

UK Venture Capital Financial Returns 2024



Contents

Foreword	3
Executive summary	5
Introduction	9
Chapter 1: Overall UK VC market performance	11
2002–2007 vintage year cohort	14
2008–2013 vintage year cohort	16
2014–2022 vintage year cohort	17
Distribution of fund returns	19
Trends in performance over the past year	23
Chapter 2: Assessment of life sciences and green tech fund performance	25
Chapter 3: Comparing British Business Bank VC fund performance to the wider market	30
Enterprise Capital Funds returns	31
British Patient Capital returns	32

Chapter 4: Fund manager views on current VC market conditions	34
Fundraising conditions	36
Exit environment	38
Investment opportunities & market competition	40
Appendix 1: Definitions	43
Venture Capital (VC)	44
Financial performance metrics	44
Internal Rate of Return (IRR)	44
Money multiples	44
Distribution of returns	46
Fees	46

Appendix 2: Overview of data sources	47
BVCA	48
Commercial data providers	48
Preqin	48
PitchBook	48
Other sources of information on VC financial returns	48
Appendix 3: Methodology for compiling dataset	50
Appendix 4: Detailed UK performance by two-year vintage category	53
Appendix 5: Further results from fund manager survey	56
Endnotes	60
Acknowledgements	60
Disclaimer	60



Foreword

Our UK Venture Capital Financial Returns report, now in its sixth year, provides a trusted source of evidence on the performance of the UK VC market. Drawing upon data from the Bank's equity programmes, as well as information directly sourced from fund managers and commercial data providers, this year's assessment of the asset class is our most comprehensive to date – capturing the returns of 240 funds in the UK and 2,300 globally.

VC is a key source of funding for high-growth companies aiming to start and scale, fuelling innovation across the UK economy and driving productivity growth. This year's report finds that UK VC performance closely matches other leading markets, such as the US. However, despite its world class innovation ecosystem, a disproportionately low amount is invested by pension funds into UK VC, indicating that there is an opportunity for institutional investors to embrace the UK's innovation potential while also delivering better returns for UK savers.

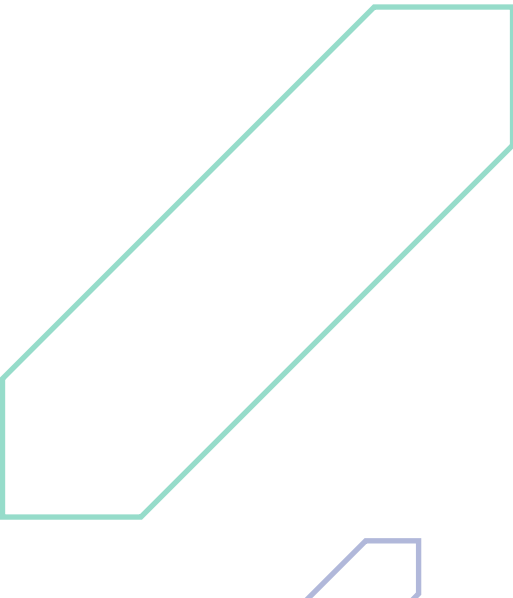
As announced at the International Investment Summit in October, to seize this opportunity the Bank will establish the British Growth Partnership (BGP), encouraging greater pension fund investment into UK innovative businesses. The BGP will build on the Bank's capability and track record, seeking to unlock hundreds of millions of pounds of capital with the aim of making investments by the end of 2025. Through this vehicle the UK can capture more of the commercial potential of its breakthrough technology companies, while providing a legacy for future generations of pensioners.

Focusing on recent trends in performance during 2023/24, VC valuations declined to more sustainable levels after the downturn in the middle of 2022. It is therefore unsurprising that UK TVPI returns have fallen slightly in this reporting period, in line with other markets. However, looking ahead it is encouraging that our survey of UK fund managers found some initial signs of optimism, particularly around future improvements in exit conditions and changes in valuations. The Bank is committed to supporting the UK VC market during these more difficult conditions, as part of our strategic objective – Backing Innovation – to ensure innovative businesses can access the right capital to start and scale.

Lastly, this year’s report also assesses the performance of VC funds operating in different industries, finding that life sciences funds have outperformed the wider market in realising returns for investors. As the most active late-stage investor in UK life sciences, the Bank and its commercial subsidiary, British Patient Capital, will continue to support innovative businesses in this strategically important sector as they navigate their funding journeys – in particular, through the Life Sciences Investment Programme and Future Fund: Breakthrough.

The Bank is the government’s centre of expertise on smaller business finance, and this research helps us to provide policy makers and the industry with robust evidence on how the market is performing. We will continue to work with the wider VC community to improve the accuracy and availability of this performance data, to catalyse further institutional investment and help finance markets operate more effectively for smaller businesses. I hope you find this year’s UK Venture Capital Financial Returns report informative.

Louis Taylor
CEO, British Business Bank



Executive summary

Key findings

1

UK VC returns were above the US and the rest of Europe for older vintages, and in line with or slightly below for more recent vintages

Based on performance data from 241 funds in the UK and around 2,300 funds globally, this year’s report finds that the UK market continues to generate similar returns to the US and the rest of Europe (ROE) on some measures, while also slightly underperforming on others.

Across the main 2002-2019 vintage year period, VC funds in the UK generated a pooled TVPI multiple of 1.87, compared to 2.01 in the US and 1.96 in the ROE. The UK’s pooled DPI of 0.72 is also lower than both the US (1.06) and the ROE (0.81). However, this gap in DPI has narrowed since last year’s report. The UK’s DPI performance is also influenced by UK funds being

younger on average, meaning less time to exit their investments and generate returns for LPs.

Looking at specific vintage cohorts, UK funds outperformed other markets during the period after the dot-com bubble. For 2002-2007 vintages, the UK’s pooled DPI of 1.65 is notably higher than the US (1.46) and the ROE (1.41). For more recent 2014-2022 vintages, while valuations are continuing to be marked down amid challenging market conditions, the UK’s pooled TVPI (1.64) is in line with the US (1.63) and below the ROE (1.76).

2

The share of UK funds generating very high DPI returns is on par with that in the US and the rest of Europe

This year’s report also looks at the proportion of funds that fall into different performance brackets. Looking firstly at TVPI returns, around half (49%) of UK funds

with a 2002-2022 vintage have a TVPI of between one and two, compared with 45% of US funds and 47% of ROE funds. Towards the top of the distribution, 10% of UK funds have a TVPI of three or higher, while in comparison 15% of European funds and 14% of US funds fall into this category.

When measuring realised returns, the UK has a more competitive proportion of strongly performing funds. For 2002-2019 vintages, 12% of UK funds have reported a DPI of two or more, above the ROE (10%) but below the US (16%). In addition, 6% of UK funds reported a DPI of 3 or more, equal to the share in both the US and the ROE.

This data demonstrates that the UK has made progress in reducing its performance gap towards the top of the returns distribution. However, focusing on the top 1%, US and ROE funds in the 99th percentile generate DPI multiples upwards of 9.59 and 7.15 respectively, compared to 5.95 for UK funds.



Company valuations continued to decline in 2023, and this has fed through to lower TVPI return multiples

The Bank's Small Business Equity Tracker 2024 report found that UK valuations had fallen overall during 2023 but had started to stabilise during the second half of the year. To assess the resulting changes in fund performance, this report also analysed a sample of 139 UK funds that reported the latest returns data in both 2023 and 2024. The UK's pooled DPI of 0.37 remained in line with last year's figure (0.36), suggesting that a lack of exit opportunities remains a key challenge for fund managers.

The UK's pooled TVPI multiple fell from 1.73 to 1.61 in 2024, which represented a similar annual decline to last year's report and shows that fund managers are continuing to mark down their portfolios. This change

in TVPI is in line with the equivalent decrease for ROE funds (from 1.87 to 1.75), while UK funds were slightly more resilient than those in the US – for which the pooled TVPI multiple fell from 1.82 to 1.66.



While life sciences funds report lower TVPI multiples than the market, they outperform when measuring realised returns

This year's report provides new data on the performance of VC funds globally in life the sciences and green technology sectors. For 2002-2019 vintages, the pooled TVPI for life sciences funds (1.76) is below the wider market multiple of 1.99. Life sciences companies often need to reach significant milestones before receiving mark ups in their valuation, such as achieving regulatory approval or completing clinical trials.

However, life sciences funds outperform other sectors on a DPI basis – their pooled multiple of 1.14 is higher than the overall market (1.02). The median life sciences fund has also generated a DPI of 0.87, compared to 0.73 across the wider market. The need to achieve a clear set of milestones also creates a clear route to exit for investors, and in countries like the US there are a wealth of established pharmaceutical companies with the capital available to acquire promising start-ups – even in challenging market conditions.

5

As the green tech sector has recovered from its downturn in 2010, the returns of more recent vintages are closer to the wider market

VC funding for the green tech sector has been through a boom-and-bust cycle. After a surge in investment for ‘green tech 1.0’ during the 2000s, in 2010 this bubble

burst and the majority of green tech-focused funds delivered substantially lower returns than the market. For 2002–2019 vintages, green tech funds reported a pooled TVPI of 0.99 and pooled DPI of 0.54, far lower than the wider market multiples of 1.99 and 1.02.

More recently, however, there have been indications of a revival in the sector, catalysed by the US Inflation Reduction Act and the European Green Deal. For 2014-2022 vintages, green tech funds have produced a pooled TVPI multiple of 1.55 – significantly higher than for vintages since 2002 and closer to the wider market (1.64). While this second wave of green tech innovation is still relatively immature in comparison to other successful VC-backed sectors, this recent performance data suggests that the sector is now producing more commercially viable propositions.

6

The relative performance of BPC-backed funds has improved over the past year, while ECF-supported funds have delivered strong returns for investors

The report also includes data for the Bank’s Enterprise Capital Funds (ECF) programme, which supports emerging managers, and its commercial subsidiary British Patient Capital (BPC). These programmes seek to address gaps in equity finance for innovate UK companies. ECF-backed VC funds with a 2006-2022 vintage reported a pooled DPI of 0.60, compared to 0.43 for the wider UK market. As the Bank receives a lower share of potential profits as part of the programme, the DPI for other LPs in these funds was higher at 0.70.

While ECF-backed funds have a similar pooled TVPI (1.67) to the wider market (1.70), the returns structure of the programme has generated significantly higher returns for other LPs (2.27). The outperformance of ECF-supported funds can in part be attributed to the higher growth potential of early-stage companies, and investments in several businesses that have since achieved unicorn status.

BPC-backed funds with a 2013-2022 vintage reported a pooled DPI multiple of 0.20, in line with those across the wider market (0.19). When including unrealised value, BPC funds' pooled TVPI of 1.40 is lower than for funds across the wider UK VC market (1.65), though this gap has narrowed over the past year. The median TVPI multiple is also now higher for BPC-supported funds (1.33) than for funds across the overall market (1.28).

This represents an overall improvement in BPC's relative performance when compared to last year's assessment, with BPC-backed funds now performing above the market on three of the four measures analysed. It should also be noted that, as we have the latest performance data for all BBB-supported funds, any recent declines in performance are more likely to have been captured for ECF and BPC-backed funds than other funds in the market.



Fundraising remains a key challenge for GPs, though there are some initial signs of optimism around future exit conditions and changes in valuations

During August the Bank undertook a survey of 42 UK VC fund managers to understand their views on current VC market conditions. The survey found that a significant majority of fund managers continue to perceive the fundraising and exit environments as challenging. In total 69% of general partners (GPs) reported that the current state of the market for raising funds was poor or very poor (up from 64% last year), while 62% of fund managers believed the availability of exit opportunities was poor or very poor.

These difficult conditions have led to a quarter of GPs pushing back plans for raising a new fund. GPs reported that low LP liquidity (28% of respondents) and the macroeconomic environment (24%) were the most significant challenges affecting fundraising.

GPs are more optimistic about a future recovery in exit opportunities. 29% of GPs reported that the exit environment was better than last year, with only 7% stating it was worse. Looking forward, nearly three-quarters of fund managers are expecting exit conditions to improve over the next year, with none expecting them to become worse.

There is also positive survey evidence around the quality and quantity of investment opportunities available in the market and the degree of competition from investors. Looking ahead, 36% of fund managers are expecting average company valuations to remain in line with current levels over the next year, while 31% are expecting them to increase. This presents a slightly more optimistic outlook for valuations than last year.

Introduction

This publication is the British Business Bank's sixth annual report covering the financial performance of UK venture capital (VC) funds. The purpose of the report is to provide an in-depth assessment of the financial returns of UK VC funds, examining trends in performance over time and against other leading markets such as the US and Europe.

The Bank is the largest domestic LP investor in UK VC and, as part of its strategic objective Backing Innovation, seeks to ensure that innovative high-growth businesses can access the right capital they need to start and scale. To help achieve this goal, the Bank is aiming to address an information gap between investors and UK VC funds by improving the data available on the track record of the asset class.

The report is based on a comprehensive dataset capturing the returns of around 2,300 funds globally and 241 funds based in the UK. The Bank has collected this data directly from UK fund managers and has combined this with other information, including from commercial data providers PitchBook and Preqin, to provide the most comprehensive data source on the performance of UK VC funds. This data is collected on a best endeavours basis.

It is important to acknowledge that the fund performance data included in this report covers the period up to 31st March 2024, and so does not fully reflect more recent market conditions that have developed over the last six months.

In addition to reporting fund performance data, this year 42 fund managers (covering 127 funds) completed our fund manager survey on current market conditions – representing the second highest number of responses to date. Whilst this survey cannot be considered fully representative of the overall industry, it provides useful qualitative insights into the VC market and gives wider context to the performance trends observed in the first half of the report. Fieldwork for the survey was undertaken in August 2024.

The report is broken down into the following chapters:

- **Chapter 1** provides an overview of UK VC financial returns in comparison to the US, and the rest of Europe, and breaks this down into different vintage year cohorts.
- **Chapter 2** explores global VC fund performance in the life sciences and green technology sectors, including how industry returns have evolved over the past twenty years.
- **Chapter 3** assesses the performance of VC funds the Bank has invested in through its Enterprise Capital Funds (ECF) programme and through British Patient Capital (BPC).
- **Chapter 4** provides an overview of current VC market conditions, covering fund managers' perspectives on fundraising, dealflow, valuations and exit opportunities using the results from our UK fund manager survey.

For further details, the appendix provides definitions of key terms, an overview of data sources, the methodology used to create the dataset, more detailed results on returns, and additional charts from the fund manager survey not used in the main body of the report.

Chapter 1: Overall UK VC market performance

This chapter provides an overall assessment of the financial returns of the UK VC market up to 31st March 2024. The analysis is based on a comprehensive fund-level dataset, covering a total of 2,290 funds globally, which has been drawn from British Business Bank Management Information, data the Bank has collected from fund managers directly, as well as PitchBook and Preqin data.

To provide a benchmark for the UK market’s performance, return multiples of UK VC funds are compared against their counterparts in both the US and the rest of Europe (ROE).

While the dataset includes funds with vintages as early as 2002, the analysis also splits the funds into distinct cohorts to account for vintage year effects and changes in the market cycle. This sheds light on the vintage periods in which the UK has performed well against other markets, and allows us to focus on the returns of UK funds with more recent vintages.

The chapter finishes with an analysis of changes in performance over the past year to understand how the recent market environment has affected financial returns. As the Bank has been producing this report for six years, we are able to compare the reported performance of funds over multiple years if they are present across the previous datasets. In this report, we compare the reported 2024 performance for 58% of the UK funds in this year’s dataset against their reported performance last year.

Figure 1.1
Performance multiples of UK, US and rest of Europe VC funds (2002-2019 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

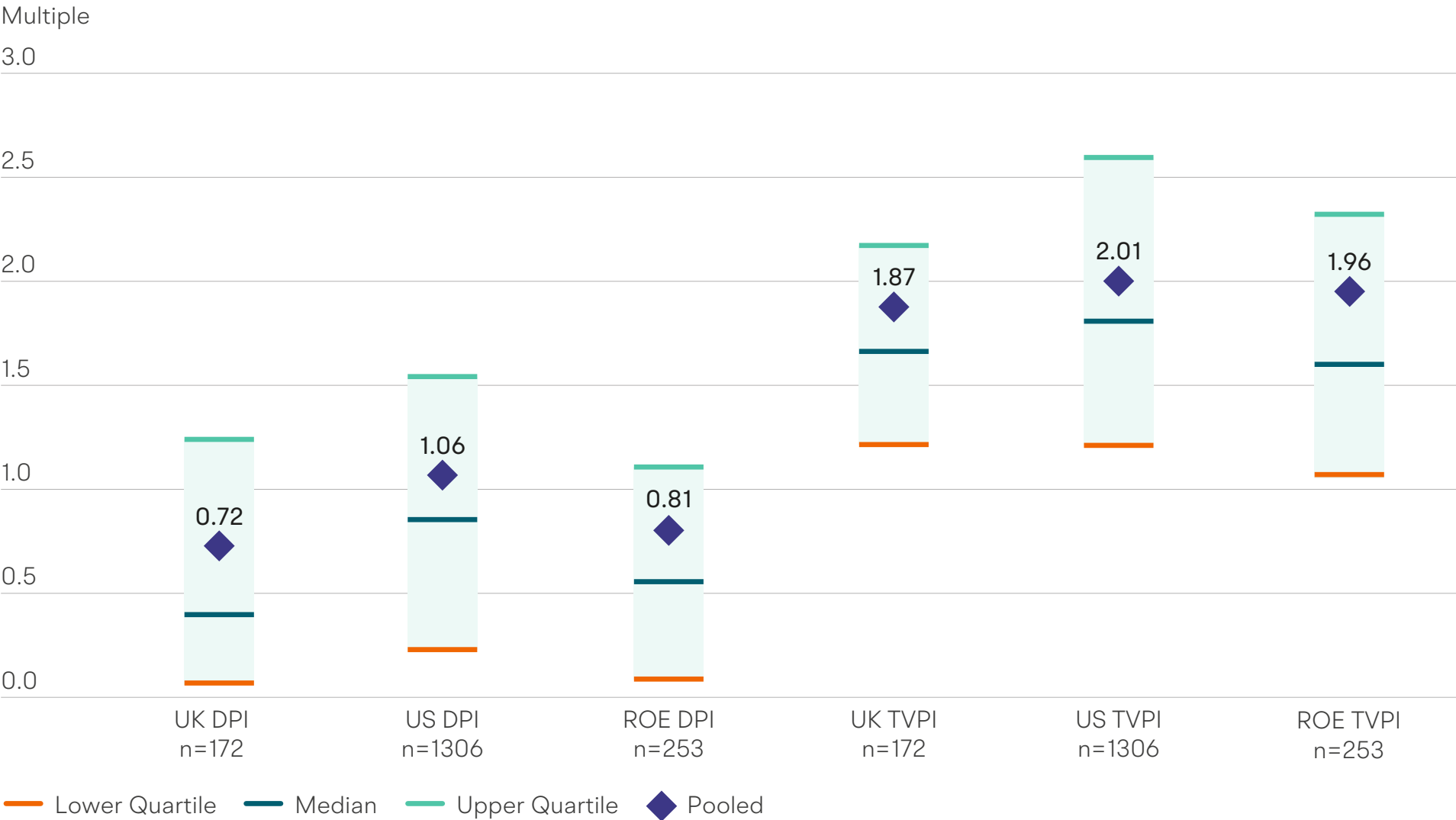


Figure 1.1 shows the pooled¹, median and upper/lower quartile return multiples for funds in the 2002–2019 vintage cohort. While our dataset does include vintages up to 2022 (including an additional 69 funds), this period is used to give an overall assessment of funds which have had time to deploy and distribute capital. In interpreting the results, it should be noted that UK funds are, on average, more than a year younger than US funds, which is likely to have a material impact on differences in DPI multiples.

