Venture capital in the UK

November 2024

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Foreword - the Venture Capital outlook

Today the UK VC market is something to be proud of. £8bn of capital was invested into UK venture-backed businesses in 2023. It is the third largest in the world, raising behind only the US and China. It also is the largest market in Europe by a significant margin, attracting more investment during the past three years than France, Germany and Sweden combined[1].

The UK has an incredible pipeline of entrepreneurs and founders building amazing companies and a broad base of VCs and other investors backing them. Venture investment helps turn ideas, research and development into thriving businesses, generating economic growth, stimulating innovation and creating jobs and opportunities across all nations and regions in the UK.

Supporting scale-up businesses

However, we need to get better at supporting young British companies to scale up. When UK companies look to continue to grow from series B stage funding and beyond, the significant investment gap in the UK means investment is often found from the US and elsewhere. **There is more to do to create the conditions for investment at later stages among UK investors to ensure companies can scale in the UK.** In an increasingly competitive global market for new technologies, we must also ensure that we have the right frameworks in place to continue to attract the best global talent, enable new innovation, and build the best infrastructure.

Government action

In her first Budget, the Chancellor Rachel Reeves MP pledged that the Government "will continue to work with leading entrepreneurs and venture capital firms to ensure our policies support a positive environment for entrepreneurship in the UK."

The Government has taken some welcome steps to support this, with greater support for the UK's spin-out ecosystem, increased R&D funding, and the funding for the British Growth Partnership announced in the Mansion House speech, but **there is more to do to bridge the scale-up gap and increase access to capital.**

For example, UK pension funds are still investing less in private markets than comparable asset managers. UK pension savers are currently missing out on the returns generated by venture capital and private equity investment the UK, and UK businesses miss out on a domestic source of investment, notably scale-up capital that is required for these businesses to grow and remain in the UK.

Driving change

The reforms announced in the Chancellor's Mansion House speech are welcome. Pension investment reforms and related initiatives, including the BVCA's Investment Compact, can help drive greater levels of investment towards scale-ups in particular. **It will require commitment from Government, regulators and industry to be ambitious and work towards ensuring access to the levels of funding that equivalent companies in the US have.**

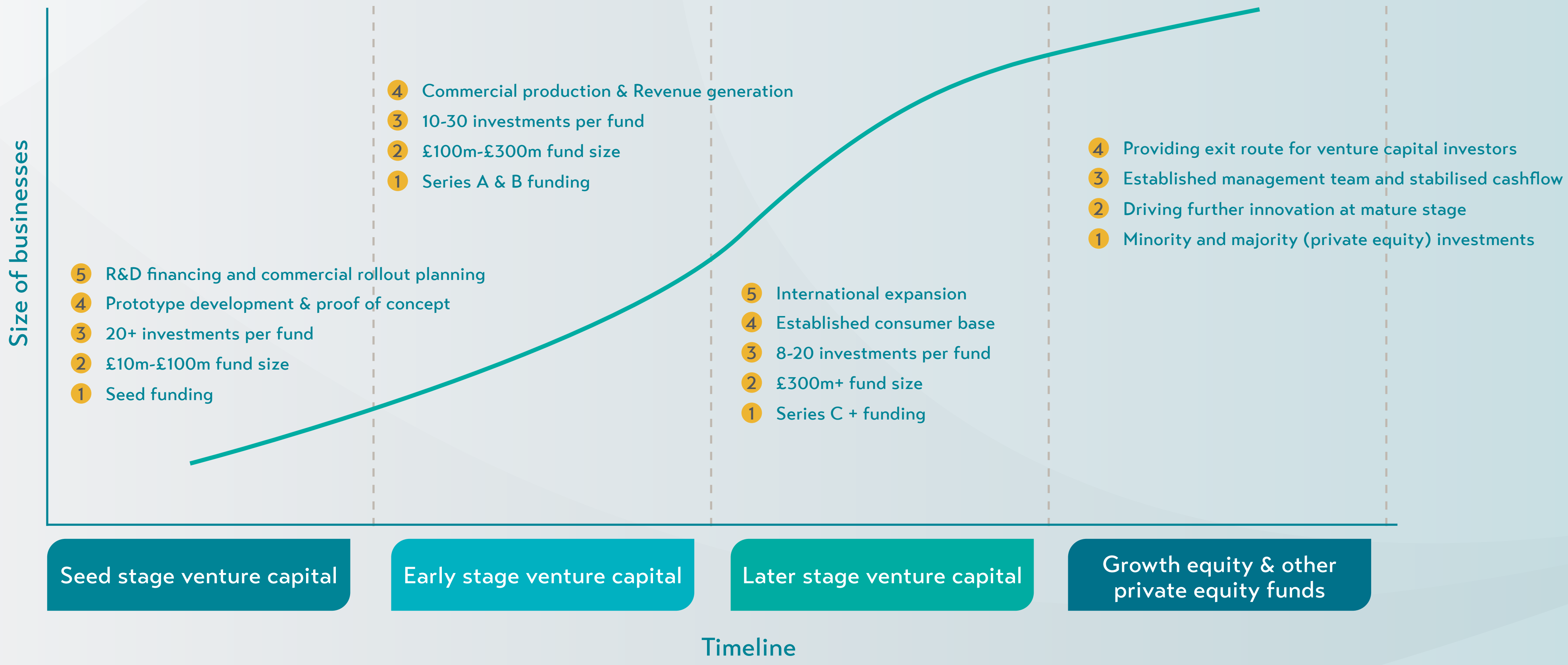
The BVCA plays a vital role in communicating the interests of the VC and wider private capital industry to Government and regulators. In an evolving and uncertain global economic and political climate, this work is as vital as ever.

Michael Moore
Chief Executive, BVCA

1 – BBB Small Business Equity tracker 2024

The Venture Capital Journey

Venture capital (VC) funds provide equity finance that backs early-stage innovative companies with a high growth trajectory. Venture capital investors back companies from the earliest stages (seed) to later investment stages (series A, B and beyond). Throughout each stage, additional capital is required to enable companies to grow and enable a company to continue to innovate and create jobs. Early-stage investors back founders and teams to develop innovative products that have the potential to scale quickly, while later stages of VCs and growth equity funds allow companies to expand its reach, take risks, scale, and provide expertise to help navigate the journey to becoming a mature, larger business.



