed other asset classes. In the two quarters following this peak, many VC investors witnessed a downturn in valuations, mirroring the trends seen in the S&P SmallCap 600 Information Technology Index and the broader MSCI World Small + Micro Cap Index (Fig. 5.1). These indices are chosen for comparison due to both the size of VC-backed companies (mostly smaller companies) and their VC investment sector tilt, which is heavily oriented toward information technology (IT) companies (approximately 60% of actively backed VC companies are classified as IT investments).

Fig. 5.1: Venture capital experiences promising uptick in first quarter

Venture capital indices performance vs. public markets



Source: Preqin Pro, FactSet. Data as of June 2024

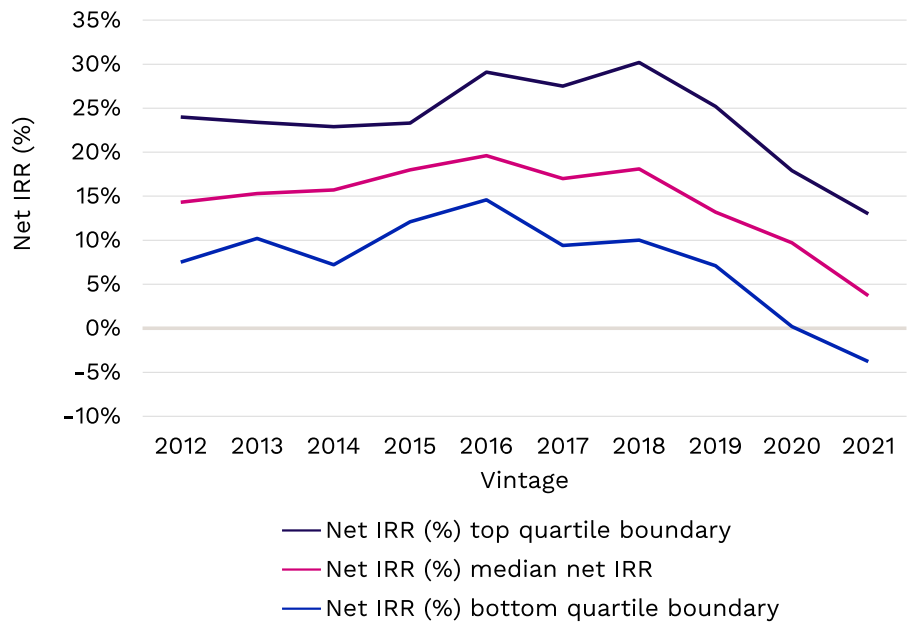
Unlike their public counterparts, VC indices did not experience a recovery in 2023 and recorded negative returns for that year. VC’s poor performance was highlighted by the record proportion of down rounds for VC investments. Consequently, the outperformance of VC during 2021 and 2022 has been eroded. Looking at cumulative returns over the past five years, public market indices either caught up with or surpassed VC returns, depending on the strategy.

Newest vintages hit hardest in market drawdown

Vintages that made significant investments during the boom years of 2020 and 2021 are likely suffering now from high valuations at the point of entry. The industry is refocusing on metrics such as revenue and cash flow and generally buying in at a lower valuation across the investment landscape. The median net internal rate of return (IRR) for the 2021 vintage currently sits at 3.7%, significantly below older vintages that are posting double-digit IRR figures. The contrast is even starker for third-quartile funds, where the IRR is negative, at -3.8% for the 2021 vintage (Fig. 5.2).

Fig. 5.2: VC performance drops for newer vintages

Net IRR for all venture strategies by vintage year

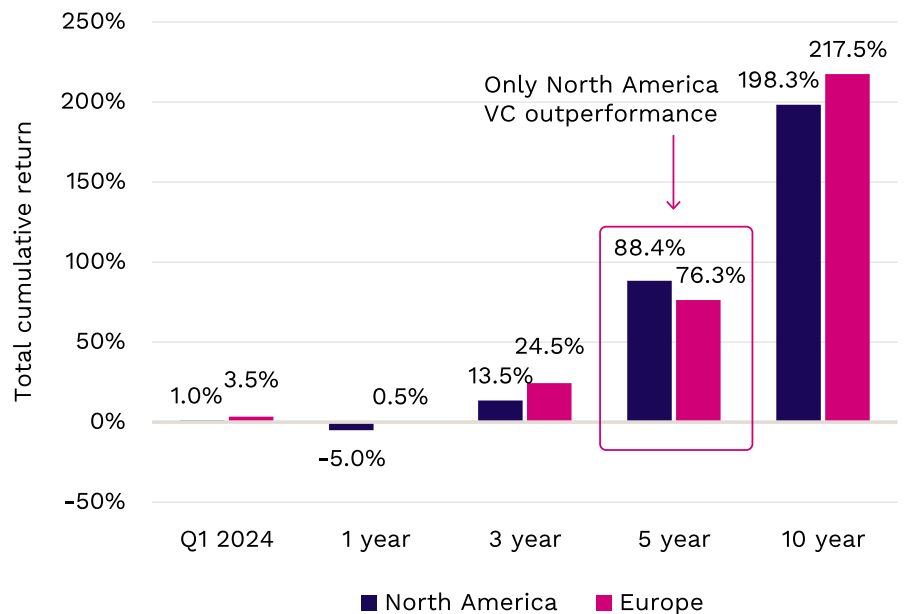


Source: Preqin Pro. Data as of October 2024

These results resemble those of vintages that operated during the maximum drawdown period of the dotcom-crash era, when the median IRR was barely above water and third-quartile funds exhibited significant losses. However, unlike in the case of the early 2000s vintages, there are positive signs of a bounce-back, suggesting that VC may not reach those depths in the near future.

Fig. 5.3: Europe outperforms in the longer and shorter term

Regional performance of VC funds by time horizon*



*Regions are defined by strategy focus

Source: Preqin Pro

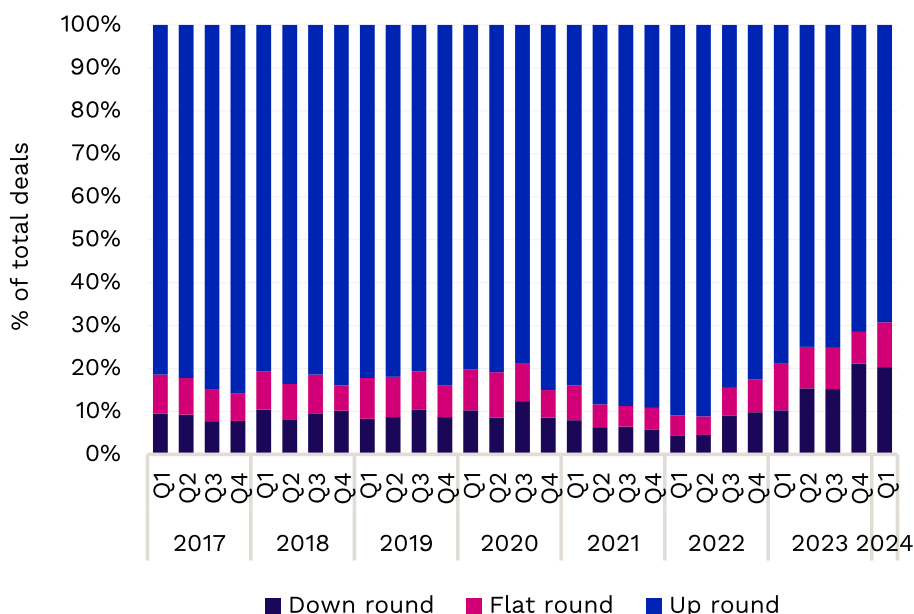
Europe VC outperformance in the shorter and longer term

In contrast to private equity, VC funds in Europe have outperformed their North America counterparts over a 10-year time horizon (Fig. 5.3). Although North America VC funds outperform over a five-year timeframe, Europe has also delivered superior returns at index level over shorter timeframes. This is due to two key factors – namely that the VC market in North America sees higher dispersion, and that the performance impact of larger funds is disproportionate.

Looking at vintages between 2013 and 2021, the median IRR is higher for North America-focused funds than Europe-focused funds. But so too are the extremes; the funds experiencing the highest and lowest net IRR were also in North America. Since the Preqin Quarterly Index is market-cap weighted, poorer performance of larger funds in North America has brought down the index, pushing weighted net IRR in Europe’s favor.

Fig. 5.4: VC down rounds remain at a historical high

Number of down, flat, and up rounds as a percentage of total deals



Source: Preqin Pro. Data as of June 2024

Down rounds affect 20% of VCs in first quarter of 2024

The proportion of down rounds in VC-backed companies remains at a historical high. Preqin data shows there were down rounds in one in five new VC funding rounds during the first quarter of 2024 (Fig. 5.4).

This means that 20% of VC-backed companies received capital at a lower valuation than during the previous funding round – nearly double the proportion (12%) at the height of the pandemic, and well above the five-year average of 8% between 2018 and 2022. Breaking this down from series A to series D, it becomes clear the increase in down rounds is more pronounced for later-stage companies (Fig. 5.5).