In addition, using 2002–2019 vintages means this analysis is consistent with the data reported in the latest 2023 BVCA Performance Measurement Survey Report, which covers the financial returns of BVCA member investors.² It should be noted that the BVCA returns data is calculated as of 31st December 2023, so the reporting period is similar but will not capture any recent mark downs or valuation changes seen in the first quarter of 2024.

The analysis for this period shows that UK funds with 2002–2019 vintages have generated a pooled DPI of 0.72 and a pooled TVPI of 1.87, alongside a median IRR

of 11.3%. While this continues to indicate strong performance as in previous reports, compared to last year's overall assessment there has been a reduction in aggregate TVPI multiples.

In comparison, the BVCA reported a pooled DPI of 0.81 and a pooled TVPI of 1.92 for venture funds with a 2002–2019 vintage, as well as a pooled IRR of 11.2%. Given that VC returns data in general has limitations and biases, the similarity of the results provide reassurance on the validity of the estimated market performance in this report. In addition, the BVCA data also indicates a decrease in TVPI performance when compared to the overall vintage period in the previous Performance Measurement Survey.³

As explored in the Bank's Small Business Equity Tracker 2024 report, VC market valuations continued to decline and then stabilise throughout 2023 and early 2024, returning to more sustainable levels following the rapid market expansion between 2020 and 2022.⁴ These trends have since fed through into mark downs in the portfolio value of VC funds. The last section of this chapter provides a more detailed assessment of performance changes over the past year, focusing on a sample of funds reporting returns in both 2024 and 2023.

The UK's pooled DPI of 0.72 is lower than the US (1.06) and to a lesser extent the rest of Europe (0.81). A factor driving this is differences in the age of funds in this vintage group. On average, UK funds are 18 months younger than US funds and 8 months younger than European funds. This means UK funds have had less time to exit and realise the value of their investments, influencing the lower DPI multiple.

The UK's upper quartile DPI of 1.26 is higher than that of European funds (1.11), showing that the top fund managers are performing well on an international basis in generating cash returns. The gap in pooled DPI with the US and ROE has also narrowed since last year's report – for example, from 0.20 to 0.09 when comparing to European funds.

When including unrealised gains for funds with 2002–2019 vintages, the UK market has produced similar returns to the rest of Europe. The pooled TVPI multiple of 1.87 for UK funds is slightly lower than for European funds (1.96), though the median fund performance is in line (1.61 compared to 1.60). US VC funds continue to demonstrate the highest total returns, with a pooled TVPI of 2.01 and a median TVPI of 1.78.

Comparison of performance by vintage year cohort

Using the 2002-2019 vintage period is helpful in providing an overall assessment of UK performance over the past twenty years, and ending in 2019 enables both DPI and TVPI metrics to be informative. However, changes in economic conditions, the market cycle and the growth of different markets can also affect performance across different time periods.

To account for this, in this section vintage years are grouped into the following cohorts to analyse performance over different stages of the cycle:

- 2002–2007: Positive economic growth post dot-com crisis
- 2008–2013: Recession and economic recovery
- 2014–2022: VC market expansion (latest time period)

The earlier vintages provide a ‘real’ indication of long-term performance, as these funds have had enough time to invest and exit most of their investments.⁵ Many funds with a vintage year between 2008–2013 will also have had time to achieve this, or will be approaching the end

of their initial LP agreements. However, the difference between DPI and TVPI multiples shows there is still some unrealised value in these portfolios.

For the third cohort, vintages up to 2022 are included to give an indication of returns for the most recent funds. As a result, TVPI multiples provide a more appropriate metric. In general, this data is less likely to provide an accurate representation of actual underlying fund performance, due to less time that has passed for companies to demonstrate progress in meeting their milestones, as well as greater uncertainty on the future returns investors will receive for these funds.

2002–2007 vintage year cohort

Funds in the 2002-2007 cohort started investing during a period of positive economic growth in the aftermath of the dotcom bubble, with the UK and the US achieving average annual real GDP growth of 2.4% and 2.8%, respectively, during this period.⁶ Figure 1.2 shows the pooled, median and upper/lower quartile return multiples for UK, US and rest of Europe funds from this cohort.

UK funds demonstrated strong relative performance across both measures in this period, generating a pooled DPI multiple of 1.65 and a pooled TVPI multiple of 1.71. These multiples are similar to (though slightly higher than) last year’s report, which is not surprising given the age of these funds. The fact that there is only a very small gap between DPI and TVPI measures indicates that most value in these portfolios has already been realised, and the funds have largely been liquidated.

Comparing the UK’s performance internationally, its pooled DPI multiple for this vintage cohort is significantly higher than both the US (1.46) and the rest of Europe (1.41). The best performing funds have also demonstrated markedly higher returns than those in these other markets; UK funds at the upper quartile produced a DPI return of 2.00, compared to 1.69 in the US and 1.45 in the rest of Europe.

UK funds in this cohort have also outperformed US and European funds on a TVPI basis. The UK’s pooled TVPI of 1.71 is above the equivalent multiples for the US (1.59) and the rest of Europe (1.65). Its performance at the median and the upper quartile is also higher than these comparator markets when including unrealised returns on this basis.

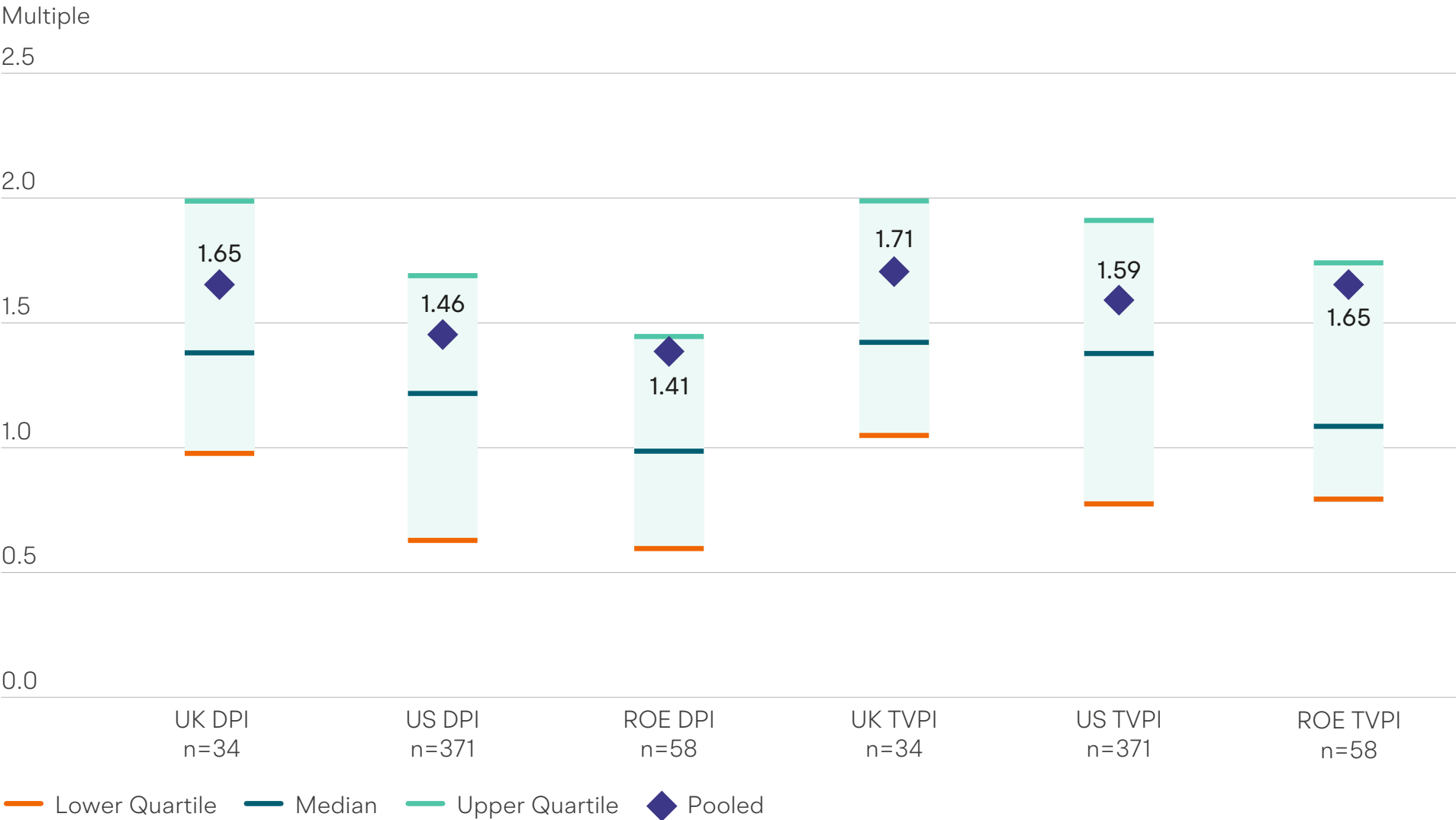
There are a couple of caveats worth noting with respect to the European fund data. Firstly, the pooled fund performance is heavily affected by a few large outlier funds. This is indicated by the pooled TVPI and DPI multiples being very similar to the upper quartile values.

While it is still valid to reflect this in the European market returns data, only investors who identified and invested in these outlier funds would see these strong returns. Investors in other funds would have seen a lower return.

Secondly, the coverage of financial returns data for European funds is lower than for the UK and US. It is therefore possible that there is some additional selection bias affecting the results, whereby the better performing funds are more likely to share their data with PitchBook and Preqin. We estimate that the fund performance dataset for this report covers approximately 40% of UK VC funds with a 2002-2022 vintage, 27% of US funds and 17% of ROE funds.

Figure 1.2
Performance multiples of UK, US and rest of Europe VC funds (2002-2007 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.



2008–2013 vintage year cohort

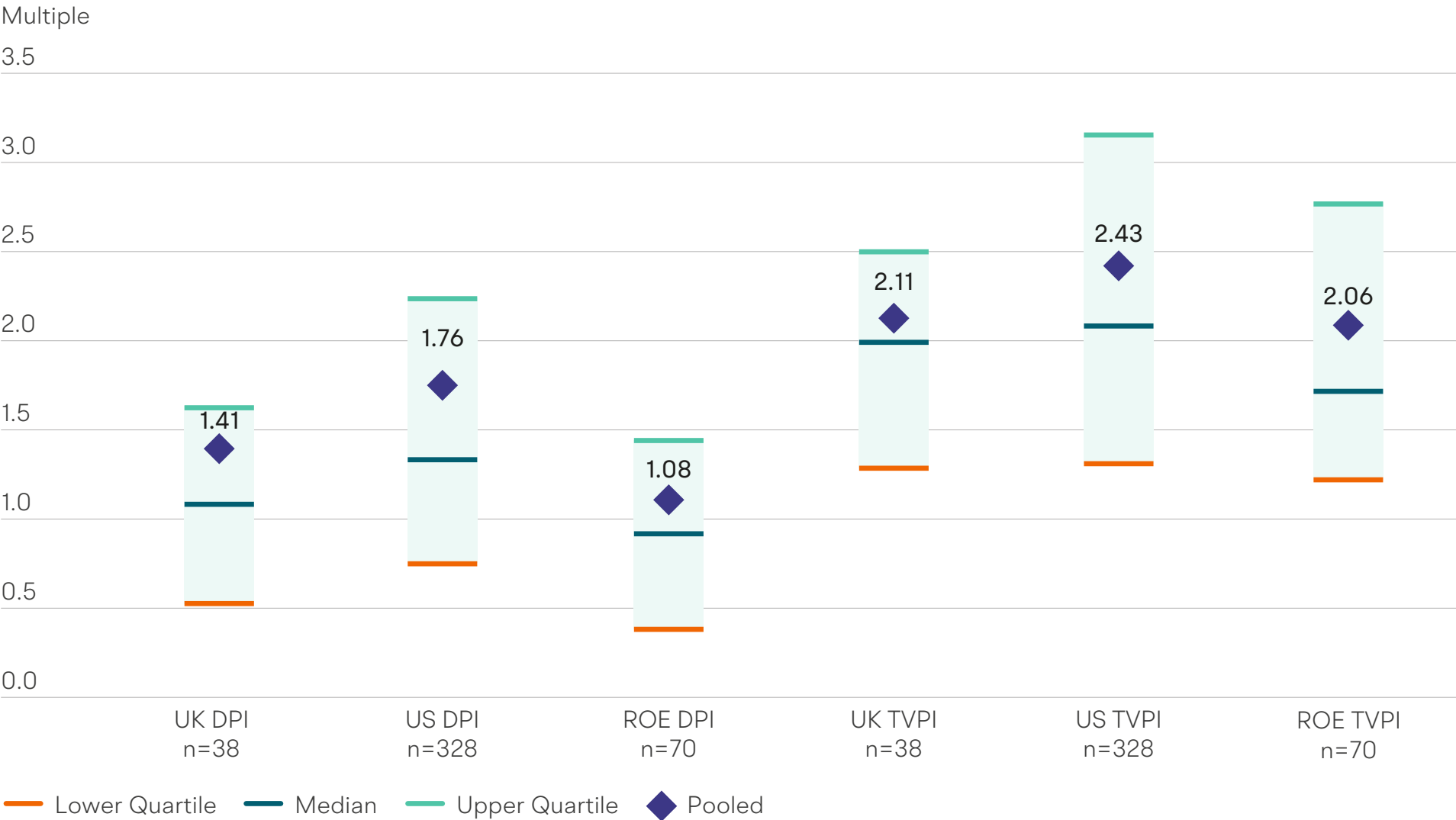
Figure 1.3 assesses the performance of UK, US and rest of Europe VC funds with a 2008–2013 vintage year. This period was characterised by significant recession following the global financial crisis of 2007-2008 and gradual economy recovery in the following years; over this period UK and US average annual real GDP growth was 0.4% and 1.0%, respectively, indicating a more challenging macroeconomic environment despite relatively low inflation.

UK funds in this vintage period have produced a pooled DPI multiple of 1.41 and a pooled TVPI of 2.11. The gap between these measures shows that there is still a significant proportion of total fund value that remains unrealised in this cohort.

However, compared to the Bank’s 2023 report the pooled UK DPI multiple has increased significantly from 0.99, indicating notable recent progress in exit activity. The underlying data shows that a number of top quartile funds in this cohort have seen significant improvements in their reported DPI returns over the past year.

Figure 1.3
Performance multiples of UK, US and rest of Europe VC funds (2008-2013 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.



The US market performed particularly strongly during this period – its pooled DPI of 1.76 was 0.35 points higher than the UK and 0.68 points higher than the rest of Europe. US funds at the upper quartile have also been able to generate cash returns of 2.24 and total value returns of 3.17 – highlighting the potential of the VC asset class when selecting top performing fund managers. On both measures UK funds have outperformed those across the rest of Europe, with European funds reporting a pooled DPI of 1.08 and a pooled TVPI of 2.06.

The data here shows that the performance of the VC asset class can be resilient to fluctuations in the market cycle. These periods of economic recovery and market disruption, in this case following the financial crisis, can allow VCs to invest in high potential companies at lower valuations.

This may suggest that funds established during and after the recent market downturn could generate strong comparative returns. In our 2024 fund manager survey, the results of which are explored in the final chapter of the report, GPs were asked which vintage year between 2020 and 2026 they expected to

generate the highest returns. As illustrated in Figure A.5 in the appendix, the 2024 vintage received the highest proportion of responses (while 2021 received none), demonstrating that market participants clearly see an opportunity from the recent decline in valuations.

2014–2022 vintage year cohort

Figure 1.4 shows the performance of UK, US and ROE funds with a vintage year between 2014 and 2022. Compared to previous cohorts, the number of UK funds has continued to increase relative to the number of US and European funds – highlighting both the progression of the UK fundraising market over time, and improvements in data coverage and reporting over the period.

As highlighted in the Bank’s Small Business Equity Tracker reports, this period has seen a significant expansion of VC market activity, driven by a range of factors including a low interest rate environment and rapidly accelerating innovation in sectors such as software, fintech, AI and deeptech.