Venture Capital in the UK

UK Venture Capital at a Glance

UK market share

5.8%

of global venture market share between 2021-2023.

UK Innovation

Ranks 5th

in the Global Innovation Index 2024.

UK Investment

£8bn

invested into UK venture backed businesses in 2023 with £5bn of venture equity capital crowding in a further £3bn from other investors.

Investing for the long term

4-8 years

typical holding period for VC backed businesses but can be for more than 10 years.

Business footprint

Over 8,000

businesses are backed by venture capital in the UK.

Employment

315,000

people were employed by companies backed by venture capital across the UK.

Invested across the UK

Almost 50%

of venture businesses backed in 2023 were outside of London.

10 year horizon return

11% p.a.

vs 5.3% and 7.5% for the FTSE All Share Index and MSCI Europe Index.

The UK as a VC Hub

Over the last decade the UK has firmly established itself as a global VC hub. Despite economic headwinds and post-Brexit challenges, the UK accounts for 5.8% of global venture investment[1] and ranks 5th in the 2024 Global Innovation Index[2]. On a European level, the UK represents around 30% of the total venture capital investment[4].

Our research has shown that the UK VC ecosystem plays an integral role in directing capital into UK businesses. General partner firms alongside other co-investors such as corporates and financial institutions invested **£8bn into UK venture stage businesses in 2023**. However, venture capital investors provide much more than just funding. They offer strategic guidance, mentoring and valuable industry network which all play a key role in growing a successful business.

Challenges do persist, however. BVCA data shows that early-stage companies make up circa 85% of all venture backed companies in recent years[3]. **While this positions the UK as a leading hub for start-up founders and entrepreneurs alike, it also demonstrates barriers in scaling up companies through the venture capital pipeline which could negatively impact the UK's long-term competitiveness.**

While the UK is a European leader when it comes to total amount raised by venture capital funds, the number of venture funds successfully fundraising in France in the last 3 years was almost 50% higher compared to the UK[4]. **The UK needs to do more to foster an accessible environment for first time fund managers with the Government playing a critical role in reducing regulatory barriers, providing capital through public investment programs or incentivising institutional investment.**

UK venture funds attract capital from a diverse range of sources with corporate investors, fund of funds and private individuals evenly distributed as top allocators. In other parts of Europe, government agencies play a more dominant role for domestic venture funds. Circa 40% of capital raised by UK VC funds comes from UK investors, in contrast with France or Germany where domestic investment typically reaches over 70%[4]. This points to a significant headroom for growth in domestic VC investment in the UK, including capital coming from UK pension funds, to fully unlock the potential and boost investment in the UK economy.

1 – BBB Small Business Equity tracker 2024/ 2- Global Innovation Index 2024/ 3–BVCA Report on Investment Activity/
4- Invest Europe: Private Equity activity report dataset/ 5 – Analysis based on Value of Economic footprint report

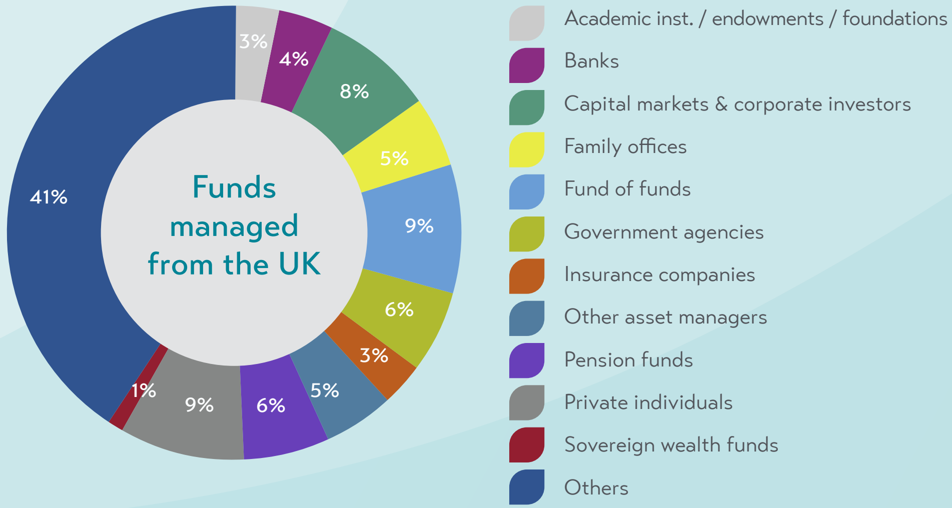
The UK hub represents

2,500
people employed across venture capital firms in the UK[5]

27%
European venture fundraising[4]

30%
of European venture investment[4]

