
AI – A Venture Investment Opportunity That is Hard to Ignore



Brijesh Jeevarathnam
Partner & Global Head
of Fund Investments

Morgan Holzaepfel
Partner, Primary
Investments

Marcus Lindroos
Principal, Primary
Investments

KEY TAKEAWAYS

- Generative AI is a transformative technology that holds the promise to fundamentally change how we learn, create, work, and live our lives by accelerating our ability to solve myriad highly complex challenges
- Venture capital will likely be at the forefront of this quantum shift – which is set to impact every industry, sector, and geography – by investing in founders with the vision to build a new generation of disruptive companies with the potential to produce long-term value
- The ability to outperform wider venture and public equity markets requires working with top-tier GPs with a deep understanding of the AI arena and a proven record of investing in innovative technologies
- Nearly every venture manager we interact with is pursuing AI investments as they believe it to be one of the most compelling themes in decades

The past two decades have seen an explosion in innovation, driven in large part by the development of the Internet, cloud computing, and mobile communications.

We believe these now ubiquitous technologies helped pave the way for the next stage of the innovation supercycle – a decades-long digital transformation of the global economy powered by artificial intelligence (AI).

While the term Generative AI entered the zeitgeist over the past year, the tech has been developing for more than 70 years. IBM supercomputer Deep Blue made international headlines when it beat chess Grand Master and reigning world champion Gary Kasparov in New York City in 1997, one of the first widely recognized feats of AI outperformance.

Over the subsequent 20 years, AI gradually became more proficient than humans at tasks such as handwriting, speech and image recognition, and reading comprehension.



Fundamental Shift

It was in late 2022 that Narrow AI transformed into Generative AI when OpenAI introduced ChatGPT. By January 2023, ChatGPT had become the fastest consumer software application by far to surpass 100 million users, UBS said in a research note citing Similarweb data.¹

Powered by Large Language Models (LLM), Generative AI utilizes a user's prompts to create content such as text, images, videos and audio. But it's the advanced analytical ability of the technology that makes it so disruptive – a piece of tech with the capability to fundamentally change how we learn, create, work, and live our lives.

Incumbents Versus Startups

A key question is whether value from AI will accrue to incumbents, venture-backed startups, or both.

NVIDIA's revenue doubled in the second quarter of fiscal 2024 from the same period a year earlier on demand for graphic processor units that drive highly complex AI computers in cloud data centers.² Incumbents are investing significantly in companies that are building foundational models for AI. Microsoft committed \$10 billion to OpenAI, while Google and Amazon agreed to inject \$2 billion and \$4 billion respectively in Anthropic, an OpenAI competitor.³



While the cohort of trillion-dollar-plus mega caps clearly sees a bright future for Generative AI, we believe there is also significant opportunity for startups to build value across several facets of the ecosystem

While the cohort of trillion-dollar-plus tech mega caps clearly sees a bright future for Generative AI, we believe there is also significant opportunity for startups to build value across several facets of the ecosystem.

Over the short to medium term, we expect General Partners (GPs) with a history and understanding of the AI space to focus on two key aspects of the technology. The first is AI-powered applications that target workflows across business functions, new verticals, and changing consumer behaviors.

The second area is development tools and infrastructure services – the picks and shovels of AI that are essential for data enhancement, database management, and model training.

Longer term, we believe venture-backed starts-ups will disrupt every aspect of the AI stack.

Focus on Best in Class

Experienced investors and founders appreciate that a small percentage of companies historically drive the majority of returns in a given year in venture capital. This creates a wide dispersion in performance between the best and median funds. An analysis by Adams Street going back to the 1970s shows that 9% of VC-backed companies produced 100% of the investment gains. This is driven by top venture funds being able to generate 100 times or even a 1,000 times multiple on invested capital in a single company.⁴ Founders therefore typically seek out best-in-class GPs who differentiate themselves based on strong networks, domain expertise, and strategic value-add.



We believe it is critical to allocate to top-tier venture GPs who partner with founders with the vision and skills to build a new generation of disruptive companies with the potential to produce long-term value

Likewise, we believe it is critical to allocate to top-tier venture GPs who partner with founders with the vision and skills to build a new generation of disruptive companies with the potential to produce long-term value. In our experience, there are a number of leading GPs who can both demonstrate deep competency in AI and have a proven record backing innovative startups early in their formation.

Capturing the AI Wave

To outperform the wider venture and similar public markets, we believe venture portfolios with a focus on innovation need to commit capital into underlying funds that invest broadly across the AI ecosystem, providing exposure to companies formed and built over several years.

Generally, venture covers four stages – inception (incubation/pre-seed), early stage (seed/series A), growth stage (series B to D), and pre-IPO. Investors should carefully consider which part of the stack can best serve their investment goals.

While Generative AI's meteoric rise has created significant hype, it needs to navigate challenges, like any nascent technology. These include data security, output accuracy (limiting false results or so-called hallucinations), bias mitigation, and issues around cost reduction and the resources needed to generate effective models, among others.

But we're confident that AI will overcome such hurdles to speed up scientific breakthroughs and invent technologies beyond our current imagination, placing us at a unique moment in human history. We believe venture will be at the forefront of this quantum shift, which has the potential to transform every industry, sector, and geography. It isn't overstating it to say that nearly every venture manager we have interacted with lately is pursuing AI investments, as they believe it to be one of the most compelling themes in decades.

That's because ultimately, it's an opportunity that simply cannot be ignored. ■

1. Sources: Similarweb [“ChatGPT Tops 25 Million Daily Visits”](#), Reuters [“ChatGPT sets record for fastest-growing user base-analyst note”](#)
2. Source: NVIDIA Fiscal 2024 Second Quarter Earnings Announcement August 23, 2023
3. Source: [Wall Street Journal](#)
4. The returns achieved by a single investment are not necessarily representative achieved by the overall portfolio and past performance is not a guarantee of future results.

LEADING WITH FORESIGHT™

Adams Street Partners is a global private markets investment manager with investments in more than 30 countries across five continents. The firm is 100% employee-owned and manages \$58 billion in assets under management. Adams Street strives to generate actionable investment insights across market cycles by drawing on over 50 years of private markets experience, proprietary intelligence, and trusted relationships. Adams Street has offices in Austin, Beijing, Boston, Chicago, London, Menlo Park, Munich, New York, Seoul, Singapore, Sydney, and Tokyo. adamsstreetpartners.com

Important Considerations: This information (the “Paper”) is provided for educational purposes only and is not investment advice or an offer or sale of any security or investment product or investment advice. Offerings are made only pursuant to a private offering memorandum containing important information. Statements in this Paper are made as of the date of this Paper unless stated otherwise, and there is no implication that the information contained herein is correct as of any time subsequent to such date. All information has been obtained from sources believed to be reliable and current, but accuracy cannot be guaranteed. References herein to specific sectors, general partners, companies, or investments are not to be considered a recommendation or solicitation for any such sector, general partner, company, or investment. **Past performance is not a guarantee of future results.** Projections or forward-looking statements contained in the Paper are only estimates of future results or events that are based upon assumptions made at the time such projections or statements were developed or made. There can be no assurance that the results set forth in the projections or the events predicted will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections or forward-looking statements. Adams Street Partners, LLC is a US investment adviser governed by applicable US laws, which differ from laws in other jurisdictions.