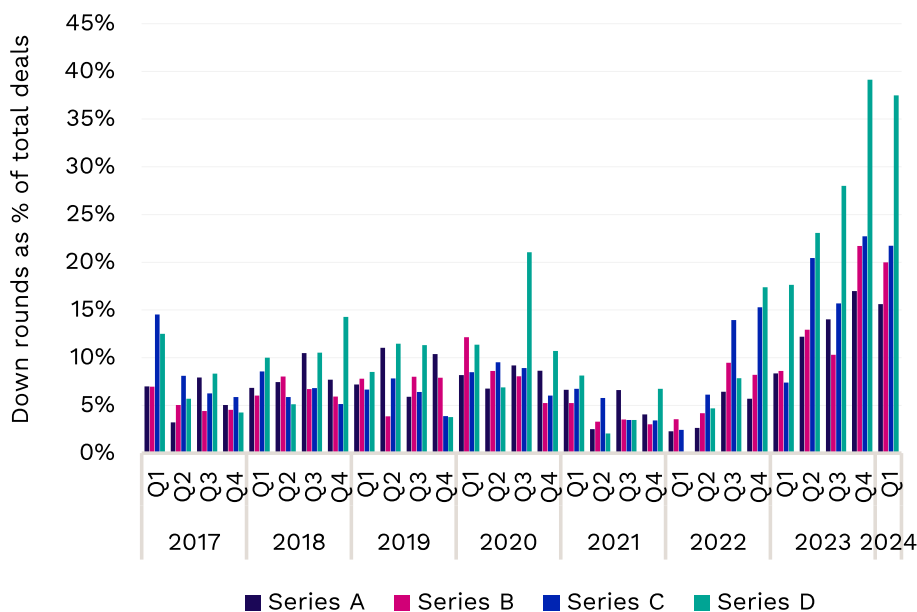
Weaker investor sentiment, which directly influences the prices investors are willing to pay, tends to affect later-stage VC-backed companies more, as they are generally higher-stake investments with valuations that are more sensitive to market movements based on near-term performance expectations. The mark-to-market impact can often be amplified, especially for those with an imminent exit.

Early stage not immune to weaker sentiment

Even though early-stage down rounds were less common than later-stage down rounds, they still accounted for 16% of series A valuations in our first-quarter data, which is almost a record high. In the current market, investors tend to favor

Fig. 5.5: Down rounds most common in series D

Number of down rounds as a percentage of total deals by stage



Source: Preqin Pro. Data as of June 2024

earlier-stage VCs due to their smaller commitments and longer incubation periods. This usually provides some degree of protection from external market volatility, but it doesn't mean these investments will be completely immune to downward market pressure.

Early-stage investments are typically held at cost until a new round of funding triggers a re-evaluation. But with slower deal activity in the market, more GPs and investors are increasingly writing down early investments that are not performing as well as expected.

Mixed fortunes across different sectors

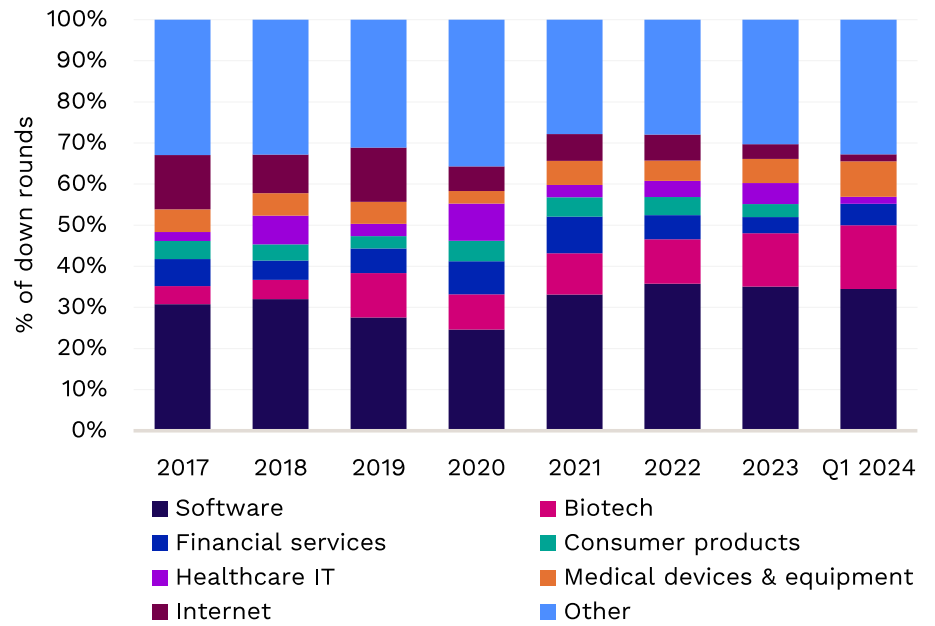
In terms of sector differences, around one-third of down rounds in the first quarter of 2024 were in software (a subset of the IT industry) – unsurprisingly, given it typically accounts for around one-third of VC deals (Fig. 5.6). Biotech and medical equipment and devices down rounds also persisted in the quarter, increasing to 16% and 9% respectively. This reflects not just tempered investor enthusiasm since the pandemic, but also the underperformance of biotech in public equity markets.

On the other hand, artificial intelligence (AI) and cleantech – including the renewable energy and electric vehicle sectors – are among the most active industry verticals. AI-related transactions made up 30% of VC deal value¹ in the first three quarters of 2023, and are now among the biggest deals, with some notable up rounds. We see this as an ongoing theme that extends beyond VC, with public equity valuations for AI-related companies also rallying through 2024. Going into 2025, investors appear willing to pay a premium for exposure to popular sectors such as AI and are keen to seek out opportunities, particularly among early-stage start-ups. While VC post-

¹ <https://www.preqin.com/insights/research/reports/private-asset-valuations-venture-capital-q3-2023>

Fig. 5.6: One-third of down rounds in software

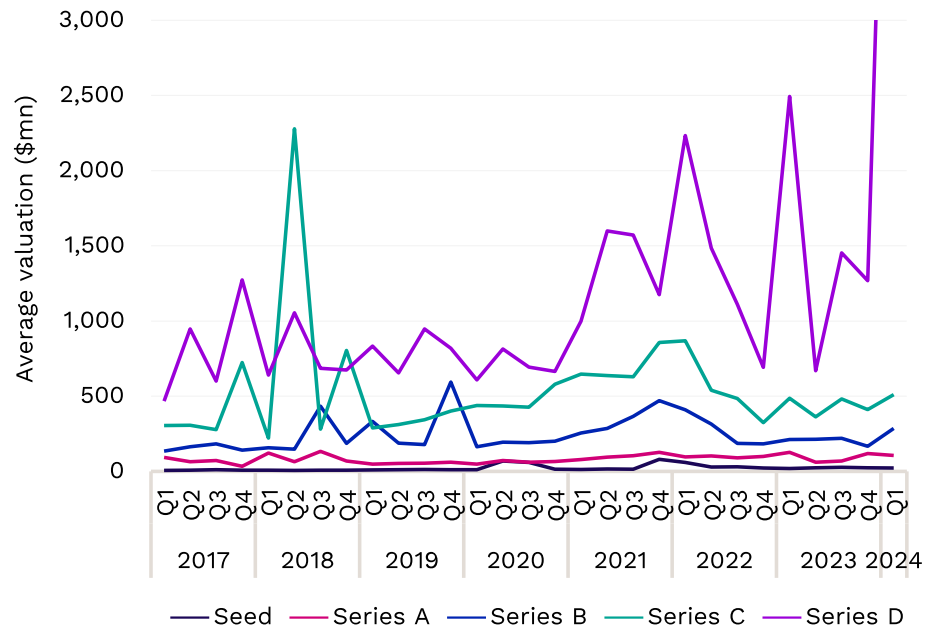
Proportion of seed to series D down rounds by primary industry



Source: Preqin Pro. Data as of June 2024

Fig. 5.7: AI deals swing series D valuations

Post-money valuations by funding stage (\$mn)



Source: Preqin Pro. Data as of June 2024

money valuations for AI companies are trending below 2021 highs overall, the averages vary widely between quarters, especially at later stages where deal volumes are thinner (Fig. 5.7).

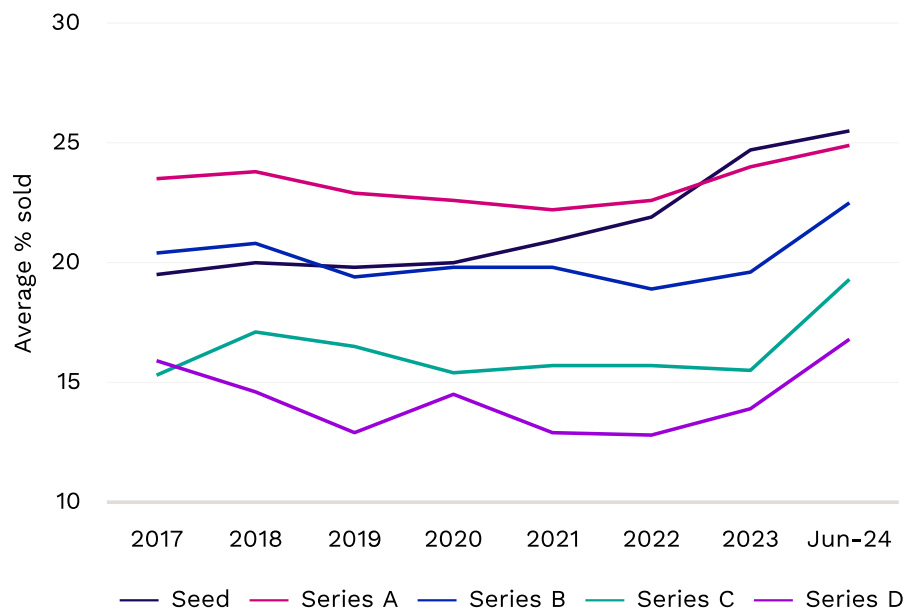
VC investors in a stronger position

While the general downward valuation trend for VCs means entry prices are lower, it is not the only thing that has turned in favor of VC investors/funds. The percentage of equity sold also underlines that the balance of power between VC investors and founders has shifted toward the former in 2024.

