KEYNOTE INTERVIEW

Capturing the next breakthrough



Europe's venture ecosystem is producing more global winners than ever, with AI driving an explosion of innovation and opening up pathways for tech-focused investors seeking early upside, says Adams Street Partners' Ross Morrison

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Q How would you characterize the venture ecosystem today, and how has its position within the global technology landscape changed over the past decade?

The venture innovation environment is as attractive as ever and in the next three to five years we see a tremendous opportunity to gain early exposure to compounding enterprise value, driven by the AI wave.

Globally, enormous value capture is happening within private markets and this is playing out in the venture capital space. OpenAI ($852 billion private valuation), Anthropic ($965 billion private valuation) and SpaceX ($1.77 trillion IPO valuation in June 2026) have all achieved massive scale and, prior to IPO, the only way for investors to build exposure to this value creation and innovation is through an allocation to private markets.

Structurally, the market has changed. In 2004, Google completed its IPO at a market cap of $23 billion. Now we see companies scaling to the hundreds of billions as private companies before listing. If an investor is not allocated to private markets and waits for these high-growth, high-innovation companies to list, they may have missed out on a significant amount of value accrual.

Q How is this global structural change playing out in Europe?

Europe is a core market, but many institutional portfolios remain underexposed to the region. The US and Europe are the global epicentres of venture capital enterprise value, accounting for more than 80 percent of market value. Allocating to both Europe and the US better captures

the vast majority of everything being created.

What may not be obvious is that Europe's global market share has been steadily increasing. Back in 2010, Europe's share of global venture companies was around 8 to 10 percent. Between 2010 and 2020, it increased to a 15 percent share, and it has now experienced a huge step up to a share of between 25 and 30 percent.

Europe is one of the geographies that has benefited the most from advances in AI capability and the reason for this is that AI can present outsized advantages for collections of entrepreneurs emerging from universities with deep technical capabilities and advanced mathematical backgrounds. AI is facilitating rapid advances in some of the most fundamental topics affecting us, such as energy and security. These are areas where European research has long been at the cutting edge and AI is now helping to make the theoretical possible. There are clusters of entrepreneurs and founders with these attributes springing up across Europe, specifically in the UK, Germany, France and the Nordics.

Q Does Europe's growing market share of global venture companies translate into returns?

We have been invested in UK and European venture for 25 years, and the data over that period shows that the addition of European venture capital to a portfolio, when executed successfully, can be highly additive to overall performance.

Within our venture portfolio, we have seen that a small cohort of outlier companies, roughly 10 percent of the overall pool, drive performance. And more and more of these outliers are coming from Europe.

That presents an opportunity in and of itself, but we believe the arbitrage opportunity potentially makes the European venture opportunity even more compelling. Recent average entry points into venture companies in Europe are often at lower valuations and are typically associated with smaller fund sizes than in other jurisdictions.

Currently, average European fund sizes are typically less than half the size of those in the US. There are a small number of scaled managers in Europe that resemble their Silicon Valley counterparts, but European venture capital firms are primarily boutiques, and we find that those that have lasted are often high-quality and usually target fundraises in the sub-$200 million range. If a market-leading company emerges from that size of fund, the outperformance is likely to be stellar.

Lower entry valuations and smaller fund sizes present openings to participate in some of the most attractive European venture companies before the broader market recognizes them. Other global managers will gain exposure to these assets at some stage, but not at entry valuations. This is what makes the case for the incremental value that European venture exposure can add to a portfolio.



Q Hubs of innovation are emerging in France, Germany and the Nordics. How is this regional spread influencing the kind of technology being developed?

The fact is that great companies can be born anywhere and we see that happening across Europe. No country can be overlooked. Managers can't just sit in London with a big fund and expect to capture the market opportunity; a rapidly growing start-up could be in Tallinn or Freiburg.

In Germany, autonomous defence and drone systems companies Helsing, Stark and Quantum Systems have formed this massive defence cluster, alongside AI-native HR and ERP systems developers Personio and Celonis, machine translation company DeepL, and Black Forest Labs, a world-leading AI image-generation company.