Venture Capital - Funds raised by type of investor 2019-2023 - % of amount



Investing in jobs across the UK

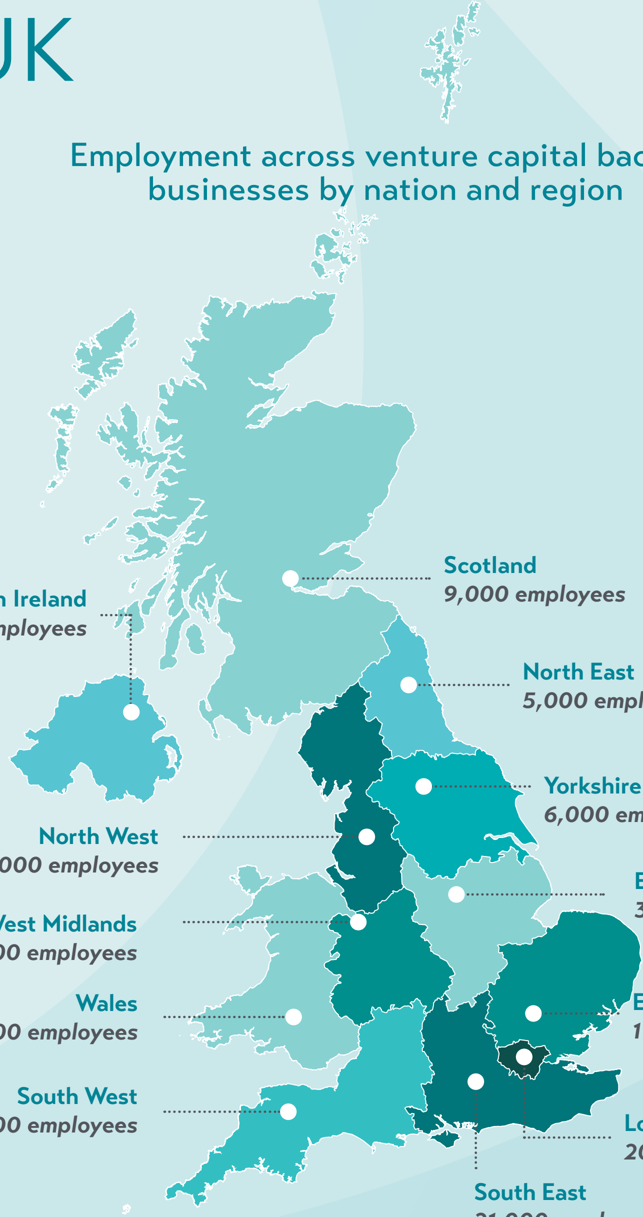
VC-backed businesses are vital to the economy. As of 2023, over 8,000 UK businesses were backed by Venture Capital firms, employing 315,000 people, or nearly 1% of the total UK workforce[1]. Two thirds of these people are based in London, followed by the South East and the East of England.

Venture backed businesses come in all shapes and sizes. While 95% of them are SME's, there is a handful such as Revolut or Gousto that have grown to employ thousands of people in the UK and beyond. Venture backed businesses have generated £20bn of GDP for the UK economy in 2023 alone[1].

Many venture-backed businesses pioneer new products or services and operate across vast swathes of the economy. This ranges from consumer products such as Lucky Saint beer and Joe&Seph's popcorn to life sciences businesses such as Oxford Nanopore Technologies or tech businesses like Pragmatic Semiconductor.

It won't come as a surprise that VC investors are proportionally over-weight in the technology sector relative to the rest of the UK economy. The UK tech sector leads the way in Europe, with eight UK cities home to two or more unicorn companies: Manchester, Cambridge, Edinburgh, Leeds, Nottingham, Oxford, Bristol and London[2].

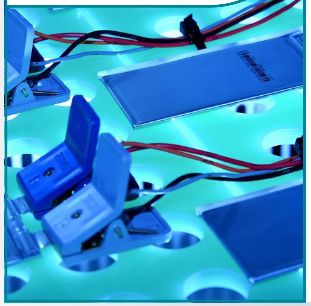
Employment across venture capital backed businesses by nation and region



Note: Employment allocation to UK nations and regions is a high-level estimate based on the headquarters location of each company

1 –Economic contribution of UK private equity and venture capital 2023/ 2 – UK Government press release

ECHION TECHNOLOGIES



Echion is a world-leading developer of advanced lithium-ion battery materials. Their niobium-based anode material, XNO®, enables Li-ion batteries to fast charge safely, maintain high energy densities even at extreme temperatures, and deliver high power across a life of more than 10,000 cycles.

BGF has backed Echion since 2021, providing growth capital to support the business as it has scaled towards commercial adoption. To date Echion has raised £50m across multiple investment rounds from a consortium of investors. Echion recently opened the first XNO® manufacturing facility in Araxá, Brazil – enabling the company to meet the scale of demand of XNO® with a robust, global supply chain. XNO® has been engineered for electrified heavy-duty industrial, commercial, and mass-transport vehicles – enhancing productivity and reducing costs.

Echion is developing cells with multiple partners across Europe and Asia, with Leclanché of France launching the world's first XNO based commercial cell in September 2024.

A multi-sector focus

Technology-driven sectors have been attracting the largest amount of venture capital investment in the UK. Application software and SaaS in particular have stood out amongst investors due to scalability and reoccurring revenue streams. Their market share has however been dropping in the last few years due to rapid growth in areas such as Artificial Intelligence, Cleantech or Fintech[1]. These emerging industries are at the forefront of driving innovation and sustainable growth which are vital for the UK to remain globally competitive.

Life sciences

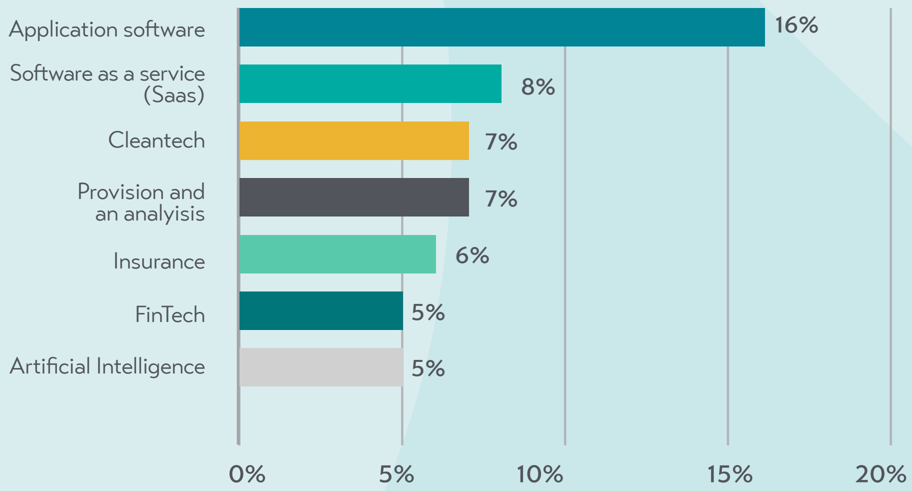
Research from the British Business Bank shows that the UK has the largest gap compared to US in life sciences, where the US raises 59% more investment on GDP adjusted basis, followed by R&D intensive sectors (41%) and deep tech (27%)[2]. These sectors require technical expertise and access to talent alongside large pools of capital which do remain a challenge for UK start-ups and scale-ups.