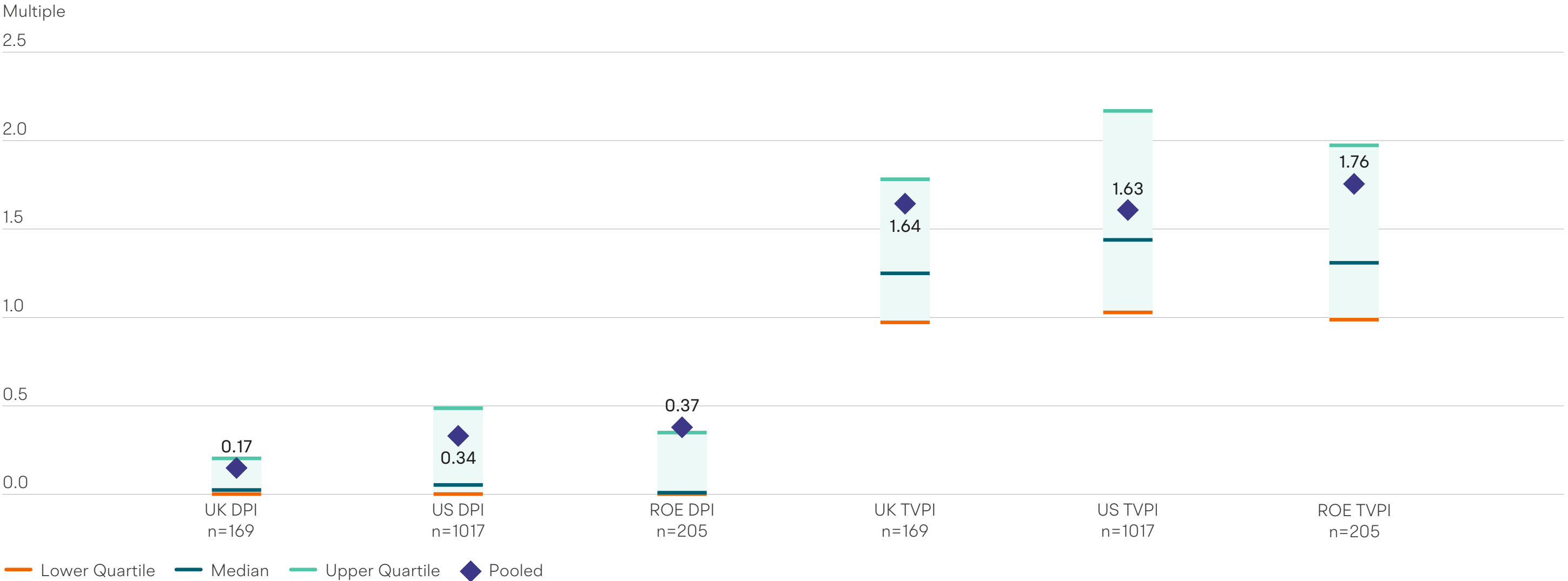
The UK market has also matured over the last decade, becoming deeper with a greater range of investors able to support companies at all stages of their development. As a result of these factors, the annual value of equity finance for smaller businesses increased more than fivefold from £3.1bn in 2014 to £17.0bn in 2022.⁷

For funds in this cohort, given their relative immaturity, the TVPI multiple is generally a more appropriate indicator of performance⁸. UK VC funds in this vintage period have generated a pooled TVPI multiple of 1.64, which is in line with the US (1.63) and below the rest of Europe (1.76). While it will be a number of years before investments are exited and portfolio values are fully realised, this data provides an encouraging early indication that recent UK funds are performing in line with other leading markets.

The US market has demonstrated strong upper quartile returns during this vintage period, with a TVPI multiple of 2.17. This shows it has some very strong performers at the top of the distribution, which we explore further in the next section of the chapter.

Figure 1.4
Performance multiples of UK, US and rest of Europe VC funds (2014-2022 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

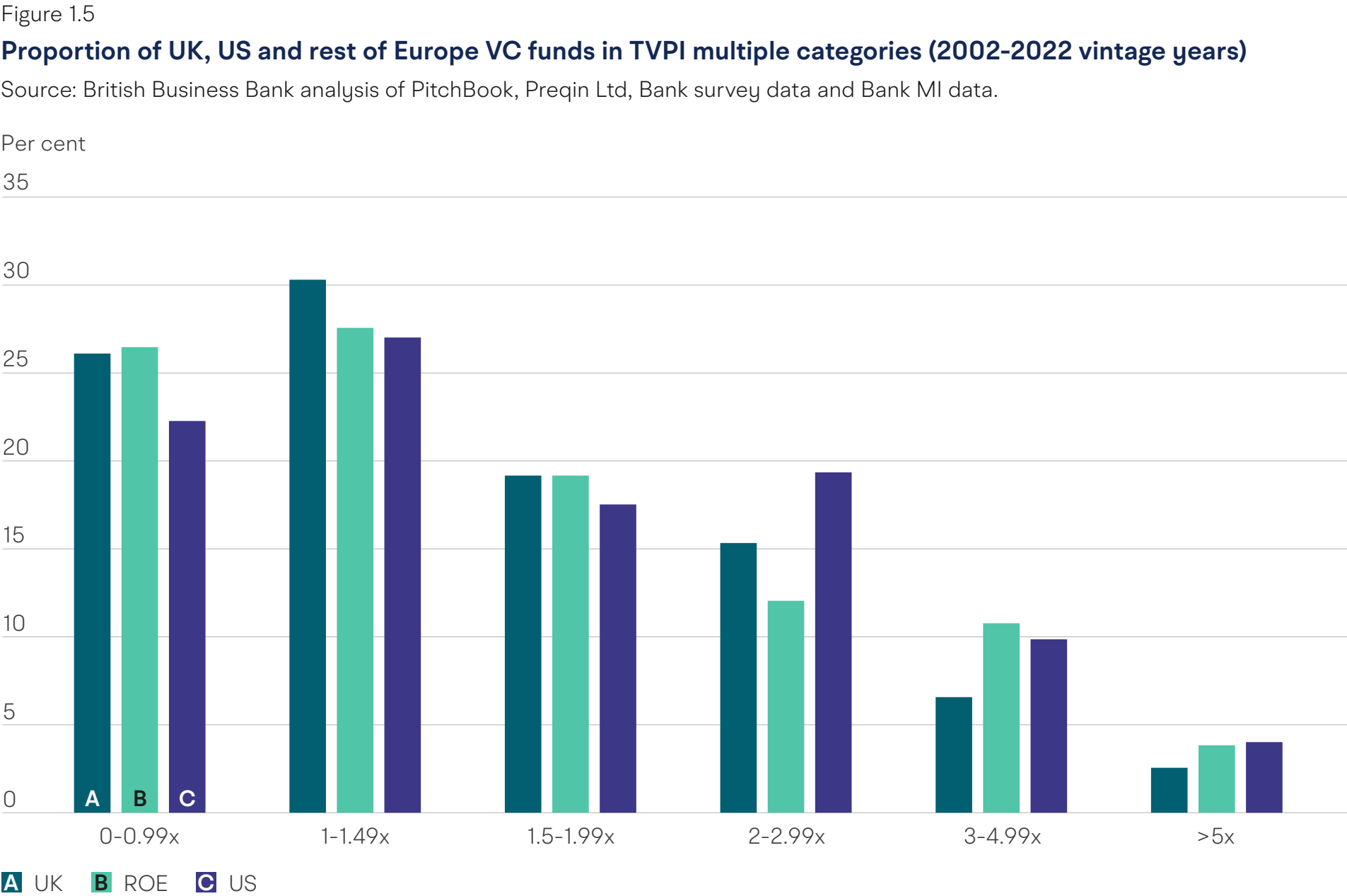


Distribution of fund returns

The overall performance of the VC market is primarily driven by the performance of the top outlier funds, which can generate very high returns for their investors. This is linked to the fact that, under the VC investing model, a very small number of portfolio companies drive the majority of fund returns – recouping the losses incurred from the majority of portfolio businesses failing.

Analysis in previous reports has illustrated that, across all markets, the majority of funds achieve relatively modest performance, while a small proportion of outliers drive overall returns. Last year’s publication found that, while the UK performs in line with the US and Europe on average, it is the top quartile (and particularly the top 2%) where UK funds have not achieved quite the same exceptional gains.

Figure 1.5 takes a closer look at the proportion of funds in each market that fall into different performance brackets across 2002-2022 vintages. Focusing firstly on the funds reporting moderate positive performance, this breakdown shows that around half (49%) of UK funds have a TVPI between one and two, compared with 47% of European funds and 45% of US funds.



The UK also has a higher share of funds than the rest of Europe reporting a TVPI between two and three (with 15% versus 12%). This shows the UK is competitive in producing funds that have generated good returns.

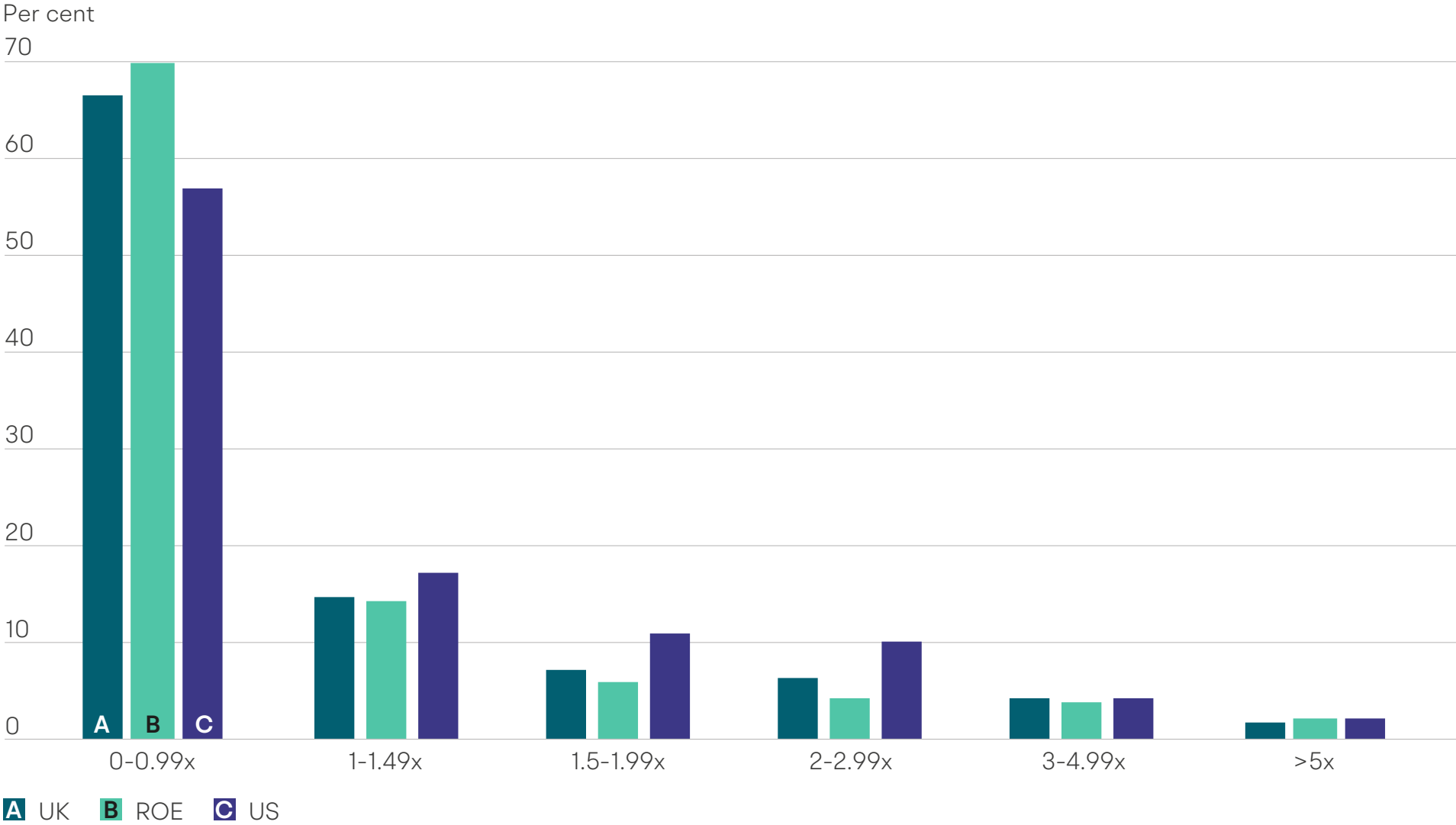
However, looking at the highest performing funds, only 1 in 10 UK funds have a reported TVPI multiple of three or higher, while in comparison 15% of European funds and 14% of US funds fall into this category. So, while the UK has a relatively high share of funds demonstrating positive performance, it still lags behind these comparator markets at the very top of the distribution on a TVPI basis.

Figure 1.6 presents a similar breakdown of performance but on a DPI basis, and for funds with a vintage year between 2002 and 2019 – to isolate those which have had sufficient time to exit at least some of their investments. This data shows that around a third (34%) of UK funds have demonstrated positive returns on this basis, above the rest of Europe (30%) but below the US (43%).

The US is the leading market in terms of its share of funds in the 1-2x DPI bracket, with 28% of funds falling into this category. The UK also has a higher proportion of funds in this bracket (22%) than the rest of Europe (20%).

Figure 1.6
Proportion of UK, US and rest of Europe VC funds in DPI multiple categories (2002-2019 vintage years)

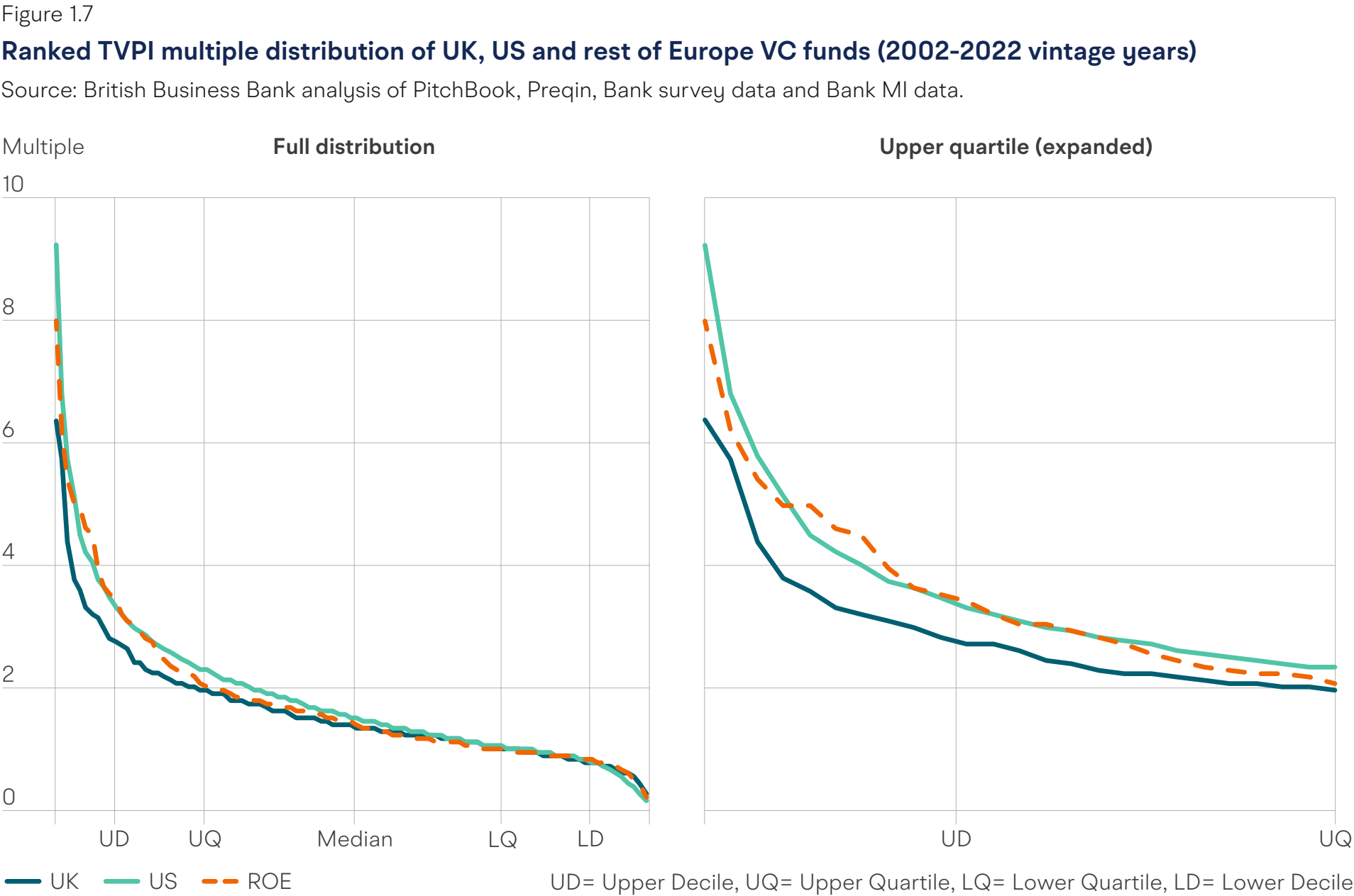
Source: British Business Bank analysis of PitchBook, Preqin Ltd, Bank survey data and Bank MI data.



When looking at the top performing funds, the latest data shows that UK funds perform in line with these leading markets in generating DPI returns. For 2002-2019 vintages, 12% of UK funds have reported a DPI of two or more, above the rest of Europe (10%) but below the US (16%). 6% of UK funds reported a DPI of 3 or more, equal to the share of funds in both the US and the rest of Europe. So while the UK market lags behind the US and Europe in producing top performers on a TVPI basis, when focusing on realised returns it is just as competitive.

Another way of comparing the returns of top performing funds is to look at the percentile distribution of UK, US and ROE funds. Firstly analysing this distribution on a TVPI basis, Figure 1.7 shows that US in the 99th percentile have generated TVPI multiples upwards of 9.2, with UK funds generating TVPI multiples upwards of 6.3. For comparison, the previous year’s data reported TVPIs for the top 1% of funds being above 9.4 for the US and above 7.6 for the UK.