Next door in France there is Mistral, a sovereign European large language model operating at scale, and up in the Nordics they have Lovable, a software start-up that has pioneered an AI-powered vibe-coding platform, achieving unicorn status within eight months.

There is this explosion of talent and innovation throughout Europe and we have deep conviction in the pan-European venture opportunity.

Q The UK is Europe's largest venture market. Has this translated into a demonstrably stronger technology ecosystem?

Let's start by looking at London. DeepMind in King's Cross is among those companies at the forefront of AI and was acquired by Google in 2014.

Recently, OpenAI and Anthropic have set up bases nearby so, all of a sudden within this tiny little part of North London, huge technical talent density is emerging. It's still very early days, but you can already start to see this explosion of spinouts, such as AI-driven biotechnology company Isomorphic Labs and frontier lab Ineffable Intelligence, both of which have their origins in DeepMind.

The UK stands at the forefront of Europe's AI wave, driven by an agglomeration of technical talent and entrepreneurship. This is why we see UK market share going up and its contribution on the global stage increasing. AI voice business ElevenLabs, audio notetaking company Granola, autonomous driving software company Wayve, and digital bank Revolut exemplify how very rich the UK venture ecosystem is.

Q At what point are these companies making the transition from start-up to revenue-generating scale-up?

AI is changing the game. It has accelerated the rate at which product market fit is happening, dramatically scaled revenue and increased the pace at which profitability ramps up. Companies like AI-powered vibe-coding platform Lovable and legaltech start-up Legora have started achieving annual recurring revenues of more than $100 million in around 18 months. That kind of revenue growth often used to take at least three to five years.

Fundamentally, these businesses are no longer software companies selling into the software market. They are developing general-purpose technologies that can expand rapidly into the biggest sectors of the global economy, meaning that revenues theoretically have the potential to grow into the billions.

What's interesting is that, even though the companies themselves are scaling at unprecedented speed, as an investor, it's very difficult to just play into this. It's like farming oak trees; it generally requires extreme patience, a high degree of selectivity and consistent investment over multiple years to allow things to develop.

> *"When building a portfolio, a manager doesn't necessarily know which companies are going to succeed, so they have to diversify"*

Q Why does it take such a long time to build exposure to European venture when the underlying portfolio companies are growing so quickly?

At the portfolio company level, things are speeding up because the scale of the enterprise value capture is so much more significant. But although the size of the prize may be orders of magnitude larger, it is also becoming more concentrated in the VC funds that have access to these winners.

Most investors that decide they would like to begin allocating to venture cannot just push a button and gain access to these managers. The best, most ambitious entrepreneurs and start-ups tend to gravitate towards the most established and capable venture capital managers. When a venture manager can say it backed some of the most notable names in the market, the newest and most exciting founders often want to work with them. This can create a flywheel effect where we see the same names associated with many of the most positive outcomes.

As an investor, gaining access to managers with a history of attractive performance is only one pillar of an effective venture allocation. It is also critical to build a diversified portfolio. Our experience shows that investors can't expect to lock-in immediate returns after investing in one or two funds. Success in this asset class can look binary where exposure to a few top-decile funds or companies can often outweigh what occurs in the remainder of the portfolio.

The implication is that, when building a portfolio, a manager doesn't necessarily know which companies are going to succeed, so they have to diversify. In a hypothetical portfolio of 20 funds with 600 early-stage companies, perhaps only 60 of those companies will drive the majority of the return. Investors have to make sure they have access to all 600 though, so that they don't miss out on the 60. An investor can't do that by only backing one or two funds.

The odds move more in an investor's favor when viewed over a longer period of time. This is an asset class where taking a 10- to 20-year view on investments can help to capture the upside and limit the downside.

The challenge is accessing the best European venture has to offer within a fragmented ecosystem. This market is a perfect example of where a fund of funds makes sense, potentially offering a turnkey solution. The net returns from several diversified European venture portfolios have been particularly attractive, and a fund of funds can provide access to a diversified pool of 15 to 20 underlying funds that would normally take years and years to build up from scratch. ■

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