AI and deep-tech

Data from Beauhurst shows that London is the UK's main hub for AI and deep-tech investment, attracting international talent and capital[3]. To drive nationwide innovation, it is essential for the UK to attract more international managers to open a UK office. BVCA data demonstrates that fund managers based in the UK are twice as likely to invest outside London compared to those only based abroad. This would help drive more investment into emerging technology hubs beyond London and strengthen the national technology landscape across the country.

1 – Beauhurst dataset analysis/ 2 – BBB Small Business Equity tracker 2024/ 3 – Beauhurst The Deal 2023/

Top sectors by % proportion of venture capital investment in 2023[1]



DARKTRACE

Founded in 2013, Darktrace is a world leader in autonomous cyber artificial intelligence. The company's AI interrupts cyber-attacks as they happen, including ransomware, email phishing and threats to both cloud environments and critical IT infrastructure. Its state-of-the-art technology learns and updates itself, makes autonomous decisions when it encounters threats and constantly monitors computer systems for unusual behaviour. The Cambridge head-quartered company now serves over 4,700 customers in more than 100 countries and employs over 1,500 people globally.

Darktrace has been supported along its growth trajectory by Balderton Capital, who initially invested in the company in 2018. From its earliest days, through to its listing on the London Stock Exchange in April 2021, the company has grown with the support of long-term partnerships with private capital investors. The company was acquired by Thoma Bravo in October 2024.

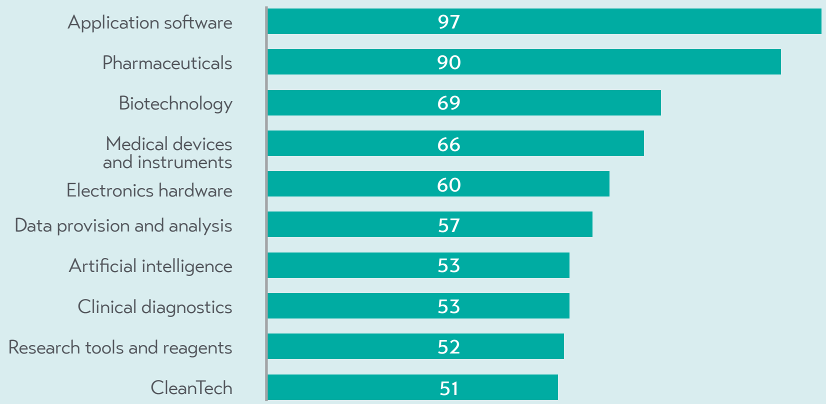
University spinout ecosystem

University spinouts play a crucial role in R&D commercialisation of cutting-edge technology, particularly in high growth sectors such as deep-tech or biotechnology. The UK maintains a leading position in Europe in the volume of equity spinout deals with Oxford, Cambridge and Imperial College London paving the way as the global innovation cluster. Scottish universities, particularly the University of Edinburgh and the University of Strathclyde maintained a strong dealflow in 2023, highlighting the increasing prominence of Scottish spinout ecosystem in recent years[1].

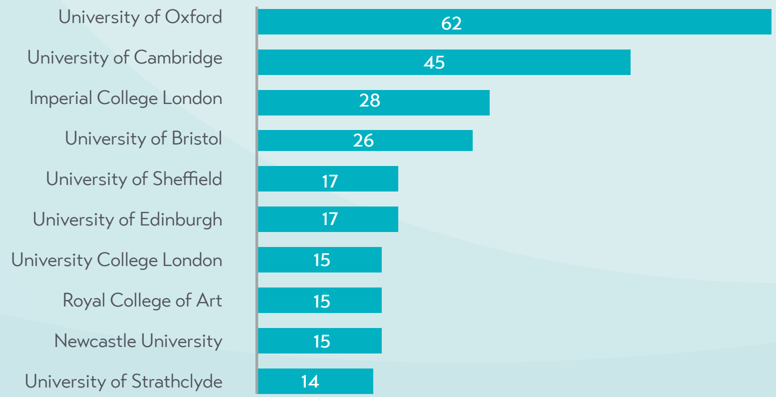
Since 2021, the composition of investors in spinout fundraising rounds started to shift with the proportion of deals involving UK only investors dropping to 63.4% in 2023 compared to 81% in 2020[1]. While the presence of overseas investors might make it easier for businesses to access international markets, it also poses a relocation risk of key talent and IP rights out of the UK.

Out of the 32 IPOs of UK spinout businesses which took place between 2014 and H1 2024, 11 were listed on the Nasdaq stock exchange[1].

Top industries by number of equity deals in spinouts (H2 2023-H1 2024)[1]



Top academic institutions by number of equity deals secured by their spinouts (2023)[1]



1 – Beauhurst & Parkwalk Equity Investment into Spinouts Report 2024

Regional VC investment

VC investment is essential for driving economic growth across the UK, with certain regional hubs emerging as focal points for innovation. Key centres such as Oxford, Cambridge, and Edinburgh have developed strong ecosystems that foster entrepreneurship, supported by local initiatives and a robust infrastructure.

For example, the Cambridge cluster is often compared to Silicon Valley in the US due to its focus on science and technology. Like Silicon Valley, Cambridge attracts high levels of talent and investment relative to its population density, illustrating the value of concentrated, knowledge-driven ecosystems.

Despite these regional successes, London continues to lead the UK's venture capital landscape. Approximately 80% of VC firms are based in London[1]. This concentration of talent and funding presents challenges for other areas, which struggle to attract comparable levels of investment. Many investors and entrepreneurs are drawn to London, creating a hub of talent and resources that is difficult for other regions to replicate.