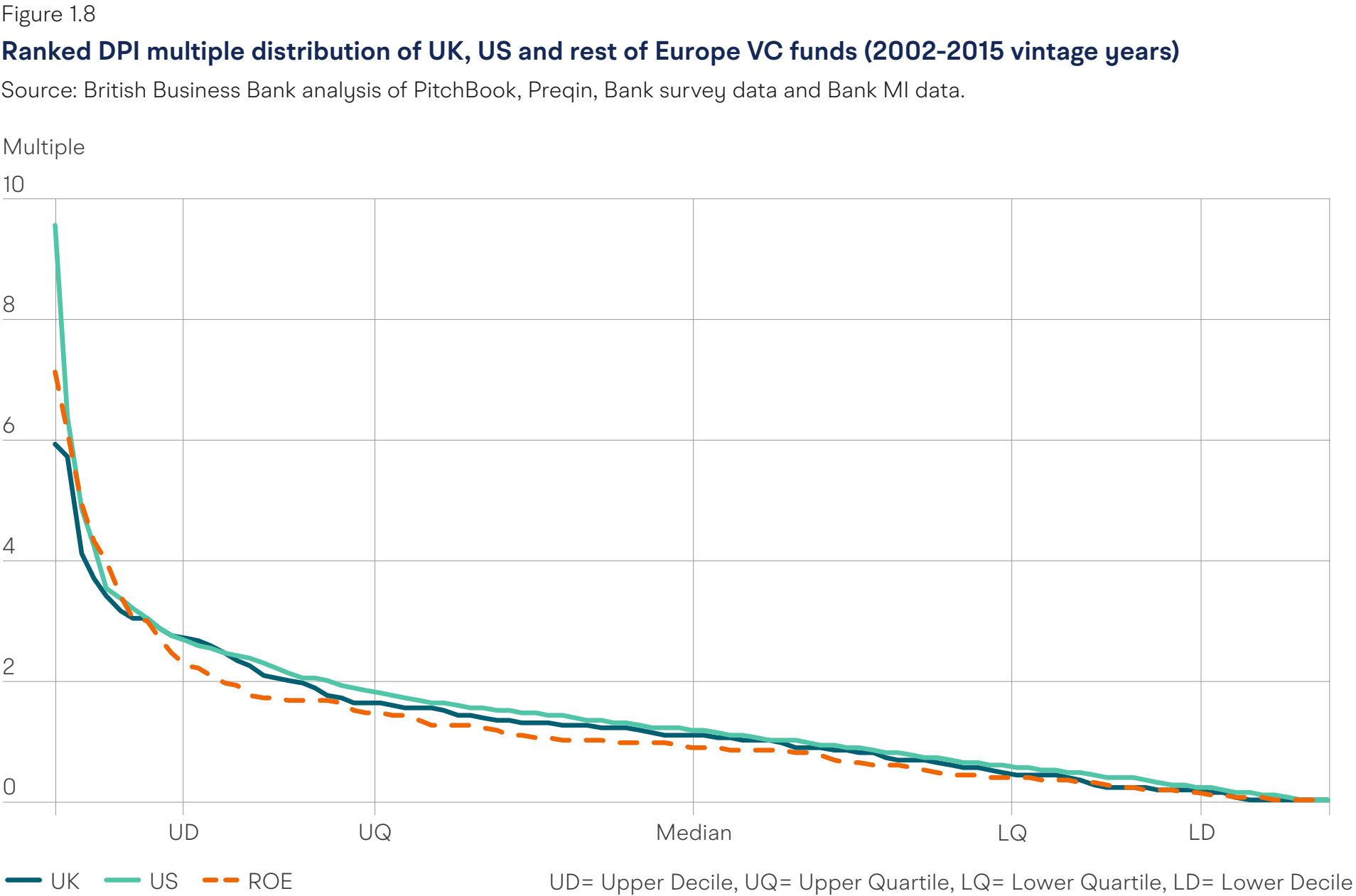
Figure 1.7 also shows that UK, US and ROE funds generally appear to have very similar TVPI multiples along the majority of the distribution, until the top quartile. From this point the gap in reported



performance widens; while the UK and ROE upper quartile TVPI multiples are in line with each other, the UK upper decile (2.80) is 0.72 below the equivalent for European funds (3.52).

In contrast, Figure 1.8 shows the distribution of fund DPI multiples for UK, US and rest of Europe VC funds with a 2002–2015 vintage. Vintages beyond 2015 are excluded since these funds have not had sufficient time to fully mature and realise their investments. Their inclusion would lead to a significant number of funds reporting DPI multiples of zero, distorting the distribution of fund returns.

The shape of the UK’s DPI distribution curve is broadly similar to that of the US and generally lies above that of ROE funds. Even at the upper decile the UK outperforms both other markets, with multiples upwards of 2.77 (versus 2.73 in the US and 2.45 in ROE). However, at the very top of the distribution, US and ROE funds in the 99th percentile generate DPI multiples upwards of 9.59 and 7.15 respectively, compared to 5.95 for UK funds.



Trends in performance over the past year

The performance of VC funds is based on portfolio company valuations, which can change rapidly depending on company-specific and wider market factors. Our Small Business Equity Tracker 2024 report found that the average pre-money valuations of UK smaller businesses decreased by 25% on the previous year in 2023.⁹ However, the trend appeared to be stabilising in the second half of the year, with average pre-money valuations 24% higher in 2023H2 compared to 2023H1.

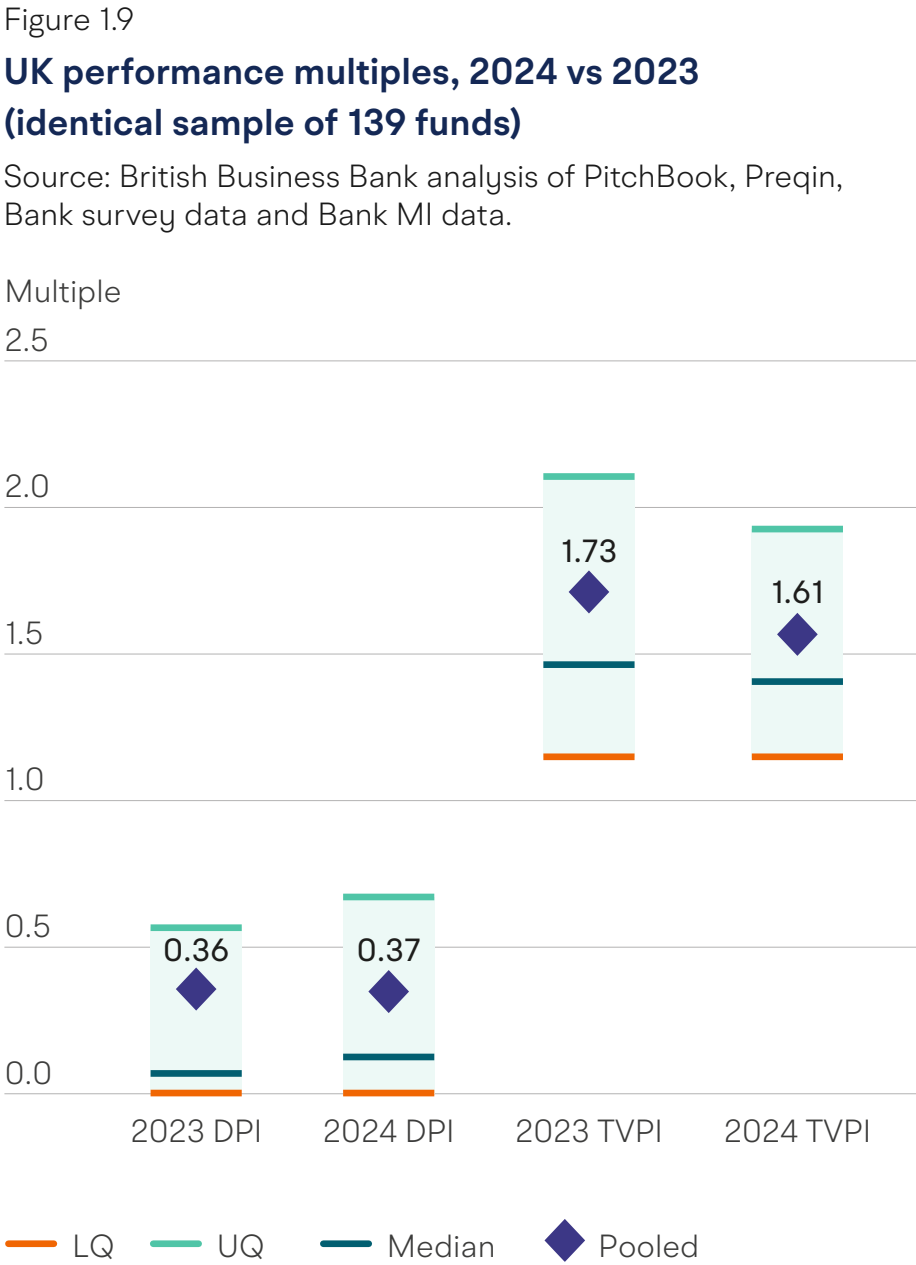
To assess the impact of recent changes in valuations across the market, we compared reported performance figures between this year’s report (which covers data up to the end of March 2024) and last year’s report (up to the end of March 2023), using an identical set of funds that reported the latest data in both years.

This allows us to determine whether variations are due to changes in actual performance or different funds entering and exiting the dataset. Approximately 58% of UK VC funds in our dataset reported up to date performance data in both years for this comparison.

Figure 1.9 shows the pooled return multiples for UK VC funds in 2024 compared to 2023, for funds that reported performance in both years. The pooled DPI multiple remains very similar at 0.37, which reflects the challenges companies have faced in securing an exit amid the continued market slowdown – restricting fund managers from returning capital to investors.¹⁰

The pooled TVPI multiple from these funds, however, has fallen by 0.12 from 1.73 to 1.61. This is a similar year-on-year decline as reported in the equivalent analysis from last year’s report and shows that companies are continuing to raise down rounds, resulting in fund managers marking down the unrealised value of their portfolios further.

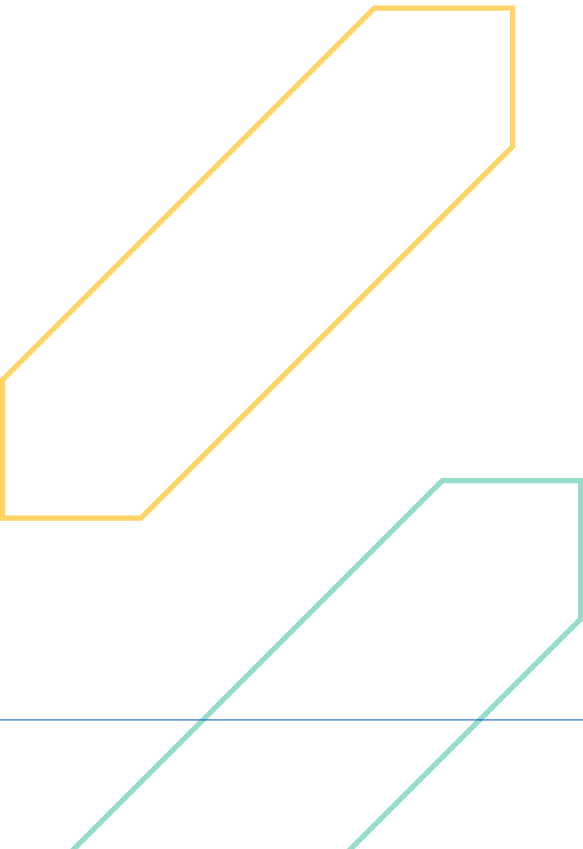
The median TVPI value has also declined from 1.46 to 1.41, though this is only a marginal decrease and reflects the fact that company valuations have started to stabilise across the market.



In comparison, for a sample of 332 US funds that reported the latest data in both 2023Q1 and 2024Q1, similar trends are evident. The pooled TVPI declined from 1.82 to 1.66, indicating that US fund valuations have fallen slightly further on an overall market basis.

The median TVPI multiple fell from 1.44 to 1.39, which is on par with the decrease seen for UK funds over the past twelve months. For the 66 European funds that reported up to date multiples in both years, the pooled TVPI declined by 0.12 points from 1.87 to 1.75 (in line with the UK).

It is worth reiterating that the fund performance data in this report reflects their status up to March 2024, and as such more recent changes in valuations are not reflected in this analysis. Looking at more recent indicators of market trends, in their Q2 2024 European VC Valuations Report, PitchBook note that across Europe valuations have continued to recover – particularly at earlier stages – in the first half of 2024 however, that there is still a question of how much this is being largely driven by the AI sector.¹¹



Chapter 2: Assessment of life sciences and green tech fund performance

Another key characteristic that can affect financial return profiles is the industry or sector that funds primarily invest in. This section therefore provides an assessment of the performance of VC funds that have life sciences or green technology (or 'green tech') as the core sector in their investment strategy.

The analysis is at the fund level and assesses the performance of funds specialising in life sciences and green tech, rather than generalist funds making investments in these sectors.

Life sciences captures funds primarily investing in pharmaceuticals, biotechnology, medical technology or health tech.

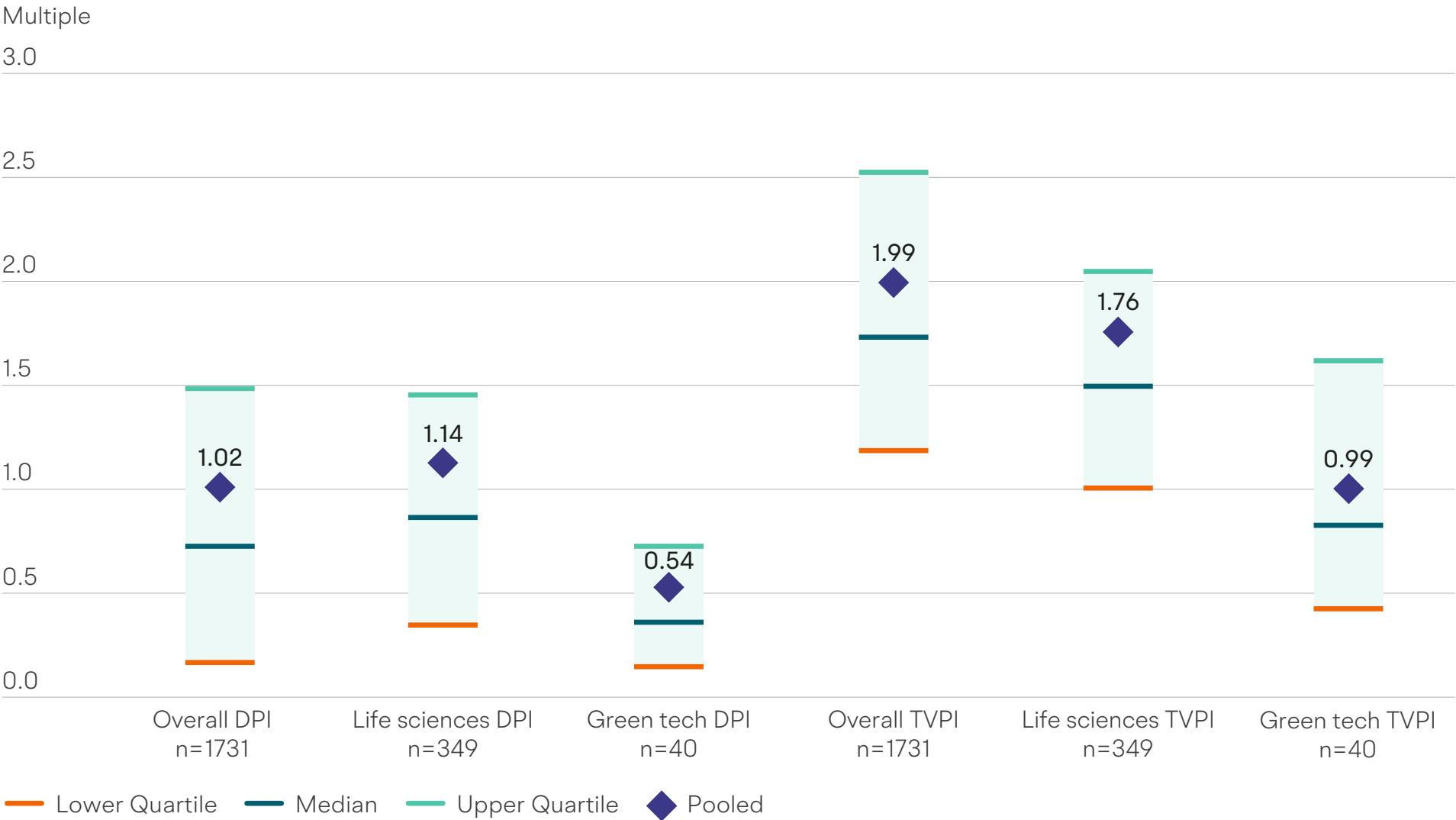
Green tech covers funds investing in any technology that has been created to contribute to a better environmental outcome, including clean tech and climate tech. This captures a broad range of environmental benefits including decarbonisation, resource efficiency, pollution control and nature preservation.¹²

To identify funds investing in these sectors, we have used a combination of keyword searches of fund names, manual checking of funds’ investment strategies as listed on their websites, and both PitchBook and Preqin’s ‘preferred vertical’ classifications. This helped us identify over 350 life sciences funds and 50 green tech funds globally with 2002-2022 vintages.

Figure 2.1 illustrates the DPI and TVPI performance multiples of VC funds globally across 2002-2019 vintages, with a comparison of life sciences and green tech funds

Figure 2.1
Performance multiples of global VC funds by sector (2002-2019 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.



to the wider market. This data highlights that life sciences funds outperform other sectors on a DPI basis – their pooled DPI of 1.14 is higher than the overall market (1.02) and, to a greater extent, green tech funds (0.54).

This trend is not just driven by a few outlier funds, either, with the median life sciences fund generating a DPI return of 0.87, compared to 0.73 across the wider market and 0.37 in green tech.

Life sciences has been a leading area of innovation in recent years, with over £450bn of investment raised by companies over the past ten years (representing 18% of all VC funding globally).¹³ Demand for healthcare solutions continues to increase and the industry also has fast growing sub-sectors in areas such as therapeutics, drug discovery and digital health.

In terms of finance needs, business ventures are capital-intensive and reliant on long-term investment due to the significant clinical and regulatory requirements involved in taking a product to market. However, this creates a clear route to exit for investors, and in countries like the US there are a wealth of established pharma companies with the capital available to acquire promising start-ups – even in more challenging market conditions.

When looking at unrealised portfolio value, life sciences funds have performed below the wider market, with a pooled TVPI of 1.76 compared to a pooled TVPI of 1.99 for VC funds across all sectors. Life sciences companies are likely to be valued closer to cost until a significant milestone is achieved, such as regulatory approval, a clinical trial result or upon exit.

This means that their valuation can often increase in step changes, compared to other tech companies like software whose values generally increase steadily in line with ongoing growth metrics, e.g. number of customers.

On the other hand, green tech funds from this cohort have performed relatively poorly with a pooled TVPI return of 0.99 and median TVPI multiple of 0.83. These are both substantially below the performance of funds in other sectors, and suggests that green tech companies have found it more difficult to attract capital and achieve valuation increases over this period.

It is important to bear in mind that the green tech sector has had a more varied and challenging journey in attracting VC investment over the course of the last twenty years. During the 2000s there was a surge in funding for what is now known as the ‘cleantech 1.0’ bubble, with the value of VC investment in the sector

increasing rapidly from £207m in 2002 to a peak of £4.5bn in 2010 (an increase of 20x) as shown in Figure 2.2.

From this point onwards VC investment in the sector declined, due to cheap access to natural gas enabled through the rise of fracking, reduced US government funding for renewable energy R&D, and China becoming a more dominant player in solar and battery manufacturing.¹⁴ As illustrated in Figure 2.2, by 2020 a total of only £422m was deployed by venture capitalists in green tech globally, the lowest level of annual investment since 2005.