Preqin data indicates a steady increase since 2021 in the average percentage sold at each round, which means founders are agreeing to more ownership dilution as investors gain more control (Fig. 5.8). For example, seed investors were buying around

Fig. 5.8: Start-ups are selling more equity

Average percentage sold per VC funding round



Source: Preqin Pro. Data as of June 2024

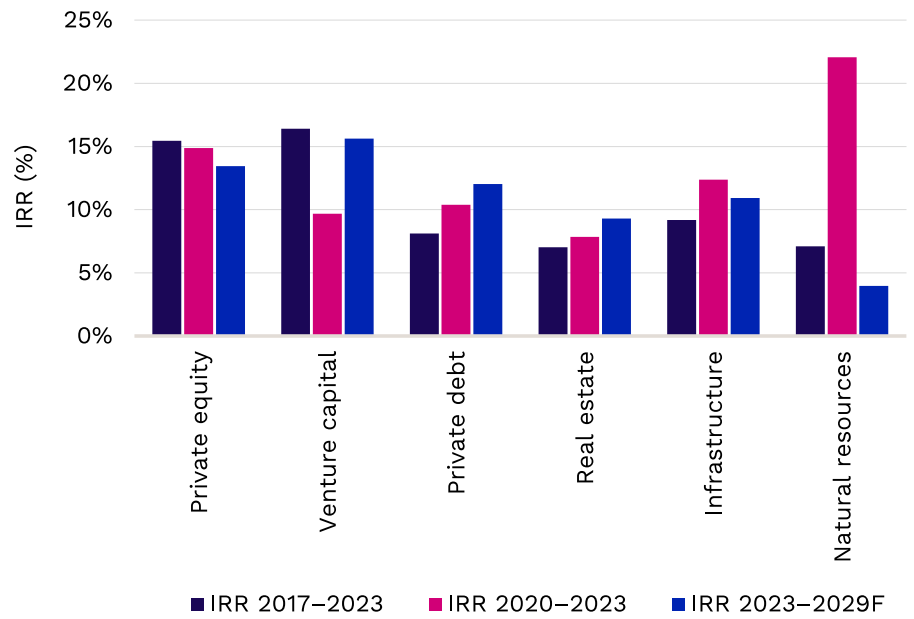
20% of a company in the five years up to 2021, but this has increased to more than 25% this year. Even if company valuations remain the same, if investors get more equity they get more upside potential.

Our near-term outlook for VC remains clouded by an uneven recovery. We expect vintages that deployed more capital around 2021 and 2022, when valuations were relatively high, to be under pressure – a view backed by the continued high proportion of down rounds reported. But investors who have remained cautious toward new VC investments may, for the reasons outlined above, be emboldened by the softer deal-making environment.

We expect VC to outperform other alternative asset classes over the longer term despite some near-term risks (Fig. 5.9). For more analysis on our forecasts for venture capital, see ‘Venture capital: Preqin’s forecasts through 2029’ chapter.

Fig. 5.9: VC will continue to outperform other alternatives

Asset class performance*, historic and forecast



Source: Preqin. All figures are nominal

*When we calculate performance we exclude funds denominated in yuan renminbi

**Values relate to end of year

To avoid double-counting asset class aggregates exclude secondaries and funds of funds

Paul Sinthunont, VP, Asset Allocation contributed to this chapter

→ Our survey: Taking the pulse

Investor views on pricing for VC assets more promising now than in the past four years

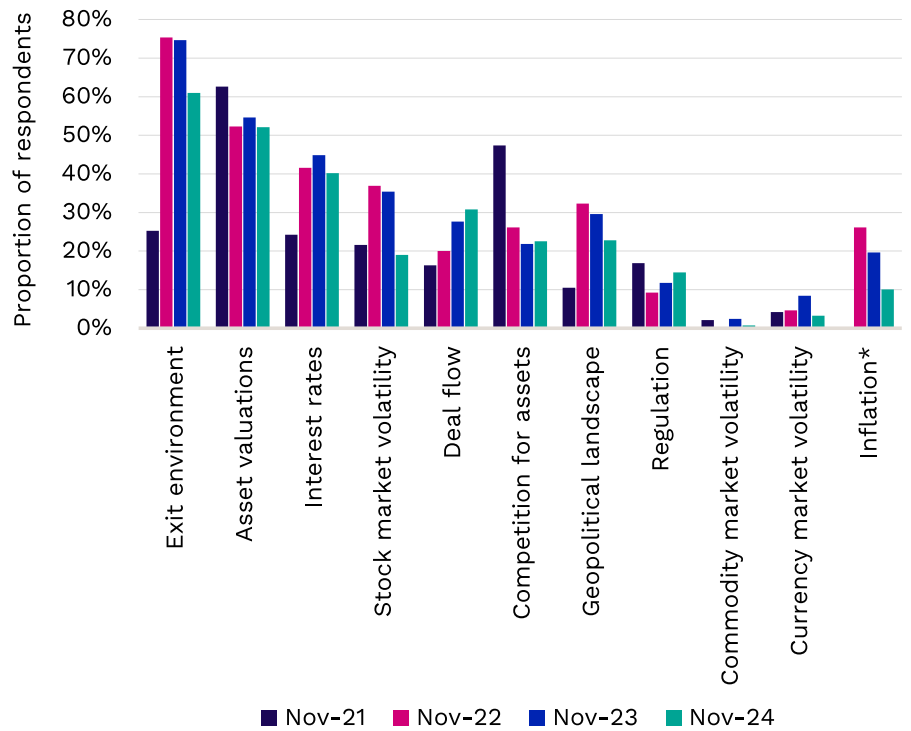


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Exits continue to be the main area of concern for VC fund managers and investors alike. Asked what the key concerns were for return generation, 75% of managers and 61% of investors cited exits, with asset valuations coming in second at 47% and 52% respectively (Fig. 6.1, also see Fig. 6.14 in datapack). One area of difference is that 40% of investors are still concerned about interest rates, compared with just 20% of fund managers.

Fig. 6.1: Investors and managers aligned on key challenges

Investors were asked: ‘What are key challenges for return generation in the next 12 months?’



Source: Preqin Investor Surveys, November 2021–2024

*Inflation was first included as a challenge in 2022

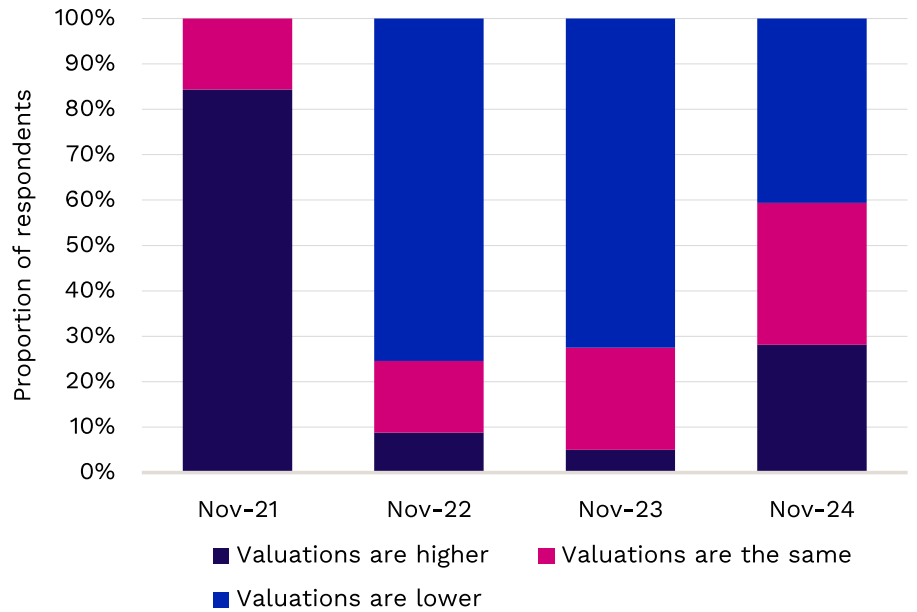
When it comes to asset valuations, some pockets of VC are getting more attention than others. This means managers are seeing a wide dispersion of valuations for portfolio assets; 27% say they are higher than 12 months ago, 29% say they are the same and 38% say they are lower (Fig. 6.2) – an improvement on the past two years, when the large majority (69%) saw a fall in valuations. Investors hold a similar perspective, but with marginally fewer seeing a drop in valuations and more (49%) seeing valuations hold steady (see Fig. 6.15 in datapack).