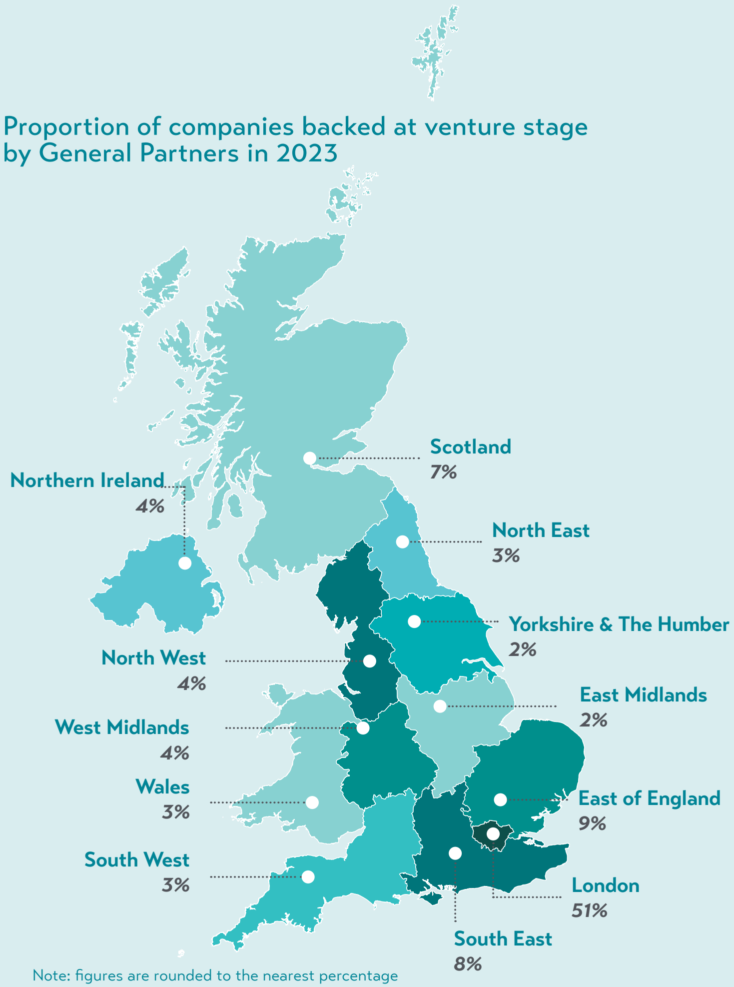
To address these geographic imbalances, various initiatives have been introduced to support regional development and increase VC activity outside London. Programmes like the British Business Bank's Future Fund: Breakthrough and Regional Angels Programme (RAP) aim to stimulate investment across the UK by providing targeted funding to regions with lower levels of VC activity.

Additionally, organisations such as The Lifted Project, Innovate UK and programmes supporting early-stage university spinouts are helping to drive local investment and entrepreneurial growth. These efforts are critical for creating a more equitable distribution of venture capital and fostering innovation nationwide.

The British Business Bank (BBB) plays a key role in supporting these initiatives, recognising the importance of strengthening VC availability outside the traditional London-centric focus. By promoting regional development programmes, the BBB and similar organisations contribute to a more balanced and inclusive investment landscape, encouraging local entrepreneurship and economic resilience across various UK regions.

1 – Praetura Ventures & Beauhurst Research

Proportion of companies backed at venture stage by General Partners in 2023



Note: figures are rounded to the nearest percentage

Pragmatic

Pragmatic Semiconductor is pioneering semiconductor design and fabrication with flexible integrated circuit (FlexIC) technology. FlexICs deliver low-cost, low-carbon intelligence at scale, enabling connect, sense and compute capabilities in an ultra-thin, flexible form factor.

Operating as both an integrated device manufacturer and a foundry, Pragmatic's mission is to provide edge and item-level intelligence to trillions of smart objects over the next decade. Cambridge Innovation Capital (CIC) first invested in Pragmatic in 2014, supporting its transition from 'lab to fab' – moving from research and development to the installation and commissioning of the company's first manufacturing line. CIC has continued to invest in Pragmatic as it has grown and matured. This year, HRH The Princess Royal officially opened Pragmatic Park, the company's flagship manufacturing site and home of the UK's first 300mm semiconductor fabrication line, with capacity to produce billions of FlexICs per year.

Performance of UK Venture Capital funds

There is strong evidence demonstrating that UK managed VC funds have a track record of delivering good returns to investors net of fees. The BVCA Performance Measurement Survey, produced in association with PwC, shows that UK managed VC funds have collectively achieved an internal rate of return (IRR) of 11.2% p.a. and robust Total Value to Paid-in multiple (TVPI) of 1.92x since 2002 as of 31 December 2023[1].

There is, however, wide dispersion in returns at fund level by the nature of VC investing model where returns are driven by a small number of very high performing companies. The top performing VC funds (10th percentile) returned minimum 1.71x the initial capital to investors with an IRR of 23% p.a. since 2002. In comparison, funds in the first quartile delivered the Distributed to Paid-in multiple (DPI) of 0.96x and an IRR of 12.1% p.a[1].
The British Business Bank's UK Venture Capital Financial Returns 2024 Report notes that on a DPI metric the UK's top performing funds generate returns in line with European and US counterparts. For 2002-2019 vintages 6% of UK funds reported a DPI of 3x or more, equivalent to the share of funds in both the US and the rest of Europe[2].

On a TVPI basis, UK VC funds perform in line with their European peers but lag the US. While the pooled TVPI multiple of 1.87x for UK fund with 2002-2019 vintages is slightly lower than for European funds (1.96x), the median fund performance is on par (1.61x versus 1.60x). US VC funds demonstrate the highest total returns, with a pooled TVPI of 2.01x and a median TVPI of 1.78x[2].

Looking specifically at UK VC funds launched in the last decade (i.e. with the 2014 vintage onwards) their pooled since inception IRR is 22.5% and the Total Value to Paid-in Capital (TVPI) - 2.52x. Albeit these interim returns are slightly down on the previous year following mark downs to the portfolio value against the backdrop of challenging market conditions, the recent data shows that the downward trend in VC valuations appears to have stabilised[1,3].

As a long – term asset class venture capital delivered a 10-year horizon IRR of 11% p.a. compared to the equivalent annualised return of 5.3% and 7.5% for the FTSE All Share Index and MSCI Europe Index respectively[1].