Following the bursting of the ‘clean tech 1.0’ bubble, many investors lost money. Green tech funds in our dataset with a 2002 to 2013 vintage have performed poorly, with a pooled TVPI multiple of 0.78 – indicating these funds failed (or are failing) to deliver a profit to LPs. In addition, 68% of these green tech funds have a TVPI of less than one, compared to 25% of funds across the wider market during this vintage period. This historical underperformance has led to investors to be cautious about investing into green tech funds.

More recently, however, there has been early indications of a revival of this area of the market. The 2022 US

Inflation Reduction Act and the European Green Deal have been important catalysts for the sector, by providing strong incentives for renewable energy, electric vehicles and carbon reduction technologies.

While advancements in innovation have reduced the cost of green technologies, making them more commercially viable and attractive to investors, the rising cost of fossil fuels and geopolitical tensions have also highlighted the importance of energy security.

As illustrated in Figure 2.2, a total of £6.1bn was raised by green tech companies globally between 2022 and 2024, which was an increase of 293% from the previous three year period. This is despite a wider VC market downturn that began in the second half of 2022, as explored in detail in the Bank’s Small Business Equity Tracker 2024 report. The share of global VC investment deployed in the green tech sector has also increased from 0.1% in 2020 and 2021 to 0.7% in 2024.

While this second wave of green tech innovation is still relatively immature in comparison to other successful VC-backed sectors, such as software, fintech and AI, looking at the returns of more recent funds that have invested in this industry suggests that there are some positive signs of comparative performance.

Figure 2.2

Global VC investment in the green tech sector

Source: British Business Bank analysis of user defined PitchBook search

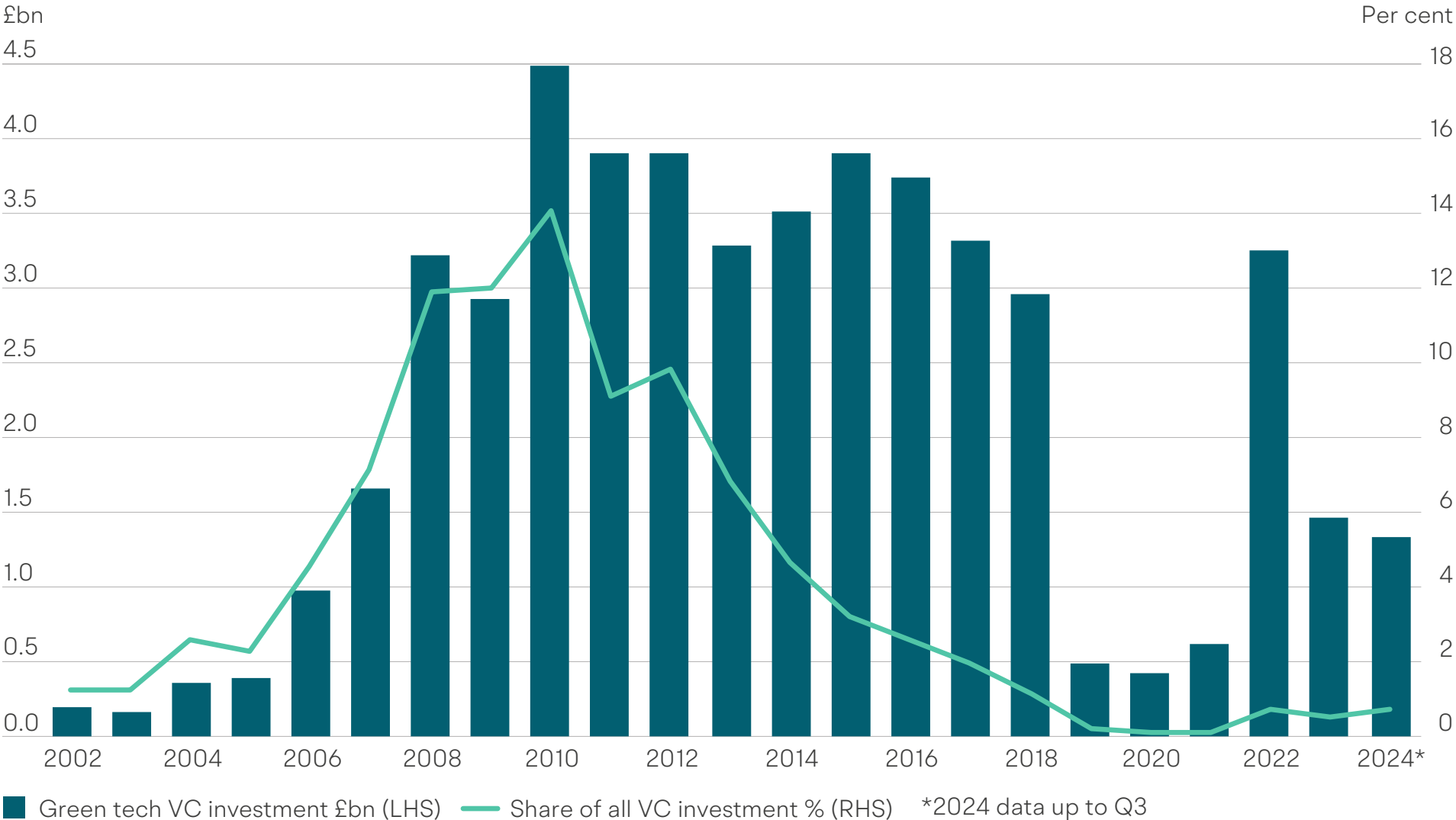


Figure 2.3 displays the DPI and TVPI performance multiples for the latest cohort of funds with 2014-2022 vintages, to focus on funds that have tapped into the more recent cycle of green tech market growth.

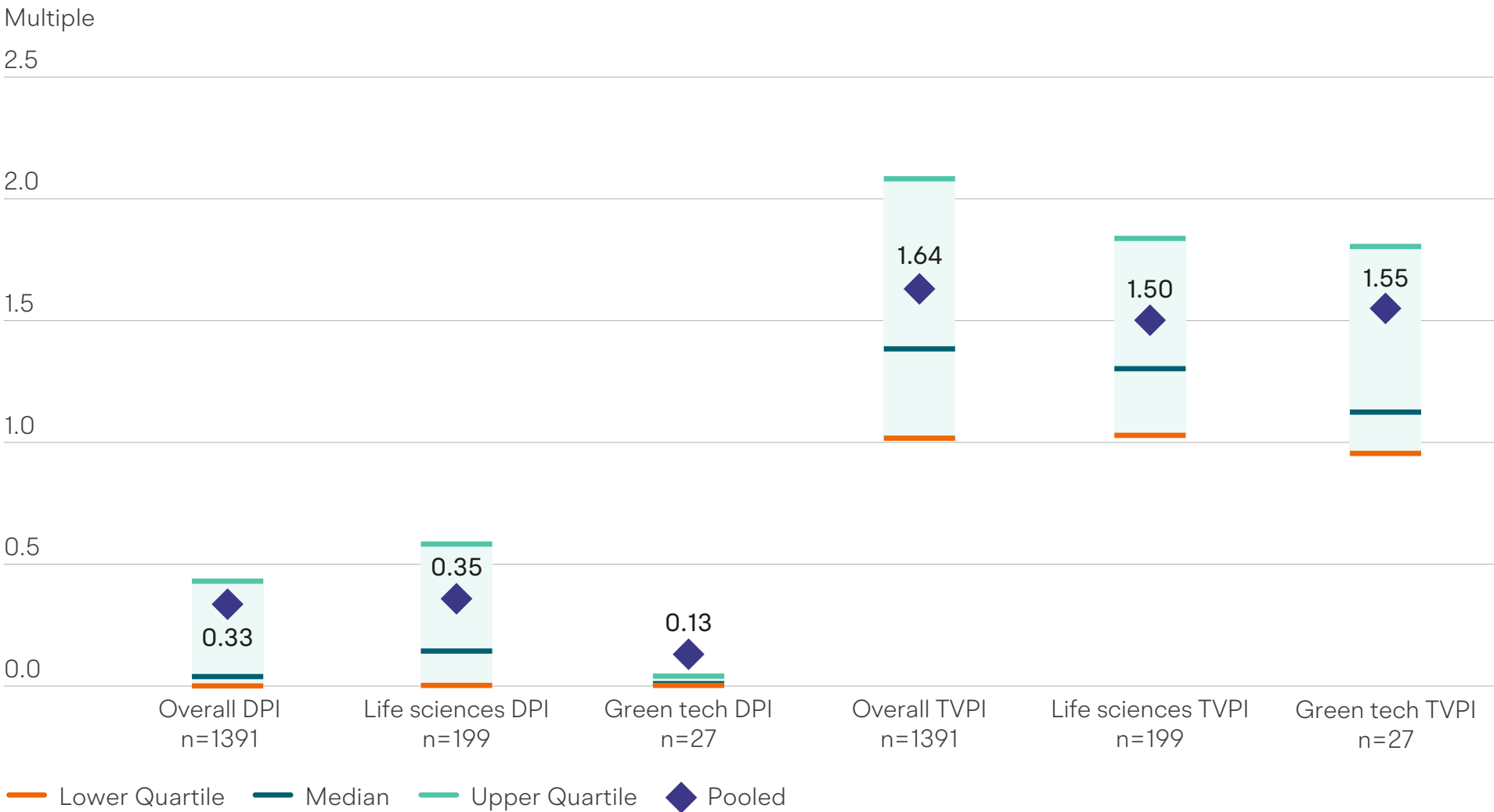
The data shows that, while in DPI terms green tech still lags behind the wider market and sectors like life sciences (with a pooled multiple of only 0.13), this is influenced by the average age of funds in the cohort, and the capital-intensive nature of green tech. Green tech funds in this analysis are a year younger on average and have therefore had less time to exit their investments. On a TVPI basis, though, the green tech sector has produced a multiple of 1.55, which demonstrates performance broadly in line with the overall market (1.64) and slightly above life sciences (1.50).

This marks a significant improvement in relative terms when compared to the performance of green tech funds in the 2002-2019 cohort, indicating that the sector is now producing more commercially viable propositions which are seeing mark ups in valuations. Unlike with the life sciences industry, though, the sector is still yet to generate meaningful realised returns. Over the longer term as these companies grow and scale, the extent to which they achieve successful exits will dictate the true relative performance of the sector.

Figure 2.3

Performance multiples of global VC funds by sector (2014-2022 vintage years)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data. Source: British Business Bank analysis of user defined PitchBook search



Chapter 3: Comparing British Business Bank VC fund performance to the wider market

This chapter provides a comprehensive overview of the performance of VC funds the British Business Bank has invested in as a Limited Partner (LP) through its Enterprise Capital Funds (ECF) programme and through its commercial subsidiary, British Patient Capital (BPC).

The figures below may differ from those reported in the British Business Bank or the BPC annual reports. These variations are attributable to differences in fund coverage. The BPC annual report for instance, includes the performance data for all BPC-supported funds, even those classified as non-VC and those with more recent vintage years.

Enterprise Capital Funds returns

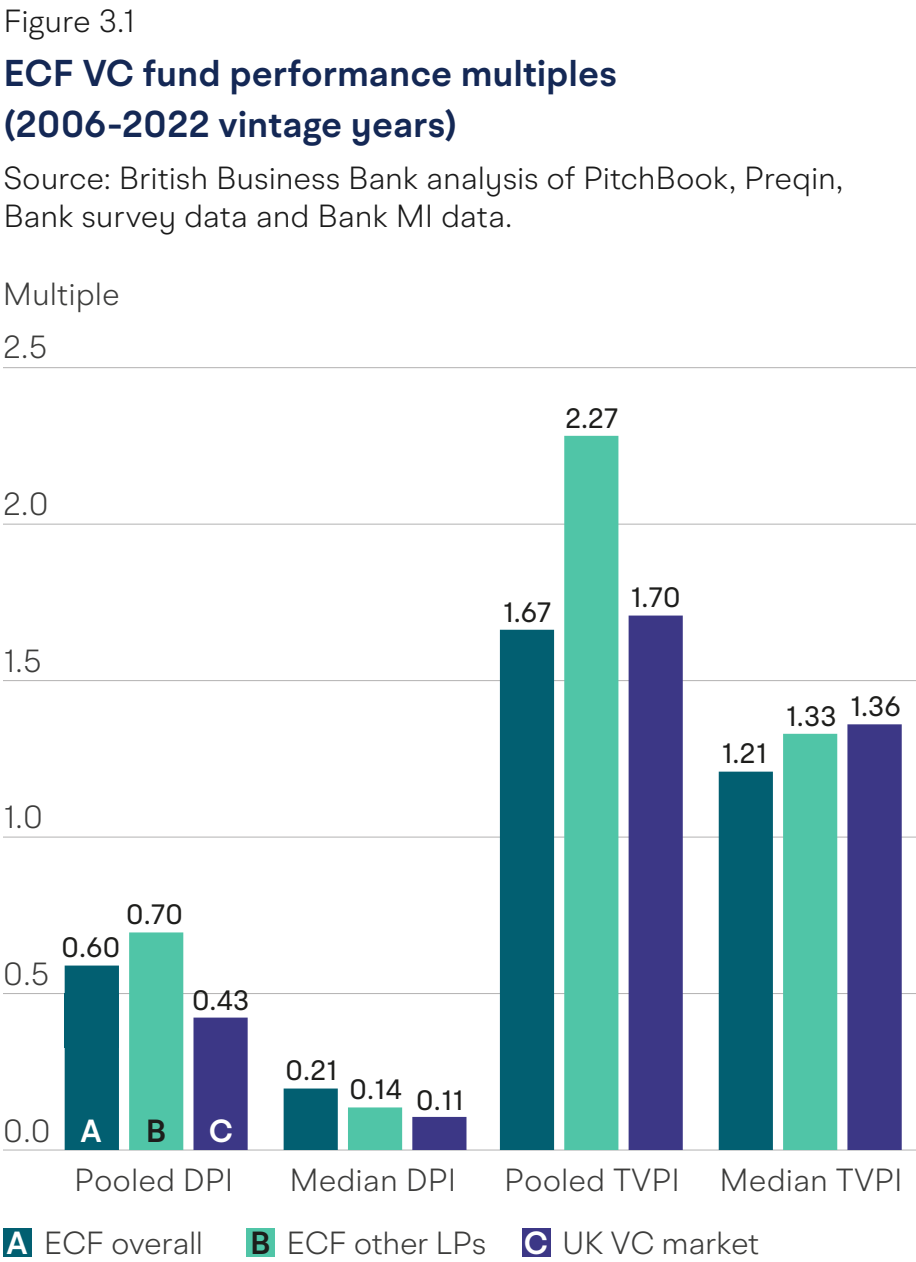
Established in 2006, the ECF programme seeks to address the early stage equity gap for innovative UK companies seeking smaller deal sizes. The programme is designed to mitigate a market failure whereby private investors remain cautious of backing fund managers operating at this early stage, preferring to concentrate their capital with larger and more established GPs.

ECF aims to support VC funds targeting high-growth potential companies, mitigating a significant barrier to enterprise and productivity growth in the UK economy. The ECF programme also aims to lower barriers to entry for VC funds, and has proven very attractive to first time and emerging VC managers.

A key feature of the ECF programme is its geared return structure designed to incentivise private investment. While the British Business Bank receives its initial commitment pro rata with other Limited Partners, it receives a lower share of potential profits. This means that, in cases where fund managers achieve strong performance, the private investors (referred to below as ‘other LPs’) receive a larger share of the profits.

Figure 3.1 presents data on the performance of funds within the ECF portfolio, using a vintage cohort period starting in 2006 to capture the full duration the programme. A distinction is made between the funds’ overall performance and the returns to other LPs, to demonstrate the impact of the geared returns structure.

The data shows that, as has been reported in previous publications, ECF-supported funds have generally outperformed the wider UK VC market. This is particularly the case on a DPI basis – funds in this cohort generated an overall pooled DPI multiple of 0.60 and a multiple of 0.70 for other LPs, compared to 0.43 for wider market funds. The median DPIs for both ECF funds overall (0.21) and other LPs (0.14) were also higher than the wider market (0.11).



VC funds within the Bank's ECF programme have generated a pooled TVPI multiple of 1.67, alongside a pooled TVPI of 2.27 for other LPs. While valuations have declined since last year in line with more challenging market trends, this continues to show that private investors in ECF-supported funds can achieve higher returns than the overall UK VC market (which reported an equivalent TVPI multiple of 1.70).

At the median, though, other LPs in ECF funds have received returns that are more in line with the market. The median TVPI for other LPs is 1.33 for funds in this cohort, compared to 1.36 for funds across the overall market. The upper quartile TVPI multiple for ECF funds is 2.18 overall and 3.13 for other LPs – significantly above the wider market multiple of 1.98. This indicates that there have been a smaller number of very strong performers in the ECF portfolio.

As well as having some top performing funds, the ECF programme has benefitted from investing in unicorn companies including Elevenlabs, Improbable, Gelato, and Thought Machine.¹⁵ While early-stage VC funds (such as those supported by ECF) generally carry higher risk given that the companies are less proven, the trade-

off for this risk is that they can also offer higher returns if companies succeed and achieve their long-term growth potential.

British Patient Capital returns

British Patient Capital (BPC) was formed in 2018 in response to the Government's Patient Capital Review, with the aim of increasing the supply of long-term equity finance for later stage VC-backed companies in the UK. A commercial subsidiary of British Business Bank, BPC invests both through funds and via direct co-invest. Its core £2.5bn funds programme aims to unlock an additional £5bn in private capital to support UK businesses with high growth potential over ten years.

Prior to 2018, BPC's portfolio was seeded with investments originating from the Bank's VC Catalyst programme. This earlier initiative, which invested in funds with vintages between 2013 and 2017, operated under a slightly different mandate compared to BPC. BPC's investment strategy has since evolved to focus on providing capital to funds that prioritise later-stage growth equity strategies. For the analysis in this section, a vintage cohort period starting in 2013 is used to provide a more complete assessment of BPC's performance.

Figure 3.2 shows that the VC funds BPC has invested in with 2013-2022 vintages have generated a pooled DPI multiple of 0.20, which is in line with the pooled return generated by funds in the wider UK VC market (0.19) and also the BPC multiple that was reported in last year's report (0.19). The median fund in BPC's portfolio is slightly outperforming the market on a relative basis, with a DPI multiple of 0.06 compared to 0.03.

When including unrealised value, BPC-supported funds reported a pooled TVPI multiple of 1.40, which is lower than for funds across the wider UK VC market (1.65) for the 2013-2022 vintage year period. The median BPC TVPI multiple, however, is higher for BPC-supported funds (1.33) than for funds across the overall market (1.28).

