BEYOND THE MEGA-DEALS:

CAPTURING INNOVATION IN A CONCENTRATED VENTURE MARKET

Venture capital has long attracted institutional investors for its potential to generate outsized returns by backing companies early in their growth. Those returns, however, can be difficult to capture consistently. A small share of companies drives much of the asset class's performance, while outcomes vary widely across managers, making manager selection and access especially important.

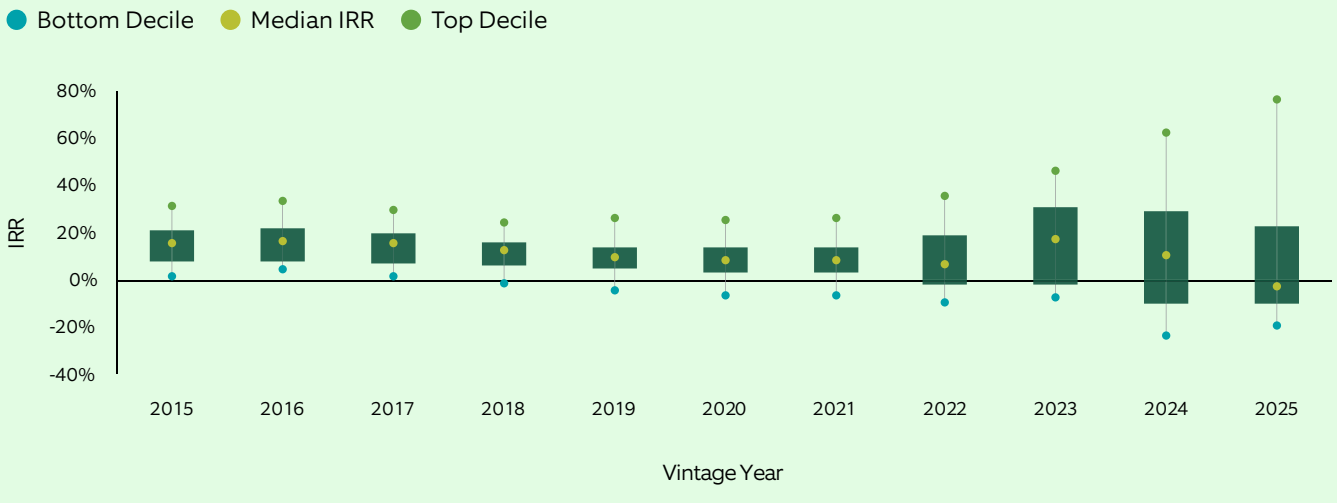
Today's market makes that challenge more complex. Capital is concentrating in fewer, larger, later-stage rounds; leading early-stage managers remain difficult to access; exit timelines have lengthened; and AI is creating both significant opportunity and considerable noise.

For institutions, capturing venture's return potential requires a durable program built around the right mix of managers and stages, consistent pacing across vintages, and disciplined liquidity planning.

EXHIBIT 1

PERFORMANCE DISPERSION RAISES THE STAKES OF MANAGER SELECTION

Dispersion of venture capital IRRs by vintage



Source: Pitchbook. Geography: US. Data as of December 31, 2025.

THE IMPLICATIONS OF CONCENTRATED CAPITAL

Roughly 88% of first-half 2026 venture dollars went into funding rounds of $100 million or more, while the share going to rounds under $100 million fell to just 12% (from roughly 44% in 2024). Venture concentration is also thematic: approximately 86% of first-half 2026 deal value went to AI companies, up from roughly 66% a year earlier.[1]

Concentration itself is not necessarily a problem. In a power-law asset class, high exposure to a proven winner can be valuable. Concerns may arise, however, when exposure clusters in only a small number of companies, primarily through late-stage rounds. Because late-stage rounds tend to be more accessible and can accommodate more capital, portfolios can easily develop an unintended late-stage drift.

That drift is worth resisting for investors who want exposure to the next wave of innovation. Much of the return asymmetry venture capital is known for originates at the seed and Series A stages, before a company's growth potential is fully reflected in its valuation. Entry valuations at early stages have also historically been far more consistent than at the later stages, which tend to swing more sharply with public-market sentiment. Investing early can therefore provide exposure to innovation at lower entry valuations, complementing later-stage holdings that may offer greater visibility into performance and a shorter path to liquidity.