1- BVCA Performance Measurement Survey 2023/ 2- British Business Bank's UK Venture Capital Financial Returns 2024 Report/ 3 - Q2 2024 European VC Valuations Report | PitchBook

11.2%
UK VC Return since 2002

1.92X
UK VC Total Return since 2002

22.5%
UK VC Return since 2014

2.52X
UK VC Total Return since 2014

11%
UK VC 10 Year Horizon

Increasing diversity in VC and the early-stage ecosystem

Venture capital investment in the UK has historically been driven by white men, who would predominantly invest in businesses backed by people who looked like them. This affinity bias, and lack of funding to women-led businesses, means that VCs are potentially missing out on backing some great businesses, supporting some great founders and generating great returns. The Rose Review report in 2019 demonstrated that up to £250 billion of new value (equivalent to 1 million SME businesses) could be added to the UK economy if women started and scaled new businesses at the same rate as UK men. The government and the industry are alive to this challenge and there are many initiatives which are aiming to close this gap.

Women-led high-growth enterprise taskforce

Invest in Women Taskforce

Investing in Women Code

Women in Finance Charter

Diversity VC

Level 20

The Lifted. Project

Inspirational Women Award

The BVCA runs an Inspirational Women Award, launched in 2024, to recognise and celebrate the successes of leaders backed by private capital who have led and exited high growth businesses.

Born out of the government's 'Women-led high-growth enterprises taskforce', this award is designed to motivate and encourage the next generation of female entrepreneurs and will showcase the talent, best practice, dynamism and innovation that is emerging, providing another crucial layer of visibility for female-led, high growth ventures.

The BVCA were delighted to announce Poppy Gustafsson OBE as the inaugural winner of the Inspirational Women Award, recognising high-growth leaders. Poppy is the Co-Founder and former Chief Executive Officer at Darktrace, who successfully demonstrated leading and twice-exiting high-growth private organisations, proving a role model for other female founders and entrepreneurs. In further recognition of her business expertise, Poppy has been appointed as Minister for Investment.

Learn more

Increasing diversity in VC and the early-stage ecosystem

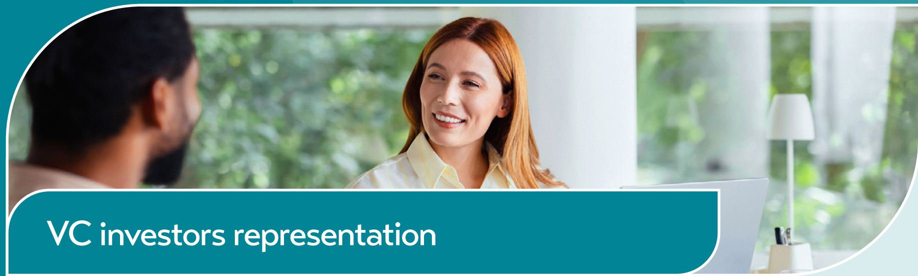
Founders representation

28% proportion of equity deals for teams with at least one female founder rose from 18% to 28%[3].

3% of funding goes to all-female teams—a clear gap in support[3].

32% of VC deals made by IiWC signatories were in companies with at least one female founder [4,5] – greater than the market as a whole.

41% of founders identify as coming from an ethnic minority background.



VC investors representation

30% proportion of women making up the VC workforce, a figure unchanged since 2019[2].

14% female representation in senior investment roles in VC firms[1].

Improved ethnic diversity, but gaps remain: More representation from Asian, Black, and Mixed-ethnicity groups, but women of colour still struggle for roles in investment[2].

1-BVCA 2023 D&I report / 2-Diversity VC Report 2023 UK / 3- Small Business Finance Market Report/ 4-Investing in Women Code/ 5- 'At least one female' refers to all-female teams and mixed-gender teams

Building a stronger investment ecosystem: opportunities for policy makers

Unlocking economic growth

"The only way to drive economic growth is to invest, invest, invest." - Chancellor Rachel Reeves, October 2024.

Achieving a thriving VC ecosystem means putting in place a stable and competitive tax system and regulatory framework, bridging the scale-up gap, increasing UK pension investment in private capital, and ensuring government-supported investment vehicles support the early-stage ecosystem.

The private capital sector makes long-term investment in British businesses to drive growth in the UK economy, support innovation and improve productivity. The BVCA Manifesto for Growth sets out four 'investment tests' for the UK government:

- A stable economy, with macro-economic conditions conducive to investment and growth.
- World-class regulatory standards which are applied proportionately and do not disadvantage businesses seeking private capital investment.
- Support for an investment ecosystem that attracts global investment talent and maintains the UK's competitive advantage in private capital.
- Predictable policy frameworks that provide confidence that investment in different sectors of the economy today will be supported and taxed consistently throughout the holding period.

British Business Bank

Continue to expand the remit of the British Business Bank to invest across the whole range of UK venture capital and growth equity funds.

The BBB is the UK's economic development bank and largest LP investor in UK VC. It has a significant role in catalysing institutional investment into fast growing British businesses.

The core programmes for venture capital investment are:

- The Enterprise Capital Fund programme (ECF), which catalyse investment in first time and emerging fund managers.
- British Patient Capital (BPC) which overseas investment in larger funds that invest via its core funds and life sciences programmes, as well as Future Fund: Breakthrough which provides direct investment for R&D intensive companies.

The BVCA is actively engaged with the BBB on several areas including the recently-launched British Growth Partnership, aimed at increasing pension scheme investment into innovative UK businesses. The BVCA also successfully argued for extra support for the Future Fund Breakthrough and Regional Angels Programme. The BVCA also successfully argued for extra support for the Future Fund Breakthrough and Regional Angels Programme, and is identifying ways to support first time and emerging VC managers in the UK.

Innovate UK

Expand funding for and resources of both UKRI and Innovate UK with a focus on investor readiness, so that startups are better prepared to pitch for VC investment.