This represents an improvement in BPC's relative performance when compared to last year's report. In the 2023 analysis, the same return multiples for BPC were all in line with the wider market, with the exception of the pooled TVPI measure (which was 0.29 points below). In this year's report BPC is now performing above the market on three of the four measures. The lower pooled TVPI, combined with a higher median TVPI, indicates that BPC does not have the equivalent share of large, top performing funds.

One possible explanation for the gap in pooled TVPI between the BPC portfolio and the overall VC market, is the fact that we have financial performance data as of March 2024 for all BPC-supported funds, whereas the percentage of VC funds reporting their latest financial performance data in the overall market is lower. There is likely to be a positive bias in wider market returns data, particularly in the current challenging market conditions, as underperforming funds may not report their performance as regularly.

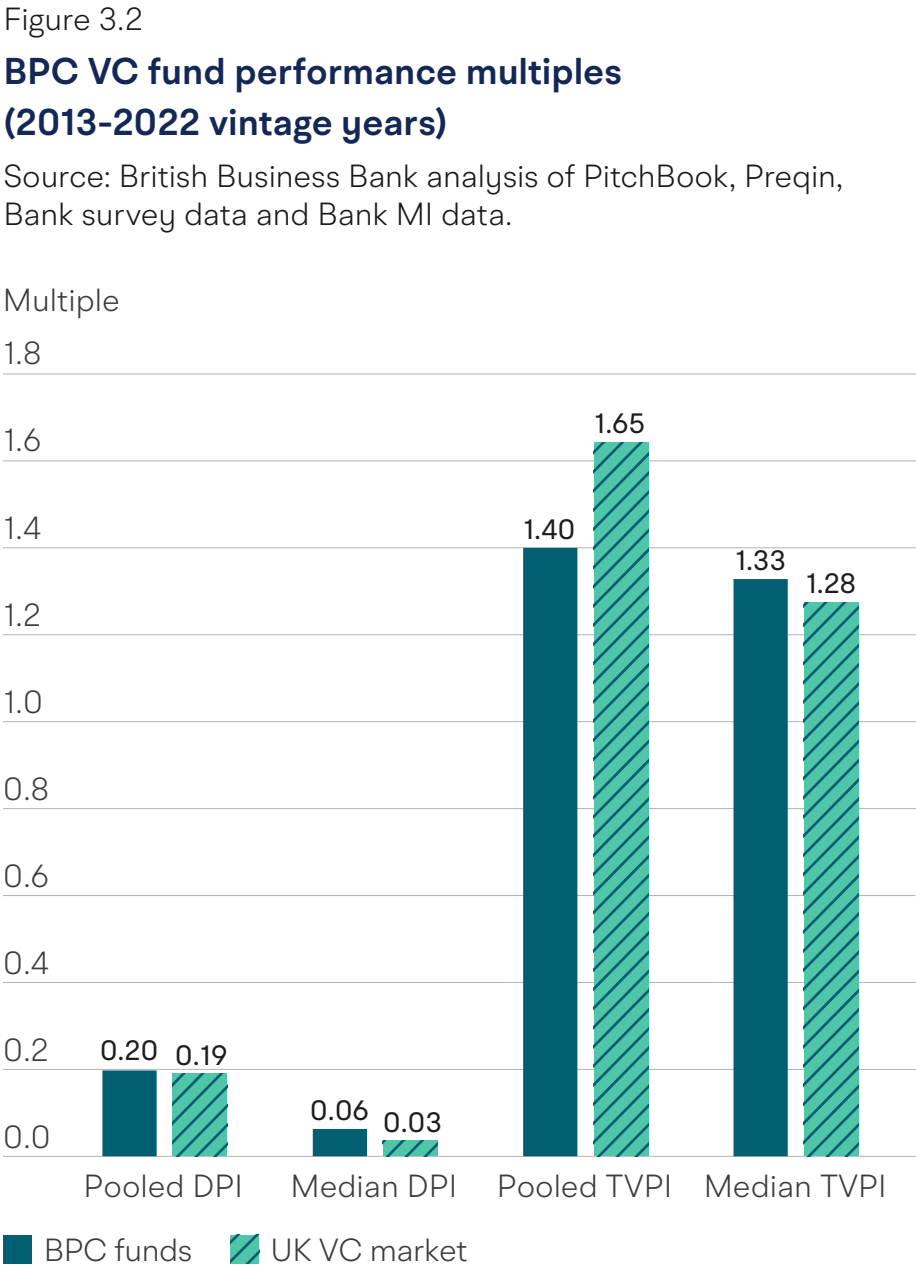
Performance can also be measured using the IRR measure, which takes into account the magnitude and the timing of cashflows, i.e., the time value of money. BPC’s median average fund IRR return for VC funds with a 2013-2022 vintage year is 8.9%. The overall market figure for funds with the same vintage (for which data is available) is higher at 10.8%.

For funds that have a 2018-2022 vintage since BPC’s establishment, the data shows a similar picture on the relative performance of the programme. BPC funds in this cohort reported a pooled DPI multiple of 0.11 (compared to 0.08 for the wider market) and a pooled TVPI of 1.25 (versus 1.40). Again, at the median BPC’s

performance for 2018-2022 funds is in line with the market, with a DPI of 0.00 and a TVPI of 1.22.

Overall, compared with previous reports the performance gap with the overall VC market has narrowed, and on some measures BPC now slightly outperforms the market – mainly at the median. It should be noted that some of BPC’s funds are too young to be included in the analysis and a significant proportion of the portfolio value is currently unrealised. It is therefore still quite early in the life of the programme to draw conclusions about the long-term performance of BPC’s portfolio.

Despite it being a challenging environment for the VC market globally, in the year to March 2024 BPC continued to provide capital to ten new fund investments and five direct and co-investments. Looking ahead, through both its core funds and direct programmes, such as Future Fund: Breakthrough, BPC will continue to deploy capital into the market throughout the cycle, catalysing other investors and supporting important UK sectors such as life sciences and deeptech.¹⁶



Chapter 4: Fund manager views on current VC market conditions

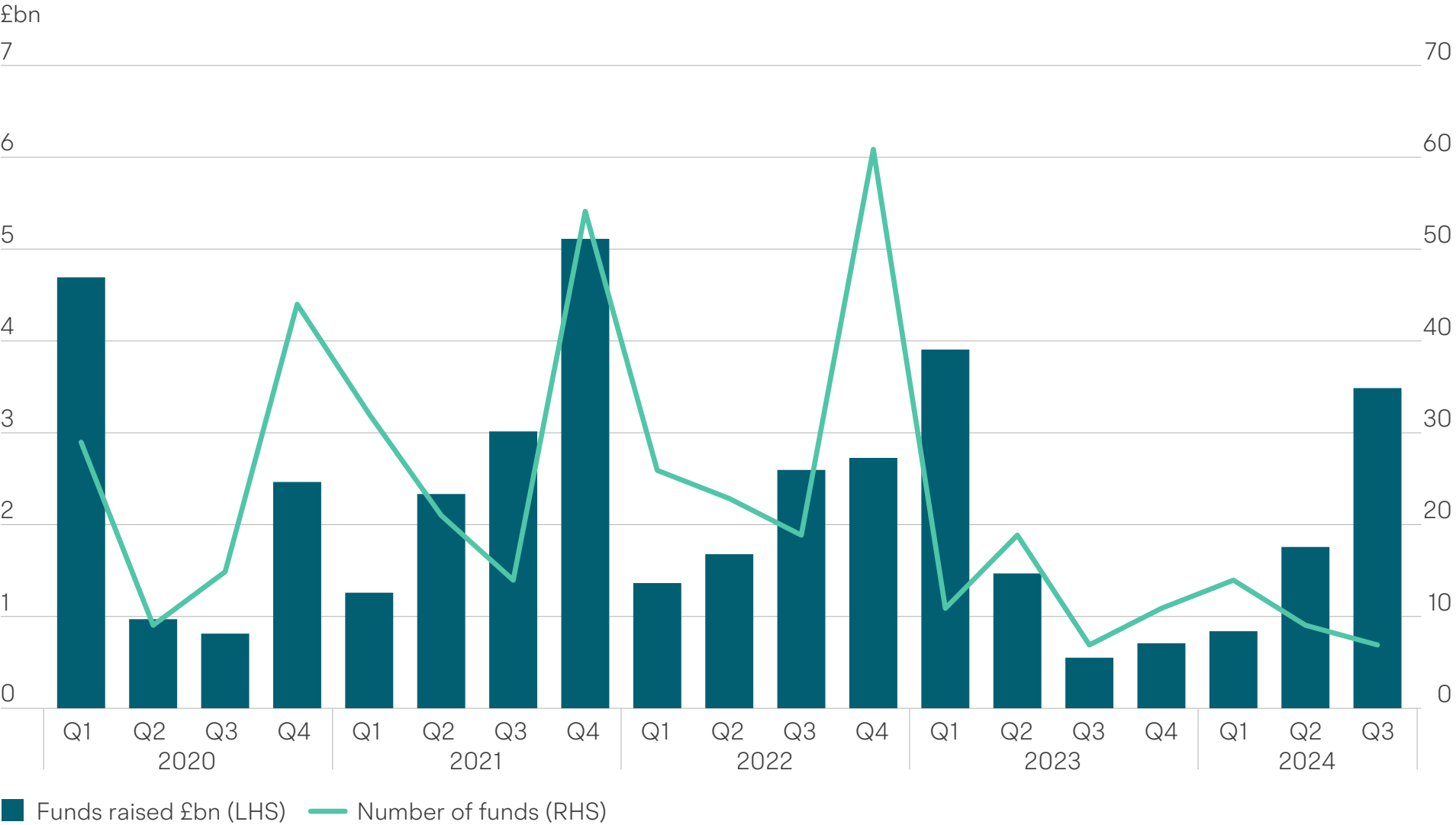
This chapter of the report provides a qualitative assessment of current VC market conditions, drawing upon the perceptions and views of UK fund managers. During August 2024 the Bank undertook its fund manager survey for the fifth successive year, producing in-depth evidence on the state of the market.

Fund managers were asked about key aspects of the market environment such as fundraising conditions, exit opportunities, competition for deals, and expectations for future changes in valuations.

Where possible, responses are compared with previous surveys to identify any key trends over time. This year additional questions have also been added to further explore what specific challenges fund managers are experiencing in raising funds and exiting their investments.

A total of 42 fund managers completed the survey this year. The Bank estimates that these 42 fund managers form 25% of the total population of UK-based fund managers that are currently active (168 estimated in total), and therefore provides significant coverage from professionals with market expertise.

Figure 4.1
Quarterly fundraising by UK VC funds
Source: British Business Bank analysis of user defined PitchBook search.



GPs echoed the pessimism from last year’s survey regarding fundraising conditions, with some having to push back fundraising timelines

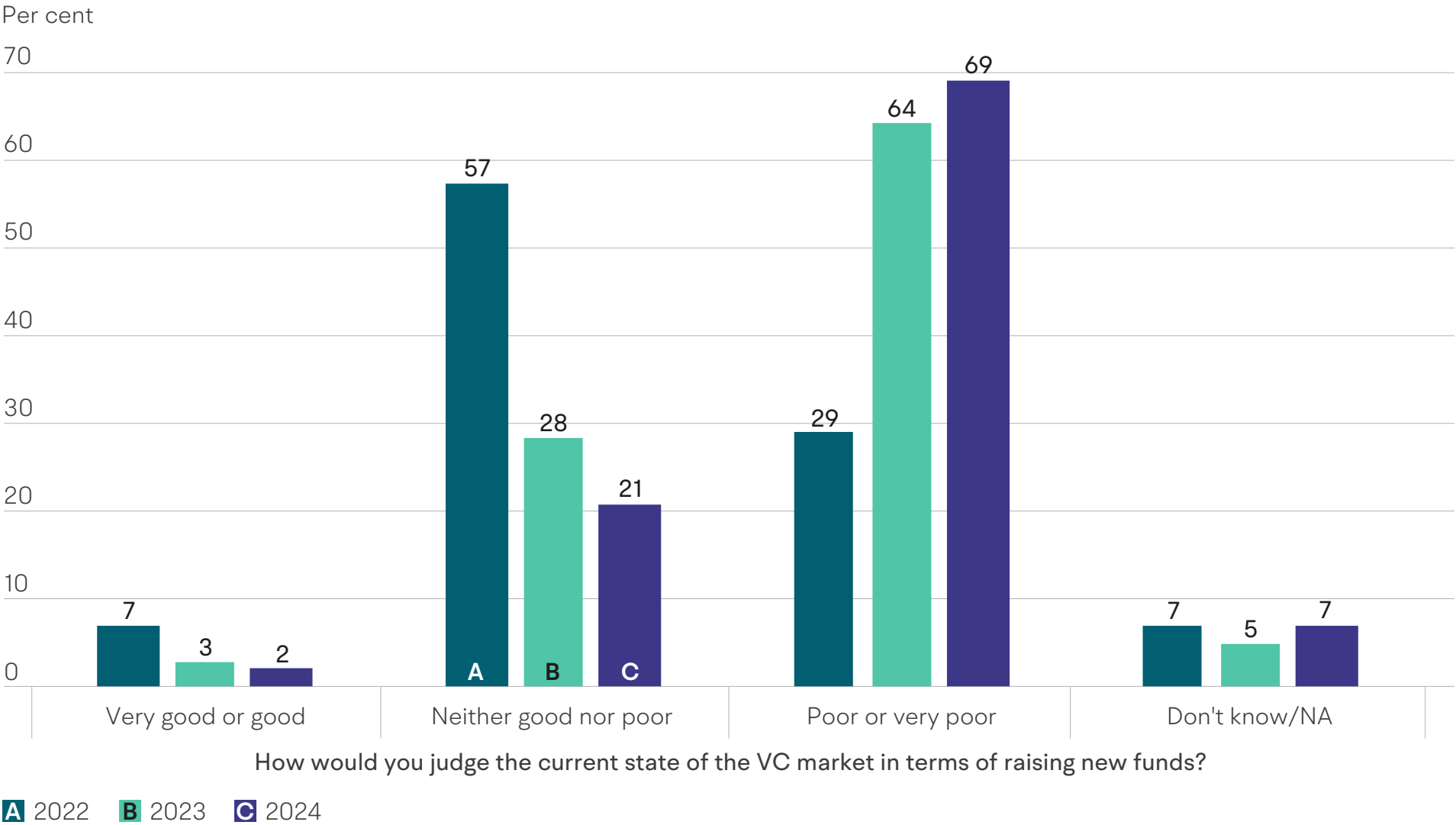
Looking at recent trends in UK VC fundraising, analysis of PitchBook data shows that there has been a subdued level of activity in the market since the second half of 2023. Figure 4.1 shows that between 2023Q2 and 2024Q2 only £3.4bn was raised through 51 closed funds – significantly below the total seen during 2021 and 2022. While the number of closed funds has remained low in 2024Q3, the amount of fundraising (£3.5bn) was the highest since 2023Q1.

In terms of GPs perceptions around fundraising conditions, Figure 4.2 shows that a majority of fund managers reported that the current state of the UK VC market in terms of raising a new fund was either poor or very poor (69%). A minority of fund managers (21%) thought the market conditions for raising a new fund were neither good nor poor, and only one GP reported that they were good.

Figure 4.2

Fund manager views on current fundraising conditions

Source: Bank survey of VC fund managers (2022 n=14, 2023 n=58, 2024 n=42).



GPs reported low LP liquidity (28%), the macroeconomic environment (24%), longer fundraising timelines (19%) and increased difficulty attracting investors (19%) as the most significant challenges affecting the current fundraising environment.¹⁷

Compared to last year the majority view has remained that fundraising conditions are poor or very poor, which reflects a significant shift from two years ago when GPs were more neutral (neither good nor poor conditions) to pessimistic.

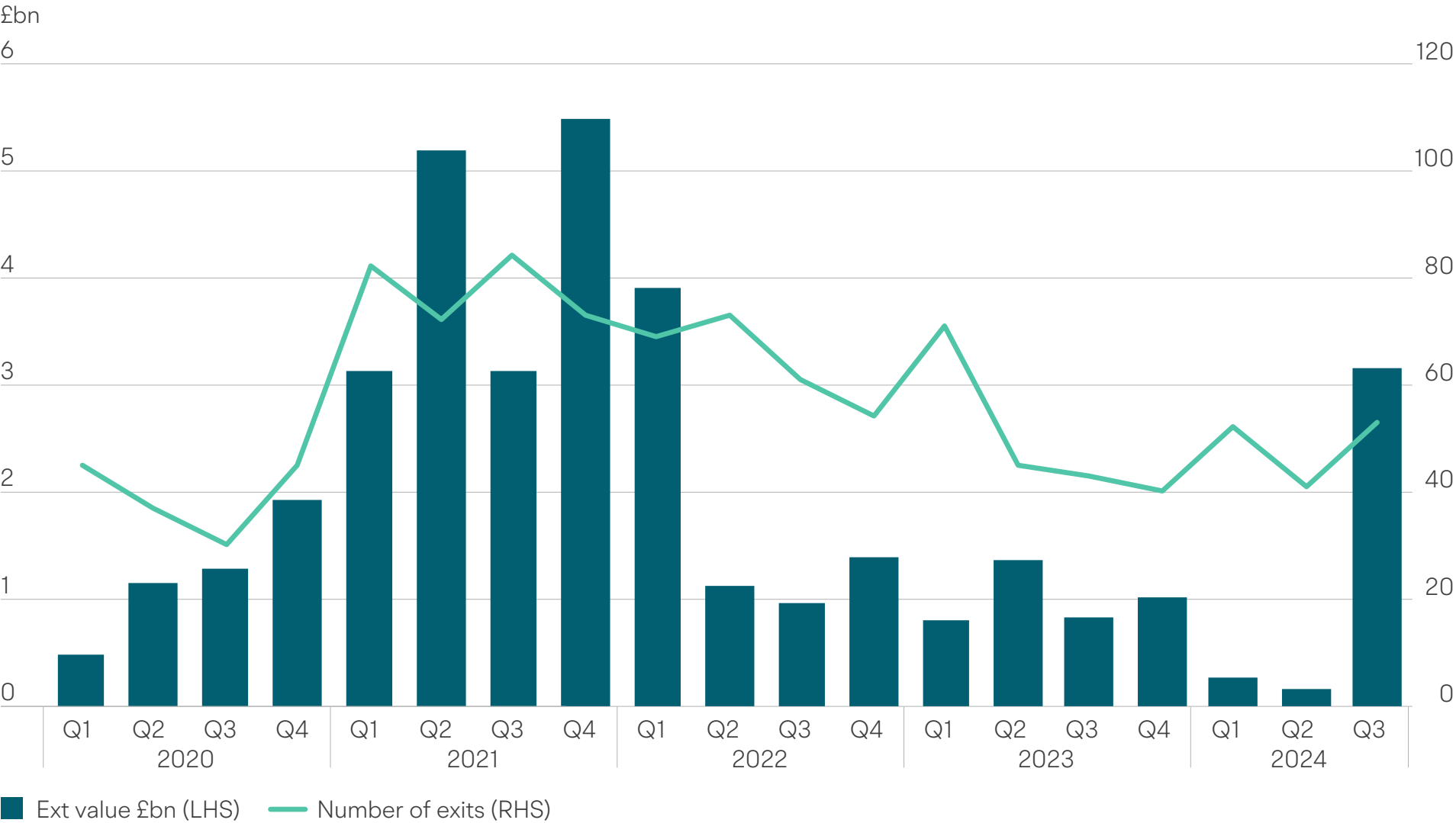
The survey respondents also provided views of how these fundraising conditions compared to a year ago. 19% reported that fundraising conditions have worsened, while 60% thought they were about the same and 14% thought they had improved.¹⁸

When asked to what extent their future fundraising plans have changed compared to a year ago, 26% of GPs said that they have had to push back their plans for raising a new fund, with no fund managers reporting that plans had been moved forwards. 67% reported no change in fundraising plans.¹⁹

Figure 4.3

Quarterly exits of UK VC-backed companies

Source: British Business Bank analysis of user defined PitchBook search.