At the early stage, where eventual winners are especially difficult to identify, diversified exposure can improve the likelihood of capturing the relatively small number of companies that ultimately drive returns. The same dynamic has a less comfortable side: at the seed and Series A stages, many companies fail to return capital, and even successful investments typically take several years to produce distributions.

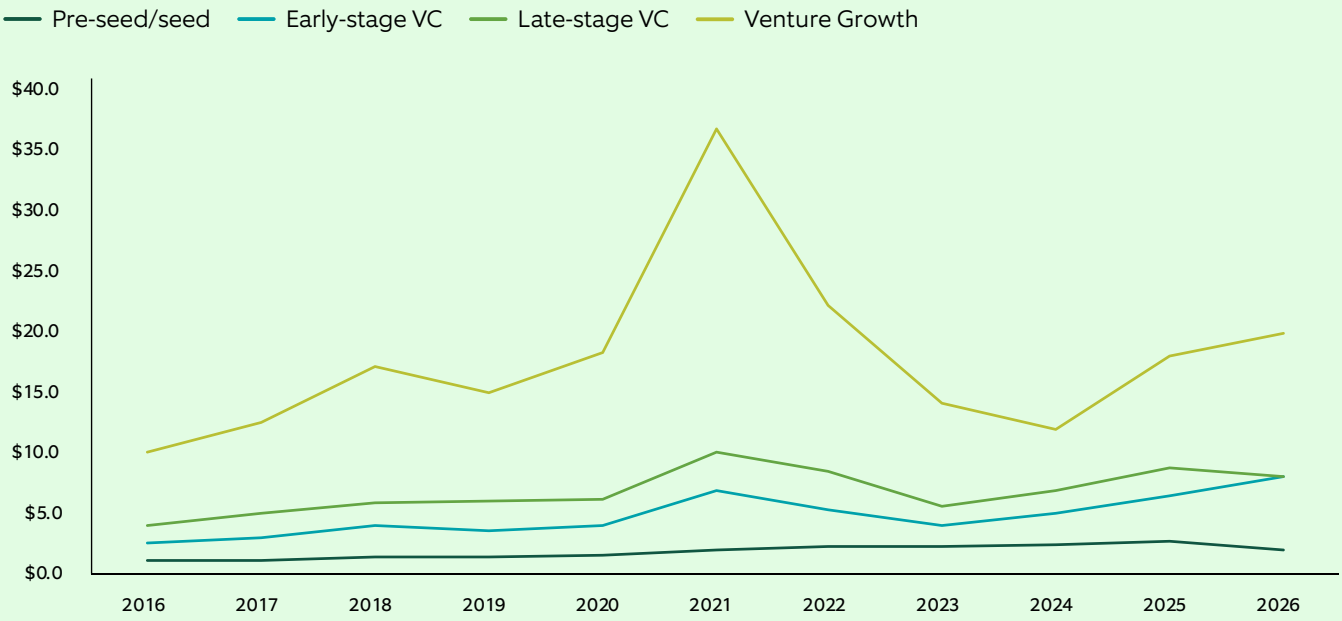
These are expected features of early-stage investing, not signs of a program underperforming, and reinforce why thoughtful portfolio construction across underlying companies matters more in venture than in almost any other private strategy.

[1] Source: Pitchbook-NVCA Venture Monitor. Data as of June 30, 2026.

EXHIBIT 2

DEAL VALUES HAVE HISTORICALLY BEEN MORE STABLE AT THE SEED AND EARLY STAGES

Median US venture capital deal value ($M) by stage



Source: Pitchbook-NVCA Venture Monitor. Data as of June 30, 2026.

IDENTIFYING THE RIGHT MANAGERS IS ONLY HALF THE BATTLE

Access remains one of the central constraints in venture. An investor may be able to access a leading firm's late-stage fund while remaining shut out of its early-stage fund, where earlier entry may offer greater upside potential. Top-performing early-stage funds are often deliberately small, and existing limited partners tend to re-up, leaving little capacity for new investors, while larger growth funds can accommodate more capital and are often more accessible. Access to the strongest early-stage funds is therefore built through relationships and consistent commitments over time.

For large institutions, fund size introduces a second difficulty. Even where access is available, a smaller fund may not be able to absorb a commitment large enough to matter within an institution's overall portfolio, which can push allocations toward larger, late-stage funds by default. For some institutions, a multi-manager approach may provide a more efficient way to gain meaningful exposure to smaller, specialist venture managers.