Fewer assets see fall in valuations

Over half of VC managers (58%) believe VC assets are overvalued (Fig. 6.3). Investors are more optimistic though, with only 48% believing assets are overvalued (Fig. 6.4) – this proportion, while still large, has improved steadily since the 73% recorded in 2022. Some of the excess has been drained out of the market of late, such that 52% of investors now see asset prices as either fairly or undervalued – the most positive view in four years.

Fig. 6.2: Managers hold the view that fewer assets are being priced lower

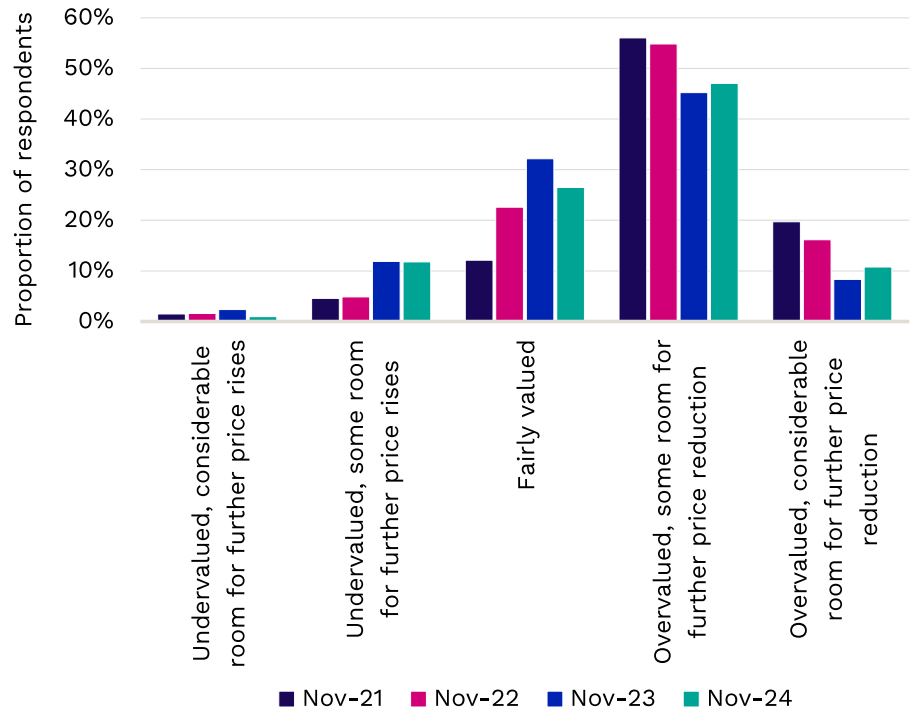
Managers were asked: ‘On average, how have valuations for companies/assets changed compared to 12 months ago?’



Source: Preqin Fund Manager Surveys, November 2021–2024

Fig. 6.3: Managers still see VC as overvalued

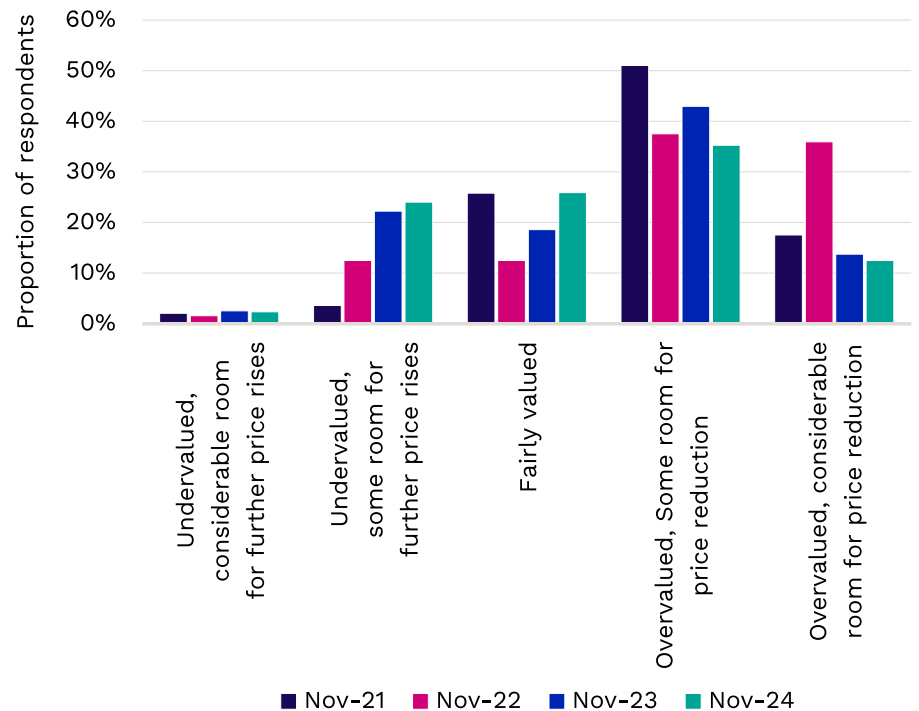
Managers were asked: ‘In venture capital do you think portfolio companies/assets are...?’



Source: Preqin Fund Manager Surveys, November 2021–2024

Fig. 6.4: Investors see VC as the least overvalued it has been in the last four years

Investors were asked: ‘How do you view portfolio company/asset pricing?’



Source: Preqin Investor Surveys, November 2021–2024

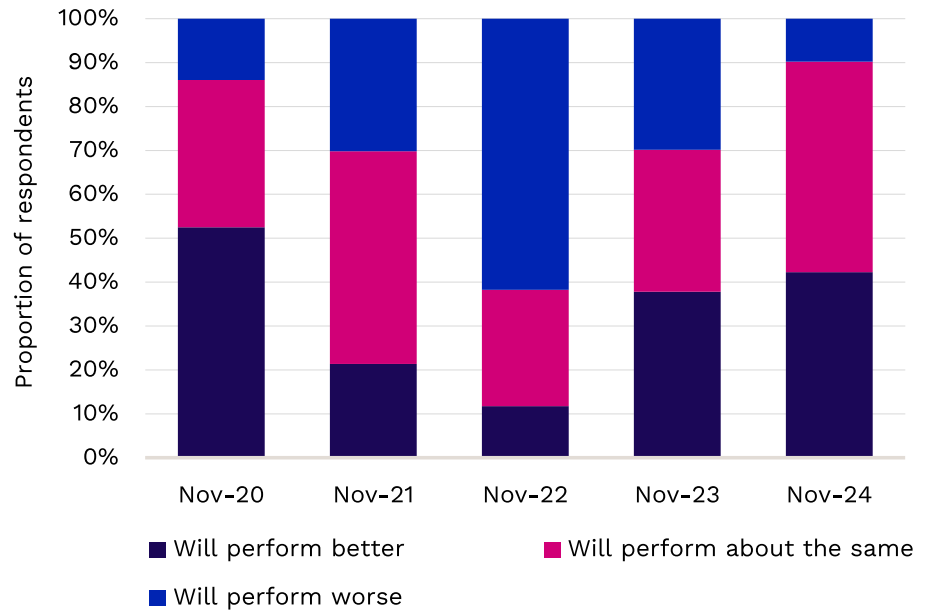
VC still falling short of investor expectations

Lower mark-to-market asset valuations since 2022 have meant that VC is falling short of investor expectations. The silver lining though, is that the contraction in valuations will mean the asset class is well positioned for future performance. Investors have not been this optimistic about performance improving over the current year since the end of 2020 (Fig. 6.5). Noting this, performance over 2024 has been abysmal, with the latest rolling one-year horizon IRR¹ a mere 1.2% as of March 2024.

¹ <https://pro.preqin.com/analysis/privateCapitalPerformance/horizonIRRs/rolling-one-year>

Fig. 6.5: Investors optimistic on performance improving

Investors were asked: ‘How will next 12 months’ performance compare to previous 12 months?’

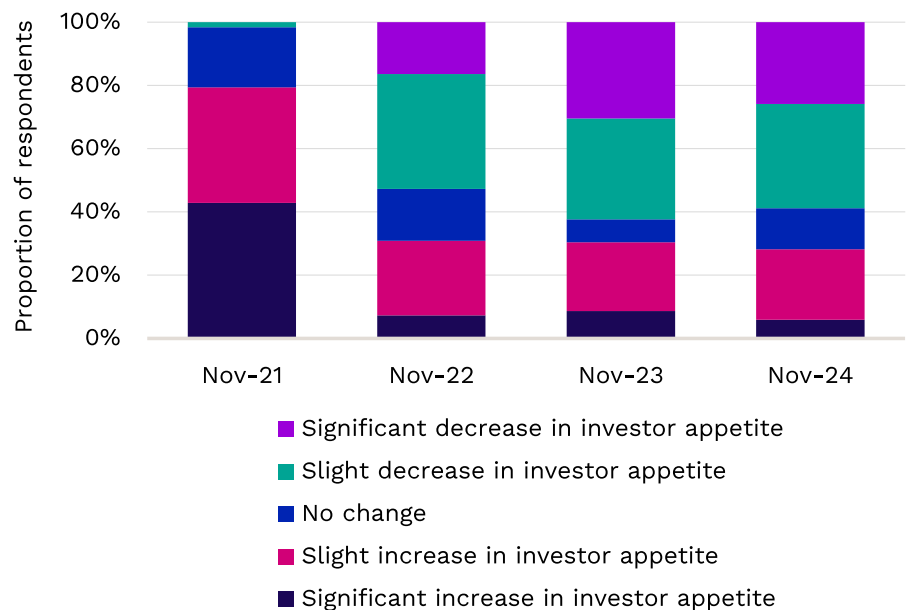


Source: Preqin Investor Surveys, November 2020–2024

It may not, therefore, come as a surprise that it is getting no easier to attract capital. VC fund managers report that investor appetite for VC was down over the past 12 months, with 57% of managers seeing either a slight or significant decrease; asked the same question at the end of 2023, 61% of investors reported a drop in interest over the year (Fig. 6.6). This is partly due to disappointing returns for recent vintages and distributions not keeping pace with investor expectations.