The exit environment remains challenging, but GPs are expecting conditions to improve over the next year

Focusing on the exit environment, analysis of PitchBook data in Figure 4.3 shows that the recent decline in levels of activity over the past two years had continued through the first half of 2024. While a total of £16.9bn of exits were realised by UK companies during the market peak in 2021, in the middle of 2022 there was a sharp fall in exit value.

In the first half of 2024, £430m of exits have been recorded in the UK – a decline of 80% on the same period in 2023. However, there has been an uptick in activity during the third quarter of the year, with over £3bn of exits completed through 53 deals.

The stagnant exit environment has severely limited the ability of fund managers to convert the unrealised value of their investments into realised gains. This has reduced their ability to generate returns for LPs and, as a result, attract additional capital for new funds.

In terms of the key issues affecting exit opportunities, fund managers reported that differing expectations around company valuations (24% of responses), the higher interest rate environment (21%) and too few strategic buyers (20%) were the most significant challenges affecting the current market environment.²⁰

Figure 4.4 shows that 62% of GPs perceived the state of VC market for providing opportunities for successful exits to be poor or very poor, an improvement on 72% of fund managers in 2023. 24% said the market was neither good nor poor and 14% said it was good or very good.

Additionally, only 7% of fund managers believe the state of the VC market for providing successful exits is worse now compared to last year, with 64% believing it is about the same and 29% noting that it has improved. This suggests that although exit conditions are still difficult, there are some initial signs of improving sentiment.

In fact, more fund managers believe that the exit conditions are improving than getting worse. In previous years the majority of fund managers have believed conditions are getting worse (50%, 71% respectively), with very few (7%, 7% respectively) believing that conditions had improved.

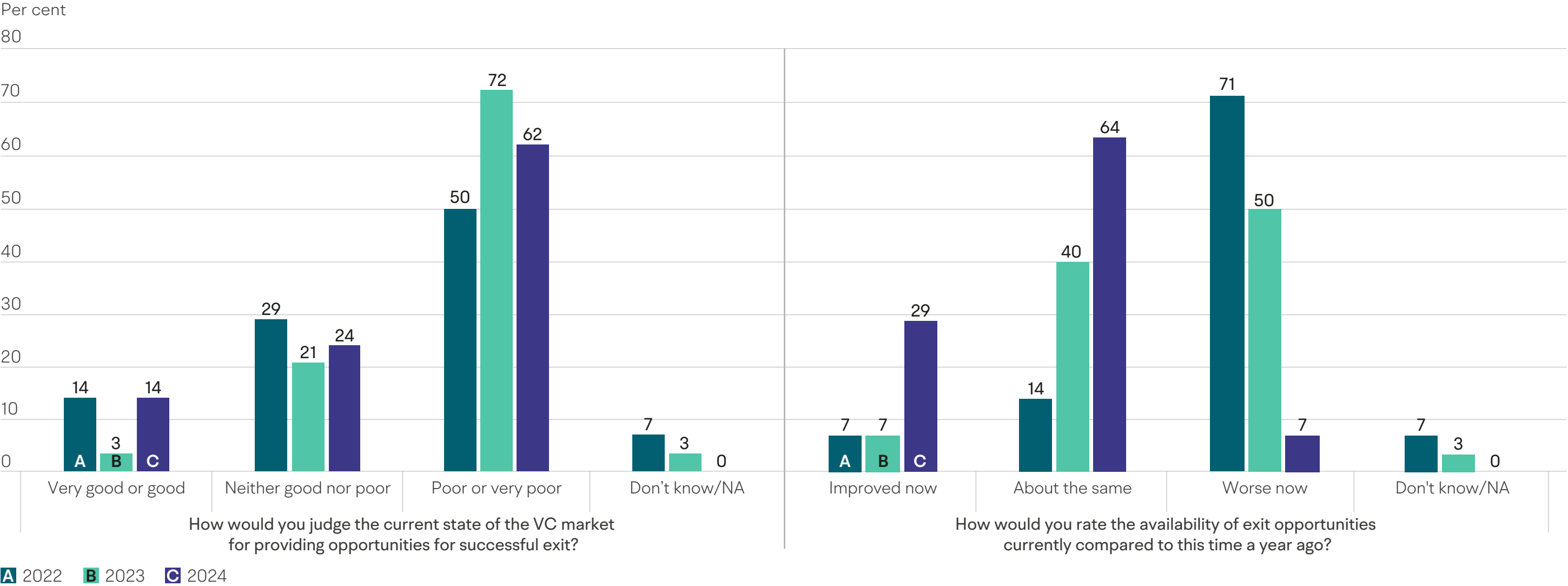
Looking forward, GPs are optimistic that the availability of exit opportunities are set to increase over the next year, with the majority (74%) expecting moderate/slight increases and no GPs expecting the availability to decrease.²¹

The European Investment Fund's VC & PE Mid-Market Survey 2024 makes similar conclusions about exit and fundraising conditions in the European market, with respondents (European GPs) naming them as their leading concerns. Similarly to UK GPs, European respondents also had optimistic expectations about the exit environment for the next year. 52% more respondents expressed a positive sentiment about exit conditions in the forthcoming year than a negative sentiment.²²

Figure 4.4

Fund manager views on current exit conditions

Source: Bank survey of VC fund managers (2022 n=14, 2023 n=58, 2024 n=42).



The perceived quality of investment opportunities has improved, and the level of competition in the market appears to be increasing

Figure 4.5 shows that fund manager views on the quality of investments available in the UK VC market have improved since our 2023 survey to near 2022 levels. The share of respondents rating the quality of investments as ‘good’ or ‘very good’ has improved from 40% in 2023 to 60% in 2024.

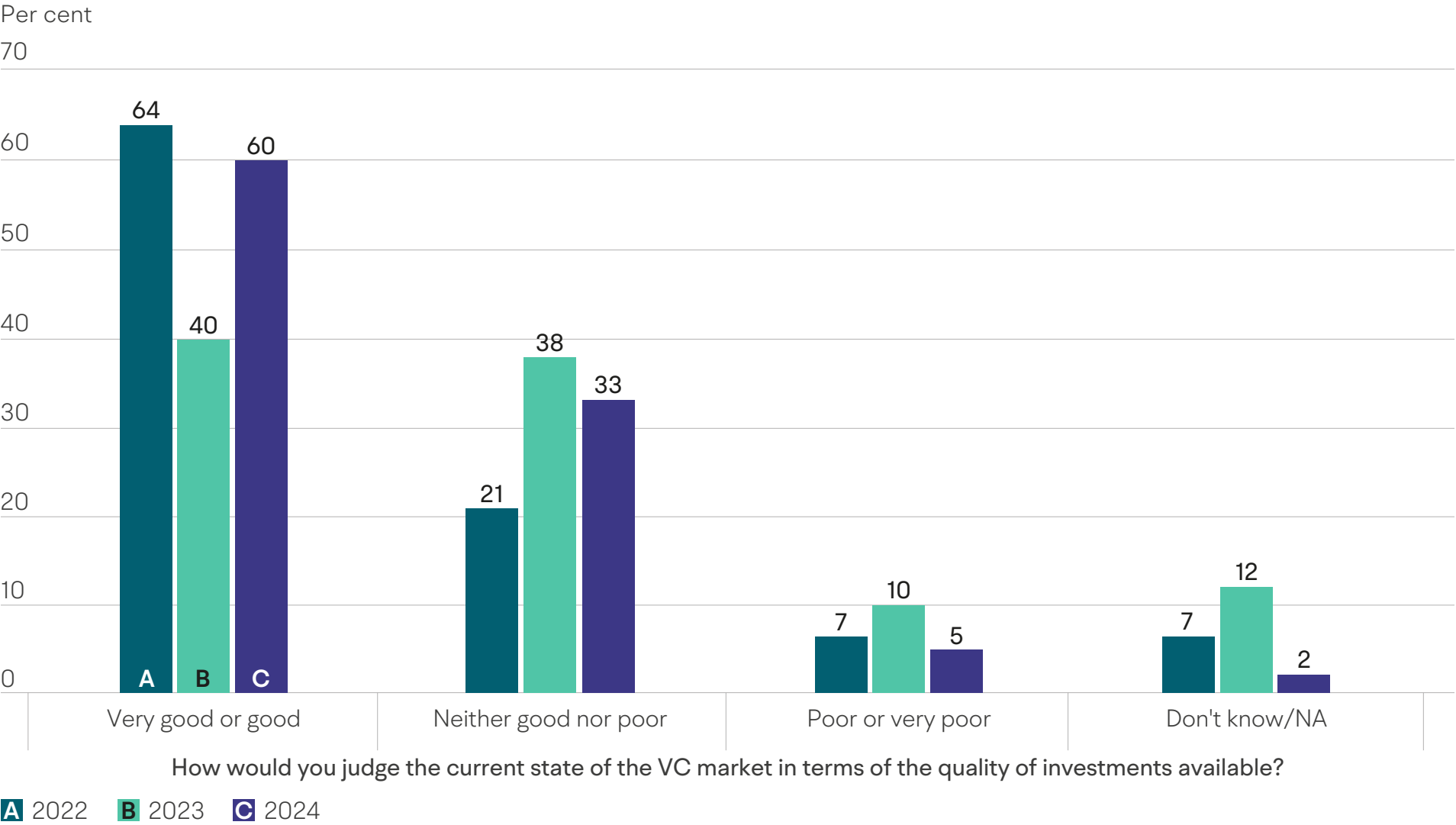
This is reflected by 44% of fund managers saying the quality of investment opportunities has increased over the last year, with 49% stating they are about the same, and no fund managers believe they were worse than last year.²³

Fund managers were also asked about which sectors represented strong investment opportunities in the UK. Respondents reported software (40%) and fintech (17%) as the two most popular choices for investment opportunities in the UK. Deeptech (27%), software (22%) and fintech (17%) were also identified as the sectors with the most innovation potential over the long-term.²⁴

Figure 4.5

Fund manager views on current quality of investments

Source: Bank survey of VC fund managers (2022 n=14, 2023 n=58, 2024 n=42).



The majority of GPs (67%) believed the quantity of investments available in the UK was good or very good, with around a quarter stating that they were neither good nor poor and only two fund managers believed that they were poor.²⁵ 45% of GPs said this was an improvement on last year, with 47% saying it was about the same, and no fund managers perceiving it to be worse.²⁶

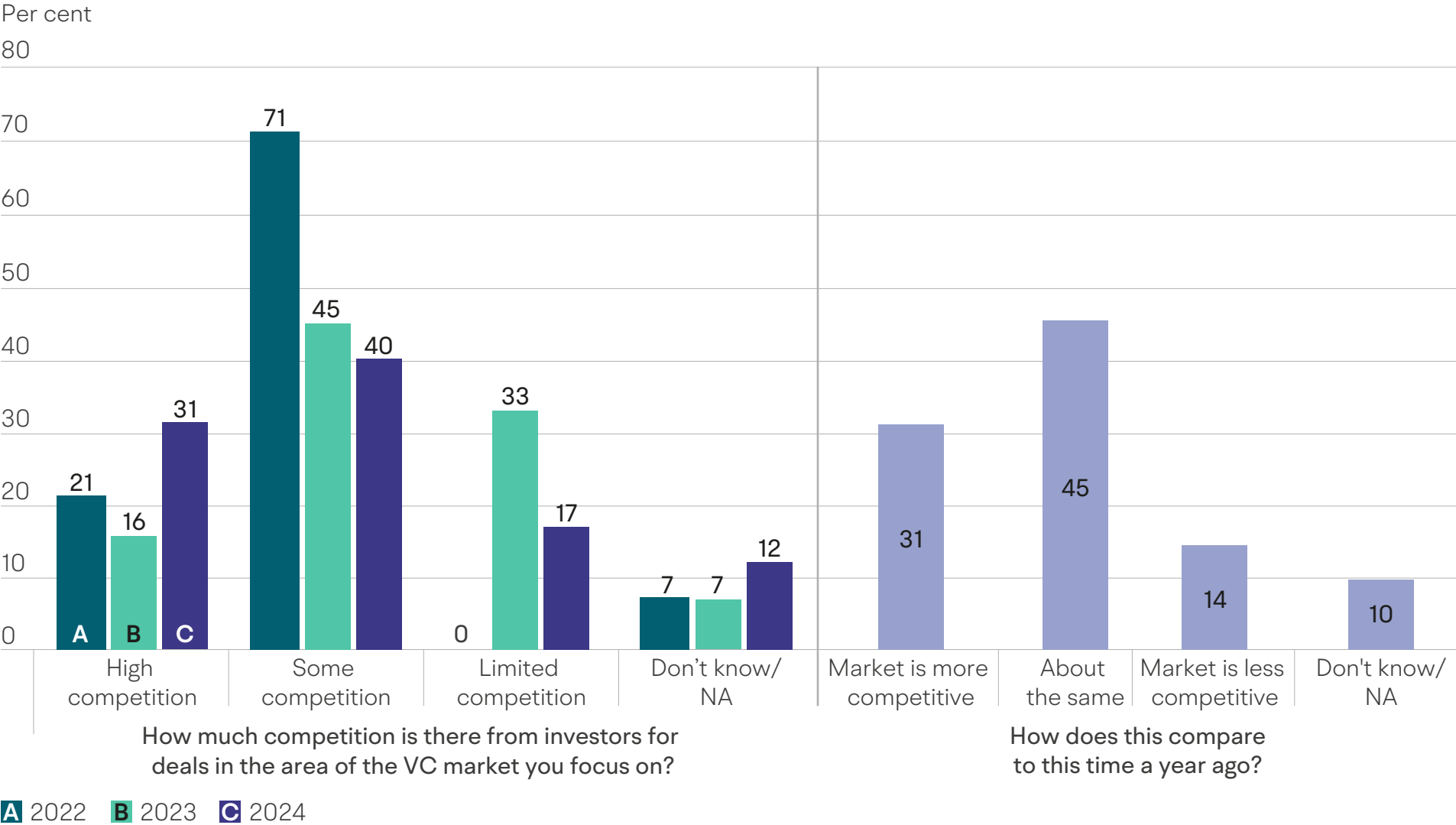
Figure 4.6 shows that there is positive sentiment from fund managers about competition in the market in comparison to a year ago. Around 30% of fund managers reported high competition for deals, an increase from 16% in 2023 and 21% in 2022. Fewer fund managers (17%) also stated that they believe there to be limited competition in comparison to last year (33%).

Nearly half of fund managers believe there is about the same competition from investors as last year, and more than twice as many fund managers (31%) believe that the market is more competitive, rather than less competitive (14%) than last year.

Figure 4.6

Fund manager views on current competition for deals

Source: Bank survey of VC fund managers (2022 n=14, 2023 n=58, 2024 n=42).



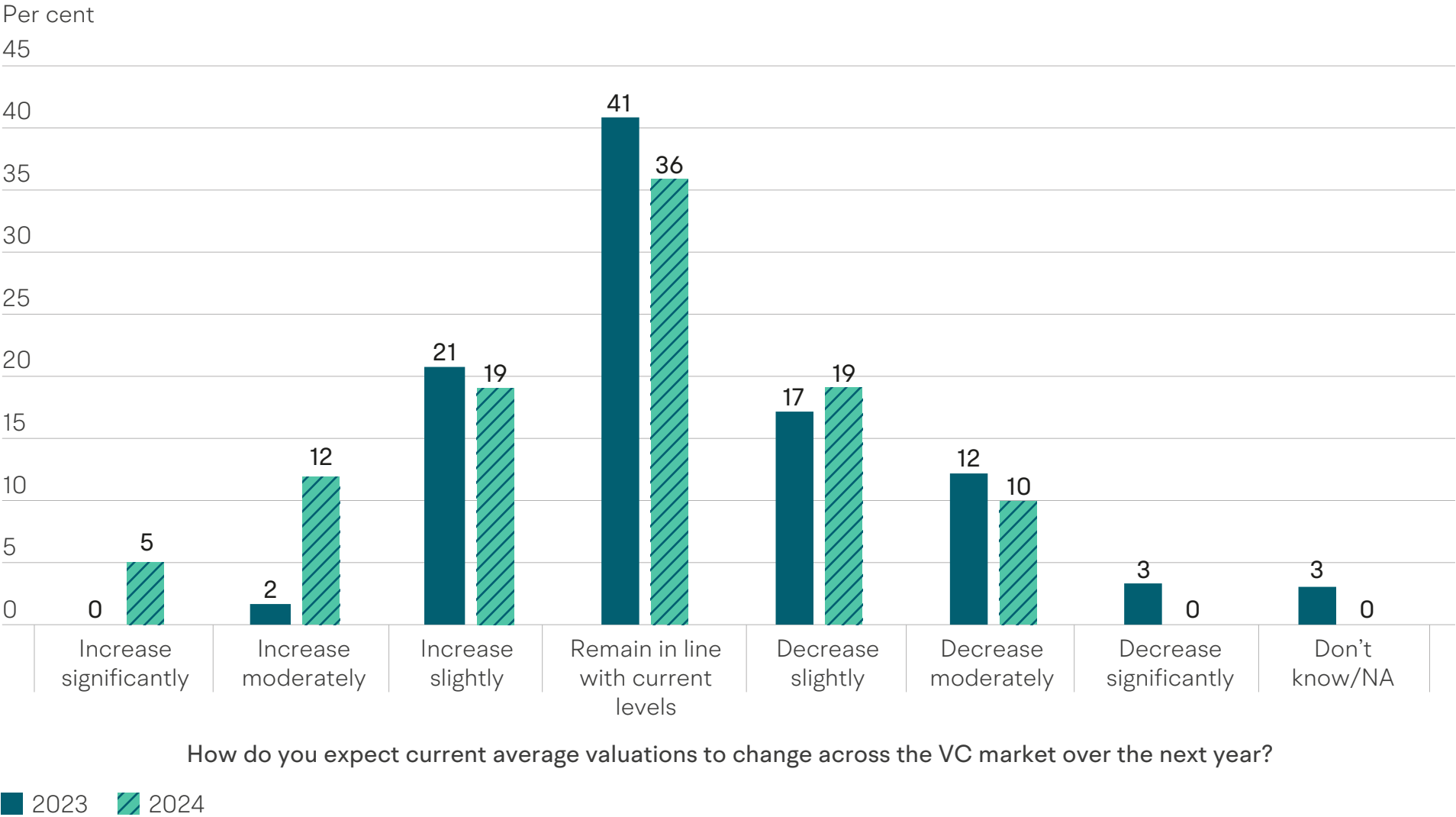
Looking ahead, Figure 4.7 reveals that 36% of fund managers in the UK are expecting average company valuations to remain in line with current levels over the next year. 31% are expecting valuations to increase slightly/moderately, with 5% expecting a significant increase. Conversely, 29% expect valuations to decrease slightly/moderately, with none expecting a significant decrease. This presents a slightly more optimistic outlook on VC market valuations than last year.