The UK's national innovation agency, Innovate UK is part of UK Research and Innovation (UKRI). It aims to help companies grow and commercialise while funding and supporting innovative projects, particularly in R&D intensive sectors. This includes several programmes such as Horizon Europe. Innovate UK also fosters collaboration with other Research organisations, government bodies or academic institutions to help strengthen UK's position as the international Innovation hub.

A competitive tax system for startups

The UK has a reputation as a world-leading location for businesses to start and grow. This is down to a number of factors: a global financial centre, a consistent and respected legal system, dynamic research and development sectors, a stable regulatory environment, and clear and long-standing ambitions to attract global investment and grow UK businesses.

There is also a tax system which supports VC investment into startups. The Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) are effective vehicles for investment, and the recent confirmation from Government that the sunset clause for these has been extended to 2035 is welcome. The Seed EIS (SEIS) is equally important in helping investors find UK growth businesses to invest in. There are also incentives to support entrepreneurs and their teams, such as the Enterprise Management Incentive scheme.

But there is **more to do in the UK to attract the investment that helps businesses start up, and significantly, continue to scale in the UK.** There needs to be expansion and simplification of Government programmes and incentives which deliver predictability and support to groundbreaking ventures and innovative companies.

A long-term, properly funded Government R&D strategy with expanded tax relief would incentivise genuine innovation and pioneering investment in the UK. R&D tax credits, for example, could allow research-driven companies backed by private capital to reinvest in their future growth. The announcement in the Autumn Budget 2024 of £20.4bn government investment for UK R&D is a welcome signal of the Government's commitment to R&D going forward.

Improving the policy framework for startups

R&D Tax Credits

Create a better targeted regime which provides greater support for knowledge intensive companies.

R&D tax credits allow research-driven companies backed by private capital to reinvest in their future growth. The UK's regime needs to be competitive with other international jurisdictions. The BVCA welcomes the announcements related to R&D in the Budget. However, the process for obtaining these credits is still too slow and inconsistently applied.

SEIS, EIS & VCTs

Government should increase limits on investment for knowledge intensive companies.

UK tax reliefs to encourage investment into small, innovative companies which are often knowledge intensive and rich in Intellectual property (IP). The BVCA successfully advocated for the extension of the EIS/VCT schemes to 2035. The government has also committed to looking at tax incentives to help support startups.

EMI

Remove constraints on companies accessing EMI reliefs at the later stages of a company's development.

The Enterprise Management Incentive is a share scheme that provides tax incentives to help SMEs retain talent. The UK has a strong regime for tax reliefs for stock options but recent tax changes that increase capital gains tax and reduce reliefs such as Business Asset Disposal Relief, has made this less generous. There are also problems for larger companies looking to access EMI tax reliefs.

Regulation

Build framework for more agile regulation of fast-moving technological fields which are often developed by VC-backed startups.

Regulation must be able to keep up with the pace of technological change and Government funded regulators should have funding that is fit for purpose. The BVCA were pleased to see the creation of the Regulatory Innovation Office in the Autumn 2024 Budget, paving the way for more resources in this area.

Bridging the scale-up gap

The scale-up gap refers to the shortfall in funding that early-stage businesses experience when transitioning to later stage growth phase. This has been particularly problematic for start-ups looking to significantly boost production, invest in research & development or pursue international expansion. This shortage of capital has led to many UK companies to either rely on foreign investment or have them relocate overseas, taking intellectual property, quality jobs and innovation with them.

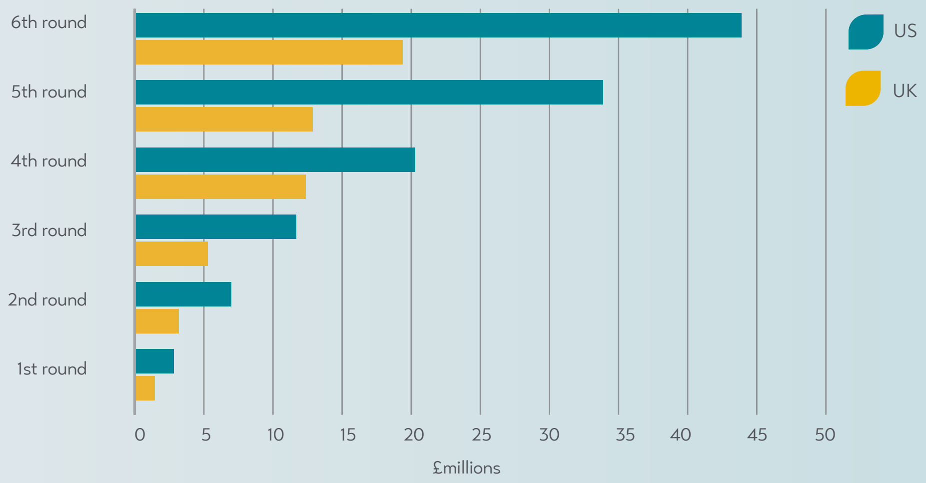
This is reflected in data from Beauhurst, which shows that companies looking for significant investment pre-IPO, usually around £50m+, struggling to find lead investors for these rounds in the UK. It also reveals that foreign involvement across large UK deals have been growing since 2019. In 2023, 94.3% of total deal value across deals over £50m of equity included foreign investors. This compares to 89.7% for the 2019-2023 average. We have seen a similar trend across smaller £20m -£50m deals where 87.1% total deal value in this bracket involved a foreign investor compared to 80.1% for 2019-2023.

In absolute terms, US VC-backed companies also **raise twice as much capital** (on average) compared to UK companies across funding rounds, with the gap being smaller at earlier funding rounds and widening in later rounds. The US also raised **1.4 times more investment** than the UK on a GDP-adjusted basis at the later stages of funding across R&D-intensive sectors[1].