Fig. 6.6: Appetite for VC as viewed by managers still weak

Managers were asked: ‘How has institutional investor appetite for venture capital changed over the past year?’

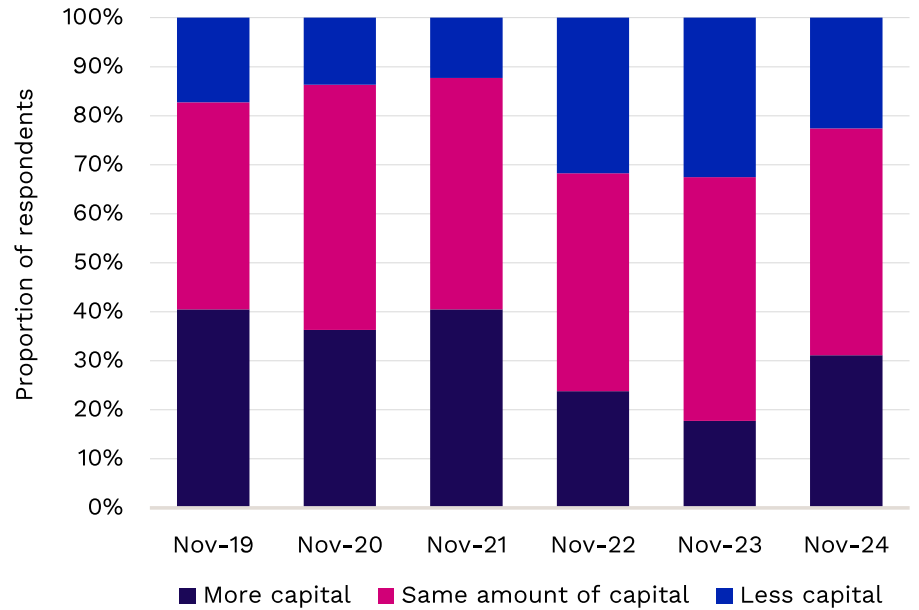


Source: Preqin Fund Manager Surveys, November 2021–2024

Considering this, we may see an improvement in fundraising over the coming year, given that the proportion of investors looking to increase their commitments to VC (31%) outweighs those cutting their allocations (23%) (Fig. 6.7) – an improvement on intentions for 2022 and 2023. The challenges facing the asset class since 2021 look to have largely played out, and although there may still be some potential for further downside, the tide appears to be turning. It may well take until 2026, however, for fundraising to return to a normal level.

Fig. 6.7: Investors expecting to allocate more capital overall

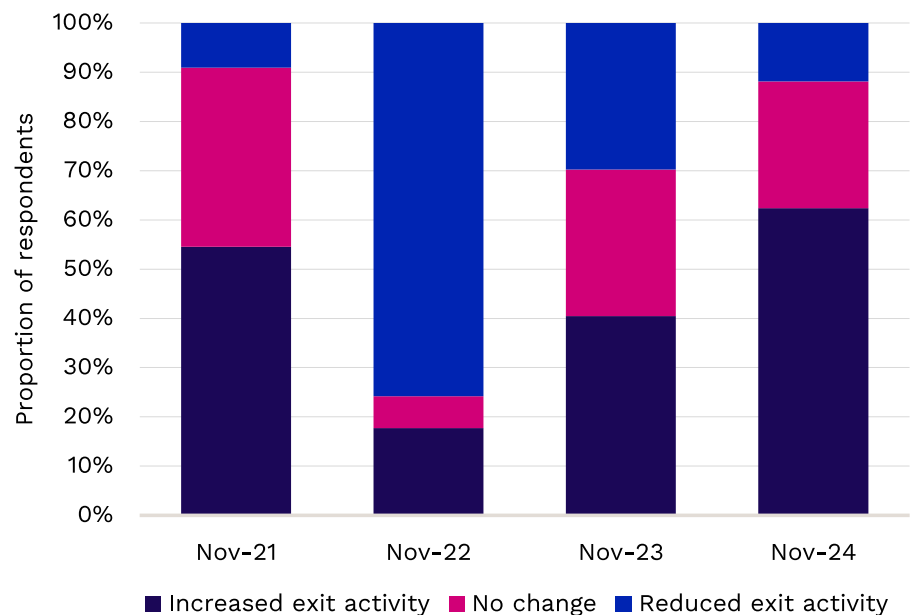
Investors were asked: ‘How much capital will you commit in the next 12 months?’



Source: Preqin Investor Surveys, November 2019–2024

Fig. 6.8: Exits expected to improve in 2025

Managers were asked: ‘How do you think the exit environment will change over the next 12 months?’



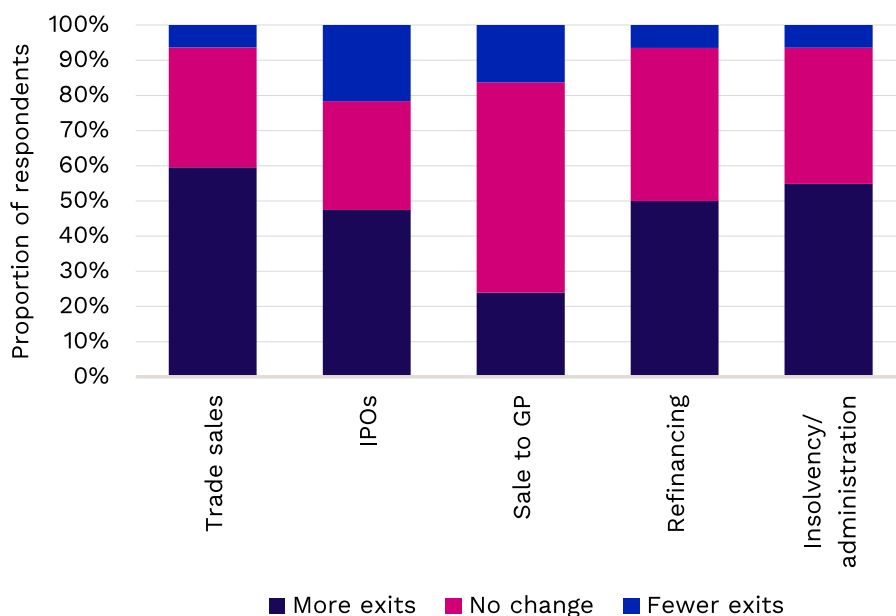
Source: Preqin Fund Manager Surveys, November 2021–2024

The majority (62%) of VC fund managers predict a more receptive exit environment for 2025. Noting this, 40% of managers asked the same question in November 2023 believed the coming year would bring more exit activity (Fig. 6.8), and this did not materialize. In fact, exits plummeted over the course of 2024, reaching \$111bn at the end of the third quarter, vs. \$270bn for the full year in 2023.

The two main areas where managers expect to see more exits are trade sales (60%) and IPOs (47%) (Fig. 6.9). The 75 basis points cut to US interest rates in September and November, possibly followed by further cuts, will act as a tailwind for exits. The change in US government administration in January is expected to bring a softer approach to M&A, with Federal Trade Commission (FTC) chair Linda Khan, who has closely scrutinized M&A, replaced. This may facilitate exits² that would otherwise have been blocked by the FTC.

Fig. 6.9: Managers expect more trade sales as exit route

Managers were asked: ‘Do you think we will see more or fewer of the following types of exit over the next 12 months?’



Source: Preqin Fund Manager Survey, November 2024

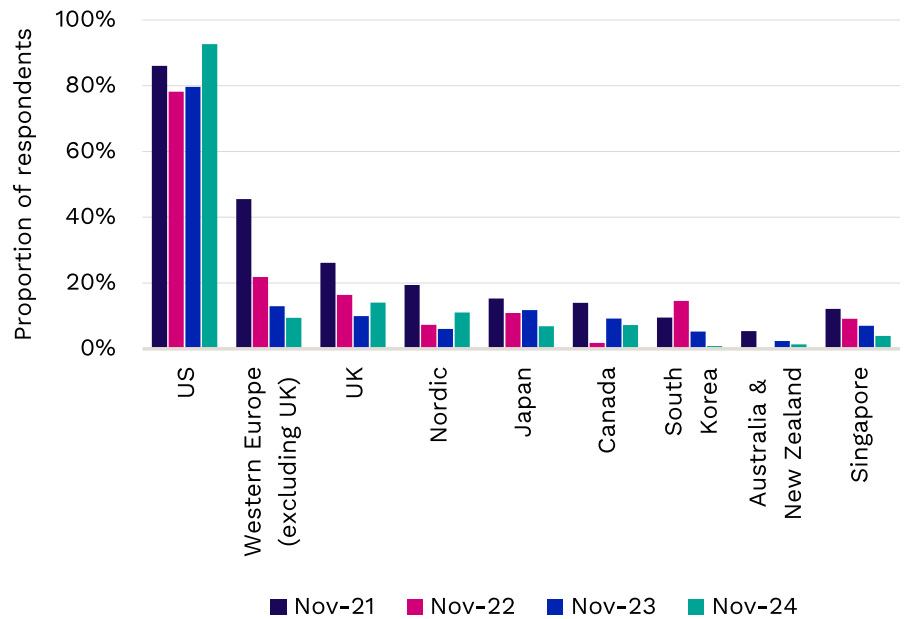
The outlook on best opportunities remains stable

The US remains investors’ favorite developed market, cited by 93% of respondents, up from 80% in November 2023 (Fig. 6.10). This is largely due to the US being a low-regulation, start-up-friendly environment, where capital is easier to raise. Western Europe and the UK, out of favor with investors since 2022, remain so. VC fund managers agree with investors that the US is the key market for VC, but also hold regions outside the US in higher regard (Fig. 6.11).