The access challenge is intensifying as capital concentrates at the fund level. The ten largest funds drew an estimated 43% of all commitments in 2025, up from about 13% in 2021, while first-time fund formation and the number of active U.S. venture firms have both declined.[1] Taking advantage of the opportunity therefore requires identifying capable managers before they are widely recognized, often as they raise their first or second fund, and committing early enough to build relationships that can carry into later vintages.

BEYOND ACCESS: BALANCING BREADTH AND CONCENTRATION

Securing access is only the first step. Constructing a durable venture program requires deliberate decisions about both the number and mix of manager relationships within each vintage, with an eye toward the underlying exposure they collectively provide. Maintaining a deliberate number of positions means each prospective manager must offer a compelling reason to displace an existing relationship, strengthening the portfolio over time rather than expanding the manager roster whenever capital is available.

Composition matters as much as count. Thoughtfully combining managers with complementary roles can broaden the portfolio's exposure and the range of expertise it draws on. Large, multi-stage platforms can provide access to the biggest private companies and accommodate meaningful institutional commitments, while smaller, early-stage specialists offer diversifying exposure to innovative companies earlier in their growth journeys. Breadth is especially important at the early stage, when the eventual winners are hardest to identify. As companies mature and top performers become more apparent, more concentrated late-stage exposure can be appropriate.

TURNING VENTURE'S LONG DURATION INTO AN ADVANTAGE

Stage mix can also help shape a venture program's cash-flow profile. Late-stage investments may offer a shorter path to liquidity, while early-stage positions typically take longer to realize. At the early stage, a first meaningful distribution can take five to ten years.

Consistent pacing across vintage years can help manage the uncertain timing of cash flows. Committing steadily, rather than in bursts, creates a more balanced pattern of capital calls and distributions, with maturing funds helping fund newer commitments. It also reduces the risk of sitting out entire vintages when sentiment turns and the opportunity set shifts—for example, investors that pulled back after 2021 may have limited their exposure to subsequent AI vintages that proved highly successful.

Consistency also helps preserve access. Capacity-constrained managers tend to favor investors who have supported them across vintages, and investors who pause commitments during slower periods may find that access is no longer available when they seek to return.

Managing liquidity uncertainty also takes deliberate planning—pacing commitments against a realistic annual budget, holding reserves for capital calls rather than relying on future distributions, and modeling cash flows across the life of each vintage. The venture secondary market has also matured into a genuine part of that portfolio management toolkit. Once regarded largely as an exit of last resort, it now offers established routes to generate liquidity or rebalance exposure by choice rather than necessity.

CAPTURING THE NEXT WAVE OF AI OPPORTUNITY

No theme dominates venture capital today like AI. As the first generation of well-known AI companies matures, the central question for venture investors is where the next wave of opportunity will emerge.

AI is best understood not as a single category but as a broad ecosystem. Much like the internet, it is becoming an increasingly important input across industries, particularly in software, healthcare, financial services, and defense. For investors, the opportunity spans both the infrastructure and tooling that support AI models and the broader set of companies using it to create new products and business models.

For investors, the next wave of AI opportunity may demand an earlier entry point. Companies building with AI may be able to reach meaningful scale with smaller teams and less capital, meaning some may not require the large, late-stage rounds through which investors have traditionally gained exposure. In those cases, the early stage may not simply offer a compelling entry point—it may offer the only one.

The growing breadth of AI creates real opportunity, but it can also make it harder to distinguish true signal from noise. Rapid early revenue growth does not by itself prove a business is durable. The questions that matter are whether a company has genuine competitive differentiation, whether its customers stay, and whether it can scale efficiently rather than buying growth with capital. That makes manager selection critical to capturing the AI opportunity. Managers with high-quality deal flow, valuation discipline, and cross-cycle experience are best positioned to separate lasting potential from short-lived hype.

POSITIONING FOR WHAT COMES NEXT

The companies dominating today's headlines were, not long ago, small private businesses few investors had heard of. For institutions, gaining exposure meant backing managers with the insight and experience to recognize their potential early, before those companies had emerged as obvious winners.

Greater concentration, constrained access, and companies staying private longer are raising the premium on disciplined execution. At the same time, the opportunity extends well beyond the companies attracting the most capital and attention today. The next generation of leading companies is already taking shape beyond today's headlines.

For allocators, the goal shouldn't be to predict the next AI or technology winner—but to build a program with broad, consistent exposure to the managers best positioned to find them.

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