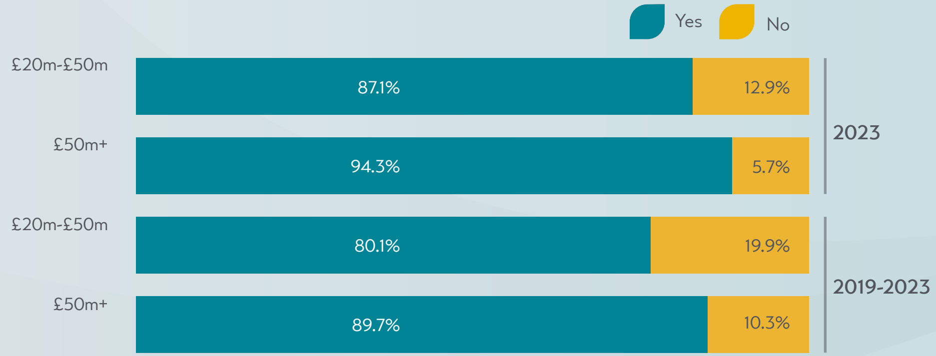
To address this domestic funding gap, the UK needs to create the right framework for larger VC funds which can enable more businesses to achieve rapid growth without relying on overseas investment. An important part of the solution is to unlock greater levels of domestic institutional investment, such as UK DC pension schemes, through initiatives like the **British Growth Partnership** or a **UK TIBI scheme**.

1 - BBB Small Business Equity tracker 2024

Average round sizes for companies raising their first round in 2015-2016[1]



Proportion of equity investment value with foreign investors by deal size



Source: Beauhurst research

Pensions Reform and Venture Capital

"For too long, pensions capital has not been used to support the development of British start-ups or scale-ups" - Chancellor Rachel Reeves, Mansion House speech, November 2024.

The BVCA has engaged extensively with members, key stakeholders and across the pension industry to identify solutions to the current barriers to investment. Achieving this will require ambition and concentrated effort on all sides – from the Government, the pensions industry, the private capital industry, and regulatory bodies. Action is needed in the following areas to drive pension investment into UK businesses, attract talent and achieve long-term prosperity for the UK.

The opportunity is clear. International pension schemes collectively allocate **sixteen times more capital** to UK private capital funds compared to UK pension schemes. Low levels of UK pension fund investment have led to UK pension savers missing out on the returns generated by homegrown innovation, which pension savers across the EU and North America currently benefit from. For example, Canadian pension schemes typically allocate on average 21% of their capital to private equity, and major US schemes average around 14%.

In the UK, 11 of the UK's largest Defined Contribution (DC) schemes have committed to increasing the proportion of their DC default funds allocated to unlisted equities, with objective of allocating **at least 5% of that capital to such assets by 2030.** A report on progress since the launch of the Mansion House Compact showed that Compact signatories currently hold 0.36% of their funds in unlisted equities.

Over 100 of the UK's leading venture capital and growth equity firms have also demonstrated their commitment to the Government's ambition to boost economic growth and returns for UK pension savers through the BVCA's Investment Compact for Venture Capital and Growth Equity.

Read the report

Recommendations for driving investment in Venture Capital

Build on existing expertise

Allow BGP to invest in funds outside of BBB programmes so they can access all the high growth companies backed by VC and growth equity funds.

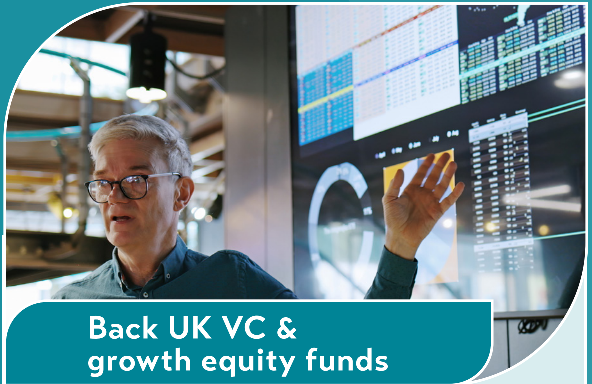
Introduce an industry-led accreditation process, independent from Government and bespoke to the UK investment ecosystem - similar to the French Tibi scheme. Follow a principles-based approach and draw on the BBB's expertise in due diligence and assessment of fund managers to help establish confidence among DC investors.

Create fund of funds programme for LGPS

Support the consolidation of the Local Government Pensions Schemes (LGPS) into larger funds, as announced in the Chancellor's Mansion House speech, to unlock domestic and international investment with a UK focus.

Allow the benefits from LGPS pooling to continue being realised at the same time as boosting UK regional investment from the LGPS and other investors through smaller UK private capital funds.

Follow in the footsteps of French Tibi scheme with UK Government having legislative levers and convening power to encourage LGPS participation.



Back UK VC & growth equity funds

Support pension investment into UK's venture and growth equity funds that will help the UK build a strong pipeline of UK growth businesses.

Help attract the best investment talent and draw in global capital from investors.

Build on existing 6% AUM commitment of LGPS into private funds to help allocate more capital directly to venture capital and growth equity funds.

Further Resources

Methodology

New venture capital investment figures

The BVCA collects detailed annual data on investment activity of its members and other venture capital investors. We look at the amount raised and invested by UK managed funds, and the amount invested into UK businesses. Further detail on the data and methodology can be found in our Investment Activity Report.

Subsequent to the publication of our latest report in July 2024, we have conducted additional detailed analysis of the overall capital inflows into venture backed businesses that received funding in 2023. The aim was to get more in-depth understanding of how much capital has been invested into UK businesses by Venture Capital General Partner investment firms directly and how much has come from other private capital sources. This analysis combines data captured from BVCA members as part of the Investment activity data collection alongside third party information coming from public sources.

The results have shown that General Partners invested approximately £5bn of equity into venture stage businesses in 2023. A further £3bn has come in the form of investment from other co-investors, primarily financial institutions and corporate investors, and venture debt. This brings the estimated total amount of capital received by UK based venture capital backed businesses to £8bn. This figure does not include growth equity investments, angel investments or venture secondaries.

Contacts & useful resources

- EY Economic Contribution Report
- BVCA Report on Investment Activity
- BVCA Performance Measurement Survey
- BVCA Pensions and Private Capital Panel Expert Report
- BVCA response to Pensions Investment Review call for evidence

If you would like to discuss the report on the industry's contribution more generally, please contact any of the following:

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