2 <https://www.ft.com/content/79f87a7f-66b2-454e-8f58-8d5f535ccea66>

Fig. 6.10: US becomes even more attractive to VC investors

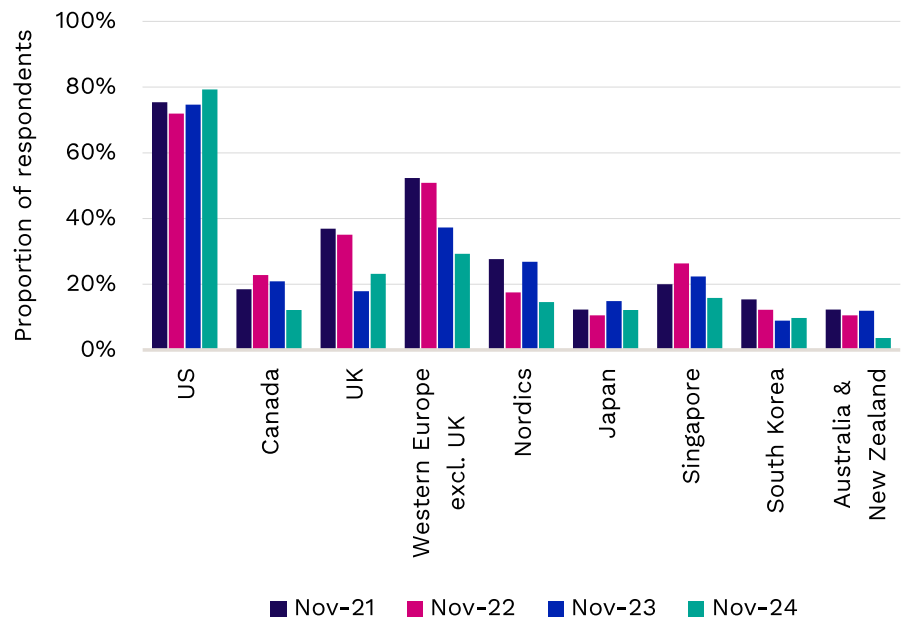
Investors were asked: ‘Which developed markets present the best opportunities?’



Source: Preqin Investor Surveys, November 2021–2024

Fig. 6.11: Europe falls further out of favor for VC managers

Managers were asked: ‘Which developed markets present the best opportunities?’



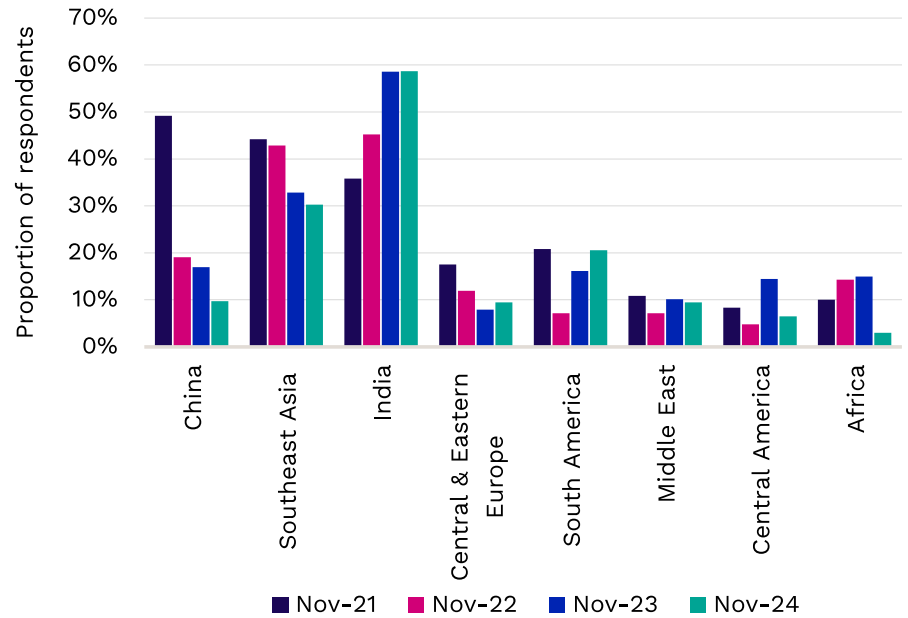
Source: Preqin Fund Manager Surveys, November 2021–2024

In terms of developing markets, both investors and fund managers agree that India presents by far the best opportunity (Fig. 6.12, Fig. 6.13), having overtaken China back in 2022. However, even with 10 years of solid growth in VC capital raised by India-based managers, the market remains relatively small compared to that of China. South East Asia continues to be the second most favored area of interest for investors and fund managers (30% and 35%), while the Middle East (25%) is piquing fund managers’ interest but remains under the radar for investors (9%). A recovery in global fundraising

may give an outsized boosting to the amount of capital flowing into emerging markets, particularly Asia. Investors are aware of Asia’s promising demographics – many of these rapidly growing economies have young, tech-savvy populations – which will continue to entice managers with the knowhow to navigate these regional markets.

Fig. 6.12: India remains key region of interest in developing markets

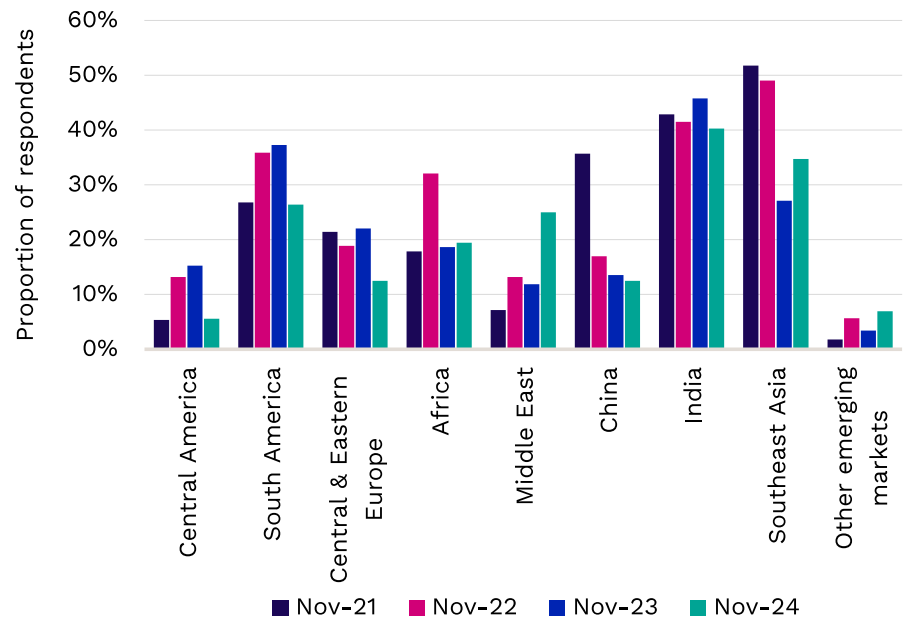
Investors were asked: ‘Which emerging markets present the best VC opportunities?’



Source: Preqin Investor Surveys, November 2021–2024

Fig. 6.13: Greatest rise in manager interest for Middle East

Managers were asked: ‘Which emerging markets present the best opportunities?’



