

KEYNOTE INTERVIEW

Tapping the VC pipeline



Innovation is accelerating, and private markets investors with preferential access to high-quality AI opportunities should be well positioned to benefit, according to Adams Street Partners' [Brijesh Jeevarathnam](#) and [Stephen Bluestein](#)

Q Where is the most venture capital activity to be found right now, and where are the emerging venture capital hubs?

Brijesh Jeevarathnam: Starting with the bigger picture, venture is much more global than it was. We see strong activity coming out of Europe and from Asia, including India, Australia and Southeast Asia, so innovation is really happening everywhere.

The US remains the engine room of innovation. During the pandemic, we saw start-up activity diversifying away from the Bay Area into the mountain

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states, the east coast and the Pacific Northwest. Data from late 2021 even showed that the share of venture funding going to Bay Area start-ups was expected to drop below 30 percent of the US total for the first time in a decade.

But now AI has shifted the gravitational pull back to the Bay Area, because the marquee AI companies are based there, and the employee base and start-up ecosystem is there too.

Stephen Bluestein: There was a moment when Silicon Valley's long-term hold on venture activity started to fray, and companies realised that more remote, distributed companies could be built anywhere. Europe saw a lot of fintech innovation, and we saw unique companies springing up elsewhere.

That is still true, but at a time when AI is being shaped by research and infrastructure, having a dense network of researchers in one place is becoming more important. San Francisco always benefited from talent density, and that has pulled venture capital back to the Bay Area.

Analysis

Q And which sectors are seeing the most activity?

BJ: Two things are happening. First, for the past five to 10 years, software and technology more broadly have gone from being a vertical to a horizontal, touching every sector. We have seen the digital transformation of every part of GDP and in every sector, ranging from logistics to healthcare, consumer to financial services and everything in between.

Secondly, AI has become a primary driving force behind that transformation. Again, that is not a vertical but a broad domain that touches every technology company and every business, period. From a venture standpoint, it is a pervasive layer of investment opportunity, ranging from companies that are totally AI-native to those that now need to transform their business with AI.

SB: This fundamental technology shift is so pervasive that companies need to think about how to integrate it into their workflows. It is incumbent on legacy providers of software and services to adapt, and that is creating an opportunity for investors to capture a new leg of growth while also causing a moment of real disruption.

Q How are private markets adapting to access these emerging themes and pockets of innovation? Is there evidence of a change in cross-border investment strategies, for example?

SB: Private markets follow innovation. There is this entrenched network in Silicon Valley where the share of AI companies, dollars and deals remains highly concentrated, but as we think about Europe, there is also a strong research base there and a tremendous amount of innovation happening.

Europe has historically lagged the US, but now, given the depth of technology talent in Europe, companies there are really in the mix on AI. It's



not uncommon for companies born in Europe to get funded at similar levels to those in the US, albeit in smaller number. Private capital is finding that the research-driven centres in Europe provide new opportunities.

BJ: In many ways, Europe has long-standing advantages when it comes to AI. AI draws on technical talent that has roots in mathematics and computer sciences, and universities in the UK

and the DACH region continue to generate those strong talent pipelines. For instance, DeepMind had its origins in Europe and now it's driving Google's AI efforts.

Another important market is Israel, which has real strength as an innovation hub and is driving a lot of growth around security in particular.

Q Where does this leave the US market, is it losing out?

SB: Our view is that the US market is still the strongest central player in the AI universe, with capital, talent, infrastructure and the depth of the public markets all remaining key lynchpins of that. A lot of AI businesses will need sustained flows of capital over a long period of time to get built out, and the depth of the US capital markets will be key in that respect.

Q Is AI warping valuations, particularly at Series B and later?

BJ: On the valuations side, medians and averages do not tell the full story. We think there is a bifurcation in the market rather than a bubble. It is

“We see private equity getting excited about companies that maybe went public in the last cycle”

STEPHEN BLUESTEIN

Q How does the IPO market look for AI-related firms?

SB: Looking at the IPO market broadly, the past few years have seen some green shoots of opportunity, but broadly speaking there remains a significant backlog.

M&A has picked up a lot, but the IPO markets have remained somewhat constrained. We think they have been waiting for the AI opportunity to present itself to the public markets, but so far that has been confined to areas like infrastructure and data centres.

We do see some large-cap public companies like Google and Microsoft taking advantage of AI in the public markets to drive growth, but we have not yet really seen the opportunity open up to AI-native companies. The sentiment is that OpenAI is getting ready to go public, driven by capital need, and we do think that will demonstrate a path forward for the market and open up an exciting opportunity for public market investors to participate.

BJ: I hope and think that we will see IPO activity pick up this year, both as a function of these companies needing more capital and as a result of tremendous interest on the buy-side from both institutions and retail investors.

important to talk about the growth trajectories of individual AI companies, and the current cohort of winning companies really is growing at an unprecedented pace.

A recent McKinsey report highlighted how certain high-performing AI companies are achieving 300 percent growth metrics in terms of adoption, revenue and workforce expansion, which is amazing even in a venture context. When we compare the fastest-growing SaaS companies versus the fastest-growing AI companies, the difference is almost a logarithmic scale in favour of AI companies.

So, for those top-quartile AI companies, valuations appear pretty robust. While there can never be a guarantee as to future performance, if we assume some of these companies can sustain their growth rate and translate it into profit, it would put those leading companies on a trajectory that is potentially vertigo-inducing against historic comparisons.

SB: The scale of these businesses has surprised us and created valuations not historically seen in private markets.

Why are these companies achieving such scale so rapidly? Ultimately that's because the market opportunity is growing so fast, driven by innovation. As these companies get bigger, they will continue taking market share from various different sources, and that will support even further expansion.

Q Is there a risk of hyper-concentration around AI in investor portfolios?

BJ: There are two ways to look at this. First, if you talk about AI as a sector, it's not just about the foundational models – it starts with the hardware layer. Going up from that, you also have infrastructure, tooling, large language models and AI applications, with opportunities across the spectrum. So, within every pure-play AI company, there is a diverse set of investment opportunities.

More broadly, AI is pervasive across all companies, and so suggesting that one has too much AI in a portfolio is like saying you have too much innovation. It is just ubiquitous. We are approaching investments in this sector

in a measured and diligent way, which should help minimise risks.

On the other hand, as a handful of companies grow at such extraordinary rates, the question is whether that small group becomes too dominant as a proportion of private markets' NAV. As a basket, we believe they will perform and retain venture-type multiples on cash over time. While there may be some correlation between one AI company and another, we do not think that correlation is 100 percent, which helps mitigate some of the risks of over-concentration.

Q What does it take right now for VC-backed AI firms to graduate to private equity ownership?

SB: If we look at past cycles, companies transition to private equity as they move from hyper growth into the more steady, durable growth and profitability that private equity tends to favour. Right now, it is a little hard to imagine private equity playing a real role in AI when the focus is on the rapid buildout of market share rather than profitability.

Private equity values long-term, defensible and predictable performance, and as we look across our portfolios, a number of companies are growing much faster than even venture capital anticipated, so predictability is not there yet.

There is, however, a great opportunity for private equity to take advantage when it comes to supporting legacy companies as they seek to embed and capitalise on AI to transition to growth stories. We see private equity getting excited about that opportunity with companies that maybe went public in the last cycle, have seen growth drop off and can now drive the next wave by embracing AI, even if they are not AI natives. ■

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