Source: Preqin Fund Manager Surveys, November 2021–2024

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PREQIN

→ VC: Fees and terms

Management fees rival private equity but discounts are not widespread



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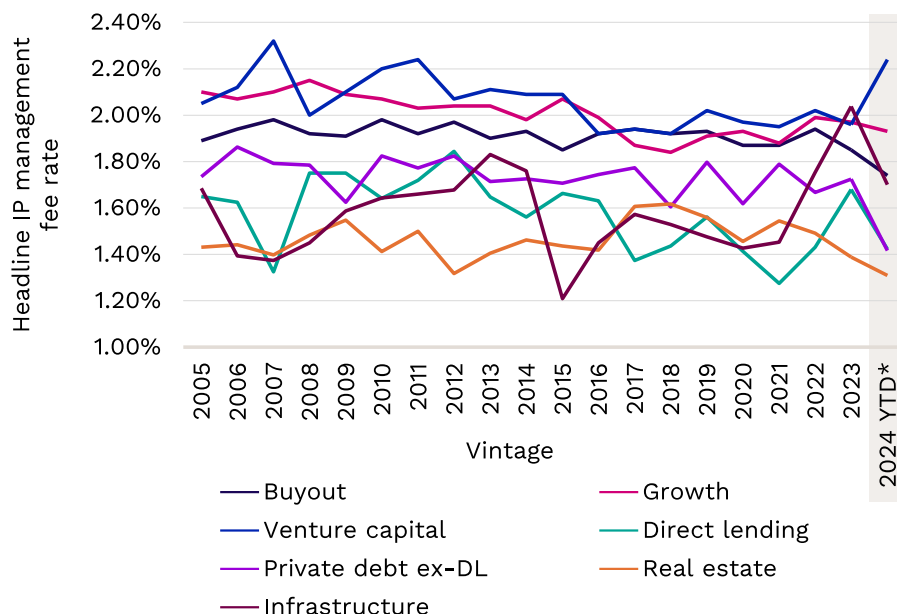
Venture capital (VC) assets under management (AUM) are forecast to increase at an 11.7% CAGR from the end of 2023 to 2029F, the second-highest growth rate among private market asset classes. Despite the current downturn, the fundraising outlook is also positive, with a 9.4% CAGR over the same horizon. The outlook for fees is more nuanced and below we look at three core aspects in which VC fees differ from those of other asset classes: the level and direction of management fee rates; the incidence of management fee discounts and offsets; and carry structures.

VC management fees have been the highest; now they're higher still

Over the past 20 years, VC mean investment period management fee rates have often been the highest among asset classes (Fig. 7.1). This could be due to a couple of factors: strategy and fund size. First, as an active strategy, VC tends to be more time- and risk-intensive than some other private asset classes. For example, VC managers typically source and work with founders to build a start-up into revenue and ultimately into positive cash flow, which generally contains more risks than a direct loan agreement.

Fig. 7.1: VC management fee rates frequently highest among asset classes

Mean IP headline management fee rate by fund types



*2024 (funds raised year-to-date and closed)

Source: Preqin Pro. Data as of June 2024

Second, VC fund sizes averaged \$121mn in 2023, or about 15% of the size of the average private equity fund.¹ Fund size serves as a proxy for the management fee basis, or the base on which the fee rate is levied. For example, a 2% management fee on a \$1bn private equity fund will yield a gross fee of roughly \$20mn dollars per annum,² assuming the management fee basis is initial commitment.³ For a \$120mn VC fund, a 2.25% management fee on initial commitment would yield \$2.7mn in gross fees per annum.

1 Although private equity fund sizes have grown considerably over the past 15 years, VC fund sizes have stayed relatively stable.

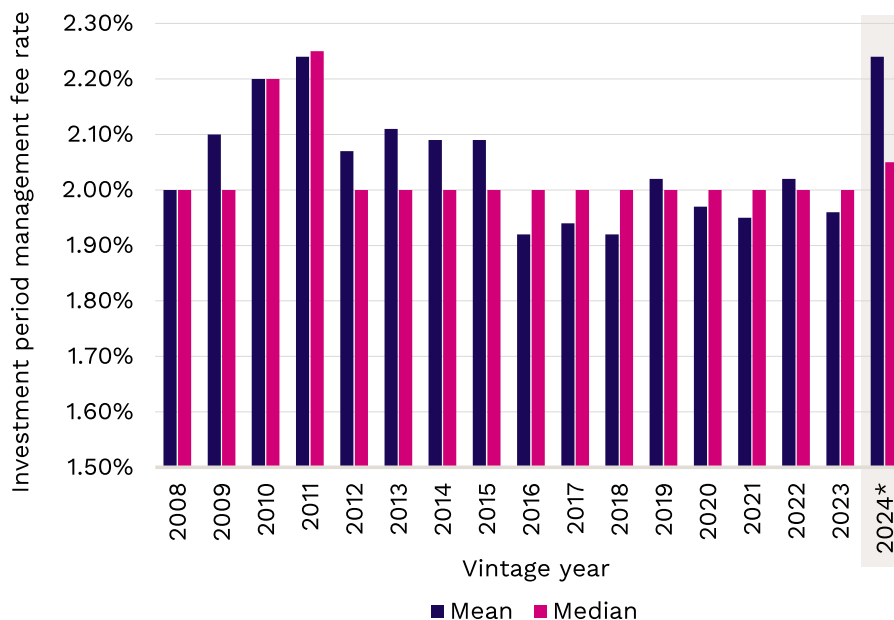
2 Management fees are not charged on the GP's commitment to the fund.

3 In private equity, 96% of single basis funds base management fees on initial commitment, according to Term Intelligence data. In VC, 89% of single basis funds base management fees on initial commitment.

In the first half of 2024, both mean and median were up from last year and at their highest level since 2011 (Fig. 7.2). The median reached 2.05%, up from 2.00% where it had been stable since 2012. The mean, which has hovered around 2.00% since 2019, was up significantly, at 2.24%. We note the 2024 figures could change once additional data is available through the end of the year.

Fig. 7.2: Average management fees at highest level since 2011

VC funds – average management fee by vintage year



*2024 (funds raised Q3 year-to-date and closed)

Source: Preqin Pro. Data as of June 2024

Management fees paid close to fees expected due to lower offsets, no discounts

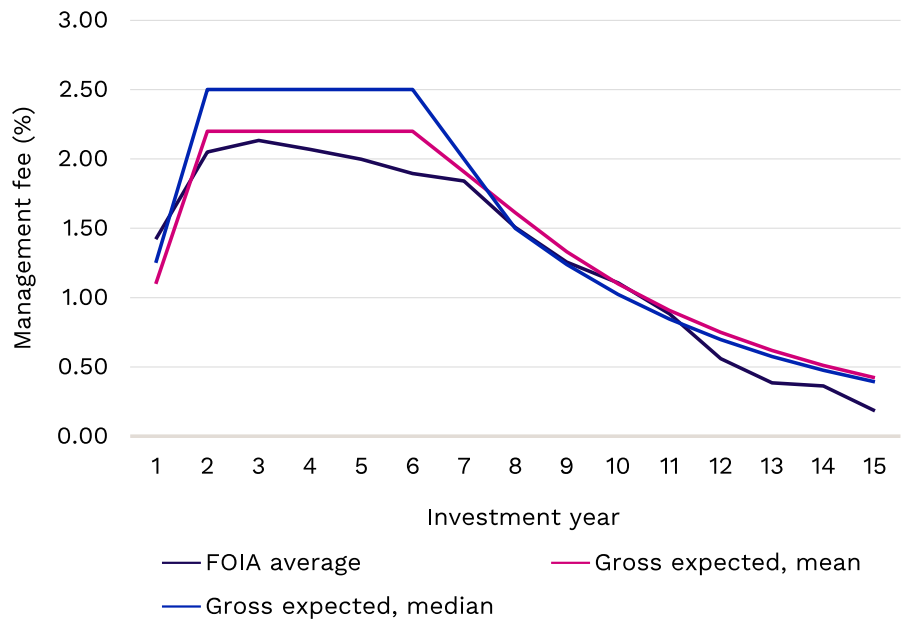
This year, we created a model of actual net management fees paid and expected gross management fees for each year of a VC fund’s life (Fig. 7.3). The net fees are derived from Freedom of Information Act (FOIA) data, and the expected gross fees are based on Preqin Term Intelligence data.⁴ Over a 12-year lifespan, a fund’s average net fees are 18.72% of an investor’s commitment, while the expected gross mean fees are 19.71% of an investor’s commitment. This means, on average, the rates in the limited partnership agreement (LPA) are close to – less than one percentage point away from – the rate an investor will pay. This is a smaller gross-to-net spread than in most asset classes.

The gross-to-net spread results from management fee offsets, discounts, waivers, and rebates. The latter two are largely unpredictable and vary by fund. Here we focus on the former two. Term Intelligence tracks seven kinds of management fee offsets. In VC, directors’ fees are offset in 92% of LPAs of vintages 2020 to 2024 and advisory fees are offset in about 88% of LPAs (Fig. 7.4). VC managers frequently sit on portfolio companies’ boards and provide advisory services; these are services for which VC managers receive compensation from the portfolio companies. In response, LPs can request this portfolio company fee income offsets the management fees they pay. Compared to other asset classes, VC LPAs offer the fewest offsets, particularly for excess organization costs (42%), monitoring fees (43%), and placement fees (43%).

⁴ For a complete list of assumptions, please see chapter 11 of The 2024 Preqin Private Capital Fund Terms Advisor report.

Fig. 7.3: Expected VC gross fees close to net fees paid

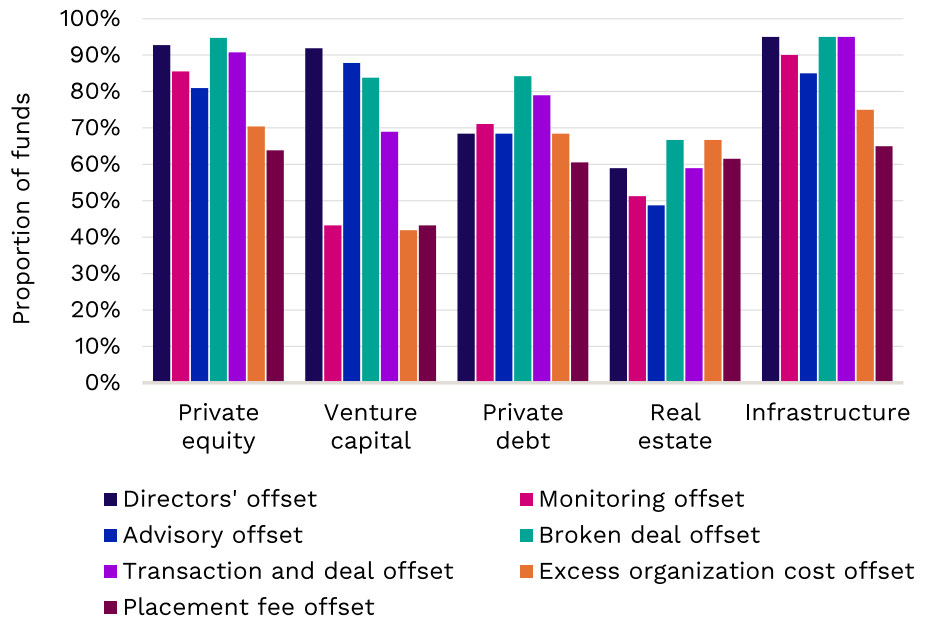
Management fees by investment year as a percentage of commitment



Source: FOIA, Term Intelligence. Data as of July 17, 2024

Fig. 7.4: VC fee offsets not as generous as those in other asset classes

Management fee offsets by asset class (vintage 2020 onward)*



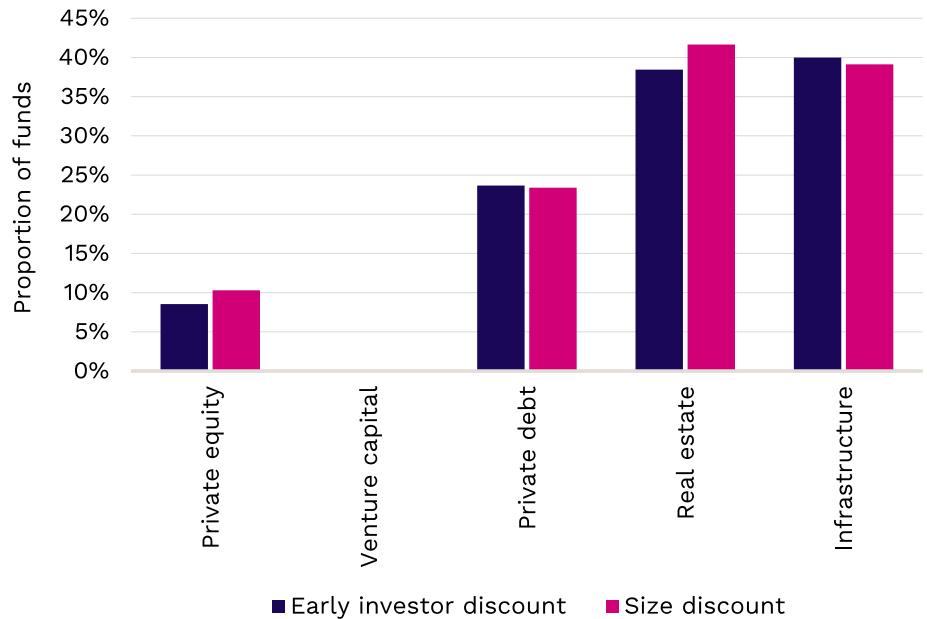
*All funds are closed

Source: Term Intelligence

In private markets, management fee rates may be eligible for fee discounts. Such discounts are typically reserved for LPs with large commitments or LPs who commit capital before the first close, both of which are valuable to GPs as they reduce the administrative burden and bring an element of certainty. While these discounts are fairly widespread in LPAs across asset classes, they are not seen in the VC LPAs in our Term Intelligence database (Fig. 7.5). It is possible that discounts are included in side letters rather than – or in addition to – LPAs, but anecdotal evidence suggests this is uncommon.

Fig. 7.5: VC fee discounts are not found in our data

Incidence of discounts by asset class (vintages 2020 onward)*



*All funds are closed

Source: Term Intelligence

VC performance structures are GP-friendly, in an effort to incentivize strong performance

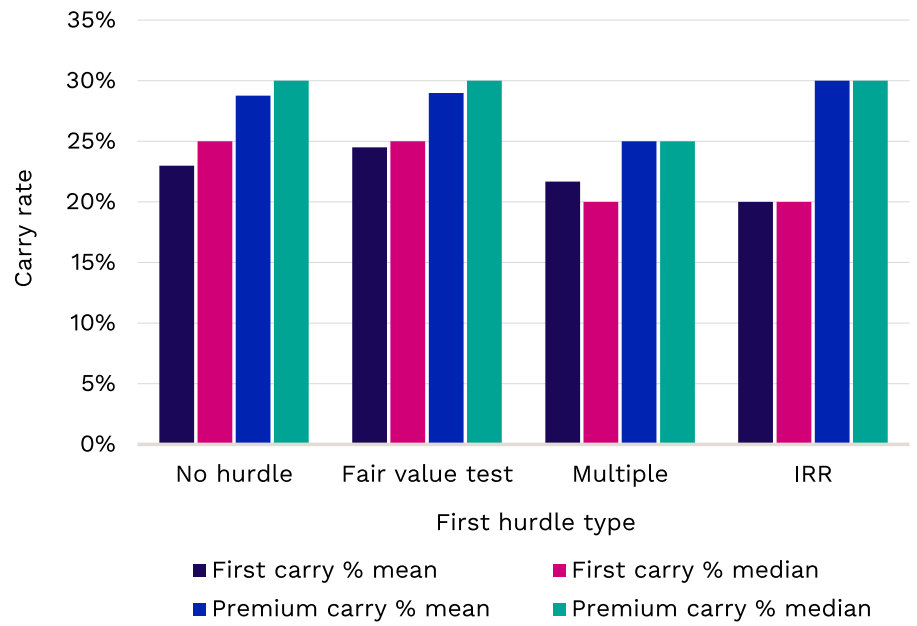
VC funds have historically recorded high returns, despite coming under pressure recently. From 2017 to 2023, the internal rate of return (IRR) for VC funds was 16.4%.⁵ Managers expect to be handsomely compensated for outsized returns, so aspects of the performance fee are designed to incentivize performance. In 70% of VC funds, there is no hurdle rate. This means any profit, regardless of whether it corresponds to a 1% IRR or a 20% IRR, will be split between the LP and GP.

A premium carry structure – rare outside VC – activates a higher carry rate once a second (or first in the case of a no hurdle for the first level of carry) hurdle is cleared. It could be that the first carry rate was 20% upon reaching a 1.5x multiple on invested capital. The second or premium layer could then be a 25% carry rate upon reaching a 2.5x multiple. In our data, the median premium carry rate was 30% for most premium carry structures (Fig. 7.6). This structure may appear GP-friendly and incentivize strong performance but, as the saying goes, there is no such thing as a free lunch.

⁵ See Future of Alternatives 2029 data pack– <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029?chapter=high-hopes-for-private-debt>

Fig. 7.6: Carry rates can reach 30% for premium carry

Carry rates for first hurdle and premium hurdle types (vintage 2020 onward)*



*All funds are closed

Source: Term Intelligence

For more analysis on VC fees and terms, please read [The 2024 Preqin Private Capital Fund Terms Advisor](#).⁶

⁶ <https://www.preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor>

Predictions

1 It could take until 2026 for fundraising to improve

Our outlook for VC fundraising, as discussed in our earlier chapter 'Venture Capital: Preqin's forecasts through 2029', is that it may take until the end of 2025 – and most likely into 2026 – before optimism from investors converts into greater commitments. According to our latest survey in November, investor sentiment is improving on VC, but with slower distributions from VC funds in the current environment, and with some investors close to their target allocations for the asset class, fundraising challenges remain.

2 Exits will start to show signs of improvement from mid-2025

2024 looks set to be the weakest year for aggregate exit value since 2017, and the weakest for exit volume since 2012. As of the end of the third quarter, there have been 852 exits with an aggregate value of \$112bn. We expect to see more exits from mid-2025 onwards, as rate cuts feed through to higher valuations and provide a better environment for VC fund managers to realize some distributions back to LPs. The likely appointment of a new chair of the Federal Trade Commission in the US – one who will be less scrutinous on M&A – should help drive VC exits.

3 Deal activity for technology will pick up

Deal activity in 2024 is underperforming 2023 in terms of value and volume but we expect this trend to reverse over 2025. We expect deals will increase overall in terms of number and value, but this will be driven by areas of specific interest for fund managers deploying capital, such as technology. Industries not in favor will see less of a bounce. Artificial intelligence, cloud computing, fintech and cleantech are expected to be among the winners.

4 Performance will improve from a low point

Late-stage strategies are expected to underperform compared with early stage, due to the challenging near-term exit environment and asset valuations. By the end of 2025, however, we expect the Preqin Quarterly Index for venture capital will start to reflect a slow but improving sentiment for the asset class fueled by an increase in exits and improved valuations. The 2024 vintage will perform better than vintages 2021 and 2022.