The Bank’s Small Business Equity Tracker 2024 report highlighted that company valuations had fallen further in 2023, but there were some initial signs of recovery in the second half of the year. The average pre-money valuation in 2023 was £19.2m, or 25% lower than the year before. Comparing the first and second half of the year this trend improved, though, with average pre-money valuations 24% higher in 2023H2 compared to 2023H1.²⁷

Figure 4.7

Fund manager views on future changes in valuations

Source: Bank survey of VC fund managers (2023 n=58, 2024 n=42).



Appendix 1:

Definitions

Venture Capital (VC)

Venture Capital is a type of Private Equity (PE) finance provided by investors into small early-stage companies with the potential for very high growth. Finance is provided in return for an equity stake in the business and investors generate a financial return (or profit) on their investment when they sell their stake through an Initial Public Offering (IPO), trade sale or secondary sale. Many early-stage VC-backed companies are unlikely to have positive cash flows, or even be generating sales at the time of VC investment. It may therefore take many years until a company has developed its technology and market position to allow a VC investor to exit with a positive return. VC-backed companies therefore differ to PE-backed companies which are more established.

This report focuses on the returns made by funds focused on making VC investments only. It does not compare the performance of returns generated from wider PE or other asset classes like investing in public markets.

Financial performance metrics

There are several ways to measure VC financial returns. Deciding which measure to use is often context specific and dependent on the data available. The following measures are used to assess fund performance in this report:

- Internal Rate of Return (IRR)
- Money multiples:
 - Distributions to Paid-In capital (DPI)
 - Residual Value to Paid-In capital (RVPI)
 - Total Value to Paid-In capital (TVPI)

Money multiples are the main measure used to assess fund performance throughout this report.

Internal Rate of Return (IRR)

IRRs are widely used in private capital industries as they offer a way of comparing two investments with irregular cashflow timings and sizes. The IRR represents the discount rate at which the Net Present Value (NPV) of an investment’s future cashflow is equal to zero.

The IRR measure incorporates the time value of money, so that £100 of returns generated sooner is valued more than £100 realised in the future.

Money multiples

Multiples provide a relatively simple measure of an investor’s return on their invested capital, providing a cash-on-cash measure of how much investors are receiving back from the capital they have committed. Multiples are useful in that they show the scale of the returns, but a key limitation is that the time value for money is completely ignored. A fund returning twice the invested amount will have the same multiple regardless of whether the return took two or ten years to materialise. Two multiples that are typically reported by funds are Distribution to Paid-In capital (DPI) and Total Value to Paid-In capital (TVPI), but it is also useful to know the Residual Value to Paid-In Capital (RVPI) which is the difference between the two multiples: $TVPI = DPI + RVPI$.

- **Distributions to Paid-In capital (DPI):** The ratio of cumulative distributions to LPs divided by the amount of capital contributed by the LPs. At the start of a fund's life, this ratio will be zero due to there being no exits to date but will begin to increase as distributions (portfolio company exits) occur. When the DPI is equal to one the fund has broken even, as the money paid in is equal to money distributed. Any number above one indicates that the fund has paid out more than has been paid in, so that LP investors get more than their initial capital back. This measure is therefore useful at the later stages of a fund's life as it is an actual measure of fund performance directly measuring cash received from exits.
- **Residual Value to Paid-In capital (RVPI):** The sum of cumulative net asset value of the investment, divided by the capital contributed by the LPs. It calculates the multiple of the investment would be returned to investors if the unrealised assets were sold at current valuations. Valuation of early-stage companies can be

very difficult because of the inherent uncertainty surrounding the prospects of the company. However, the concept of 'fair value' is used to value the unrealised assets at each measurement date, with a number of recognised valuation techniques used. The 'Book value' of unrealised investments is useful for assessing performance during the early part of a fund's life, but offers no guarantee on future performance as valuations can change over time due to changes in wider economic and market conditions.

For instance, a high RVPI may be indicative of an inflated market versus an accurate representation of how much the portfolio can actually be sold for eventually'. Globally, there are a number of well-known later stage unicorn businesses that have received funding at a lower valuation to their previous funding round (known as a down round). This will effectively lead to disappointed LP investors as the DPI does not match up to the projected RVPI.

- **Total Value to Paid-In capital (TVPI):** The sum of cumulative distributions to LPs and the net asset value of the investments, divided by the capital contributed by the LPs. It calculates what multiple of the investment would be returned to LP investors if the unrealised assets were sold at current valuations and added to distributions that have already been received. This is useful for assessing performance during the early part of a fund's life, like the RVPI measure. While this can provide a more complete picture on the returns from the fund, it is significantly impacted by the valuation that is placed on the unrealised investments remaining in the fund, although the impact should reduce as the fund matures and investments are realised.

Given this difference, many LPs rely on the TVPI measure earlier in the life of a fund and DPI measure towards the end of a fund's life. Multiples tend to be a more conservative measure than IRR as a zero-rate reinvestment of cash flows is assumed.

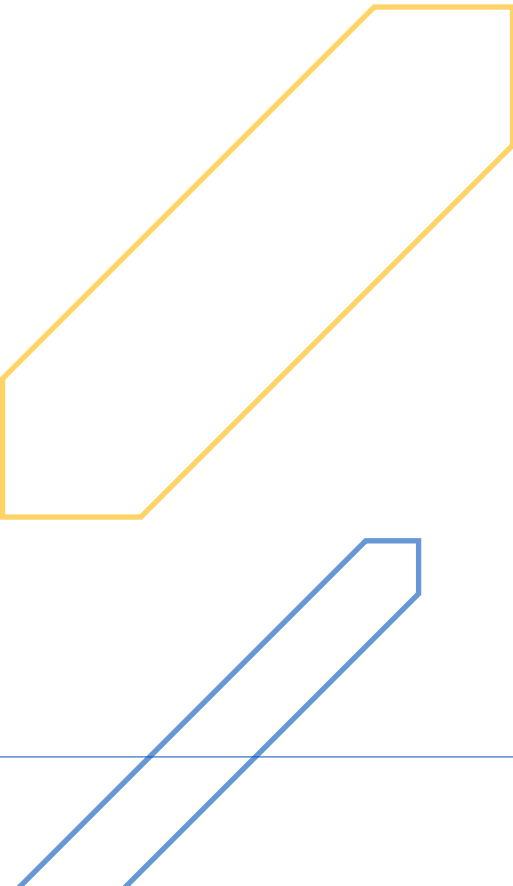
Distribution of returns

There are large variations in performance between the top performing funds and the remaining funds. It is therefore useful to look at both the pooled return and median fund return figures, alongside the upper and lower quartiles. The VC industry has a focus on benchmarking upper quartile funds but there is no universal method for choosing the reference period or specific reporting metric, which will fluctuate from year to year depending on the composition of the funds included.

- **Pooled Return:** The return for the total group of funds being analysed. This is calculated by aggregating the realised and unrealised values across all funds, which accounts for different fund sizes. This is the best measure for estimating total market returns as it includes the performance of all outlier funds.
- **Median:** The fiftieth percentile. The return of a fund in the middle of the ranking. This represents the return of a ‘typical fund’.
- **Upper quartile:** The return of the fund in the top 25th ranking. When all VC funds are considered, upper quartile fund performance is higher than the remaining three quarters of other funds.

Fees

The financial return metrics presented for LP funds in this report are net of fees (i.e. fees are deducted). Management fees allow VC funds to meet their own operating costs, whilst carried interest fees relates to performance related share of fund profits from realised investments.



Appendix 2:

Overview of data sources

BVCA

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity (PE) and venture capital (VC) (private capital) industry in the UK. The BVCA’s membership of around 620 firms includes the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. The BVCA, in association with PwC, undertakes an annual survey of its eligible members asking about the performance of the funds that they manage. To be eligible for inclusion the PE firm must be a full BVCA member, raise money from third-party investors and manage that money from the UK (although it may be invested elsewhere). BVCA members investing from their own balance sheet, quoted vehicles such as VCTs and listed PE are excluded from the fund returns.

The BVCA annually publishes financial returns information through its Performance Measurement Survey. The report examines the performance of PE

and VC funds and then benchmarks them against other asset classes, notably the UK public equity market. Overall, 86 fund managers responded to the latest BVCA survey providing data as of 31 December 2023.²⁸ Fund data is presented anonymously in pre-defined categories relating to vintage year.

Commercial data providers

Commercial data providers like Preqin and PitchBook primarily source information on the performance of funds from public filings by pension funds, Freedom of Information (FOI) requests and voluntary disclosures by fund managers (GPs) or LPs.

Preqin

Preqin is a provider of data and intelligence to the alternative assets industry including PE, real estate, hedge funds, infrastructure, private debt and natural resources. It collects a range of information including funds and fundraising, performance, fund managers, institutional investors, deals and fund terms.

PitchBook

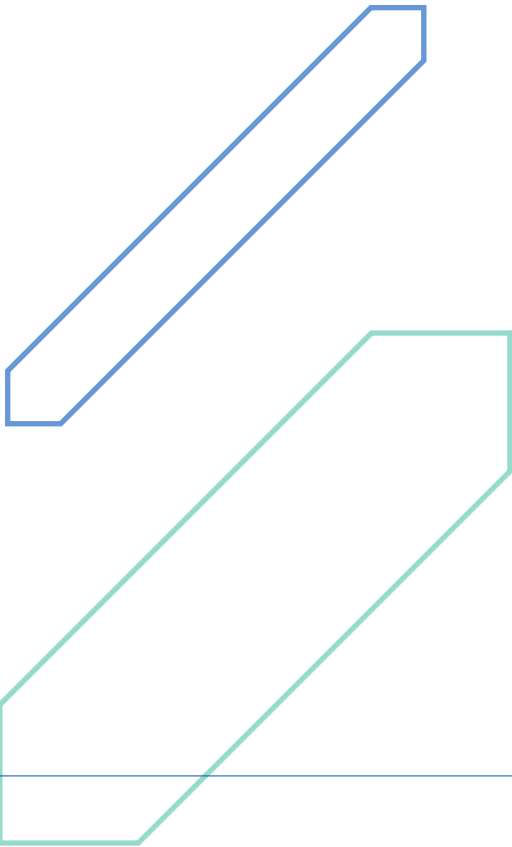
PitchBook is a financial data and software company that provides data on capital markets. PitchBook collects and analyses detailed data on the entire venture capital, private equity, and M&A landscape – including public and private companies, investors, funds, investments, exits, and people.

Other sources of information on VC financial returns

The British Business Bank is the largest UK-based LP investor in UK VC. The Bank monitors the performance of the funds it has invested in by collecting information directly from fund managers. LP status ensures this information is fully verified and has full coverage of funds invested in. In line with the Bank’s role in addressing market failures in finance markets, the characteristics of funds invested in through the Enterprise Capital Fund (ECF) programme may differ to the wider UK VC market due to their focus on the early stage market, smaller deals sizes affected by the equity gap and emerging fund managers.

Since 2013, BPC through the Bank’s previous VC Catalyst programme has invested on commercial terms in VC funds targeting UK scale up companies. The VC Catalyst programme was targeted at helping VC funds to reach a first close, which differs to the objective BPC has for increasing the amount of patient capital to UK scale up businesses. A summary of performance to date compared to the wider VC market is included in chapter two of the report.

This year’s report also includes the results of data the British Business Bank has directly collected from UK VC fund managers. The Bank collected fund level financial returns information from 42 fund managers (covering 127 funds), and also captured the views of these fund managers on current market conditions on quality of deal flow, exit opportunities for portfolio companies and the fund-raising environment. These fund managers were UK based, active in the VC market managing closed end funds, with a vintage year of between 2002 to 2022 vintage making VC investments in the UK.



Appendix 3:

Methodology for compiling dataset

Data on individual UK VC funds with a 2002 to 2022 vintage year was downloaded from PitchBook and Preqin in September 2024. 2002 was chosen as the first vintage year to avoid picking up effects from the dot-com bubble and to be consistent with BVCA reporting.

- Data from British Business Bank MI systems was also extracted for funds under the ECF, UKIIF and British Patient Capital (including VC Catalyst) programmes as these programmes are delivered by private sector fund managers that have raised funding from private sector sources.
- Funds with missing data relating to fund size, PIC, TVPI, and DPI were removed from the underlying databases as it was not possible to calculate market return figures. For instance, the reported PIC, TVPI, and DPI multiples were used to calculate the commitment drawn, realised value and unrealised value in relation to the reported fund size for the pooled financial return metrics. The individual reported fund TVPI and DPI multiples were used to calculate the median and quartile returns figures.

- The PitchBook and Preqin data was then cleaned to remove ‘old’ fund data, which might relate to funds strategically reporting returns, for instance taking advantage of initial early returns. For funds with a vintage year between 2002-2013, funds with the latest reporting date less than seven years were excluded. For funds with a vintage year of 2014 onwards, a reporting date of at least 2020 was required.
- The data was then visually checked for errors with a focus on the largest reported TVPI and DPI multiples, but it was not possible or feasible to check the accuracy of information for every fund.
- Funds were assessed to ensure only VC funds were captured. This sometimes involves reclassifying funds from their PitchBook and Preqin fund classification. All PE growth capital and buyout funds were removed from the dataset. In addition, VC funds which entirely invested in geographic areas and developing countries outside of their listed location was also removed from the dataset.
- This gave a total dataset of 3,219 funds. Financial returns figures may therefore differ to the numbers published by PitchBook and Preqin themselves which include all VC funds in their relevant fund populations.

- To increase coverage of funds, the individual funds from PitchBook, Preqin and British Business Bank were all merged into one single data file. To avoid the same fund appearing more than once, funds were deduplicated using the following sequential preference logic:

- 1.** British Business Bank supported fund. This information has been verified/ audited.
- 2.** British Business Bank survey data. This information has been supplied directly by fund managers.
- 3.** Most up to date reporting date. This to ensure the latest information is captured.
- 4.** Lowest TVPI multiple. This is to ensure most conservative data source is chosen.
- 5.** Largest fund. This is to ensure subsequent fundraising closures are captured.
- 6.** Oldest vintage – This gave a total combined dataset of 2,290 unique VC funds

Table A.1

Number of VC funds 2002-2022 by data source (Raw downloaded numbers)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

Region	Bank MI	Bank Survey	PitchBook	Preqin	Total
UK	136	127	93	104	460
US	0	0	1526	1687	3213
ROE	17	0	209	304	530
Total	153	127	1828	2095	4203

Table A.2

Number of VC funds 2002-2022 by data source (Cleaned)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

Region	Bank MI	Bank Survey	PitchBook	Preqin	Total
UK	136	106	79	76	397
US	0	0	1310	1069	2379
ROE	17	0	195	231	443
Total	153	106	1584	1376	3219

Table A.3

Number of VC funds 2002-2022 by data source (Cleaned and de-duplicated)

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

Region	Bank MI	Bank Survey	PitchBook	Preqin	Total
UK	120	71	32	18	241
US	0	0	946	770	1,716
ROE	17	0	123	193	333
Total	137	71	1101	981	2,290

Appendix 4:

Detailed UK performance by two-year vintage category

Table A.4
DPI performance multiple by two-year vintage category

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

Years	Pooled Return	Upper Quartile	Median	Lower Quartile	Number of funds
2002-2003	1.58	1.54	1.36	1.21	10
2004-2005	2.01	2.00	1.88	1.20	5
2006-2007	1.60	2.43	1.32	0.65	19
2008-2009	1.48	1.72	1.38	1.05	8
2010-2011	1.16	1.53	1.08	0.82	11
2012-2013	1.54	1.33	0.90	0.26	19
2014-2015	0.68	1.11	0.48	0.20	24
2016-2017	0.25	0.44	0.21	0.08	30
2018-2019	0.09	0.13	0.02	0.00	46
2020-2021	0.07	0.01	0.00	0.00	50

Table A.5
TVPI performance multiple by two-year vintage category

Source: British Business Bank analysis of PitchBook, Preqin, Bank survey data and Bank MI data.

Years	Pooled Return	Upper Quartile	Median	Lower Quartile	Number of funds
2002-2003	1.60	1.54	1.38	1.21	10
2004-2005	2.05	2.00	1.91	1.20	5
2006-2007	1.68	2.54	1.42	0.77	19
2008-2009	2.01	2.54	1.89	1.64	8
2010-2011	2.13	2.61	2.12	1.63	11
2012-2013	2.15	2.22	1.67	1.03	19
2014-2015	2.35	2.42	1.96	1.19	24
2016-2017	2.16	2.27	1.69	1.19	30
2018-2019	1.49	1.80	1.44	1.23	46
2020-2021	1.38	1.31	1.12	0.96	50

Appendix 5:

Further results from fund manager survey

Figure A.1
Fund manager views on current fundraising conditions

Source: Bank survey of VC fund managers (2024 n=42).

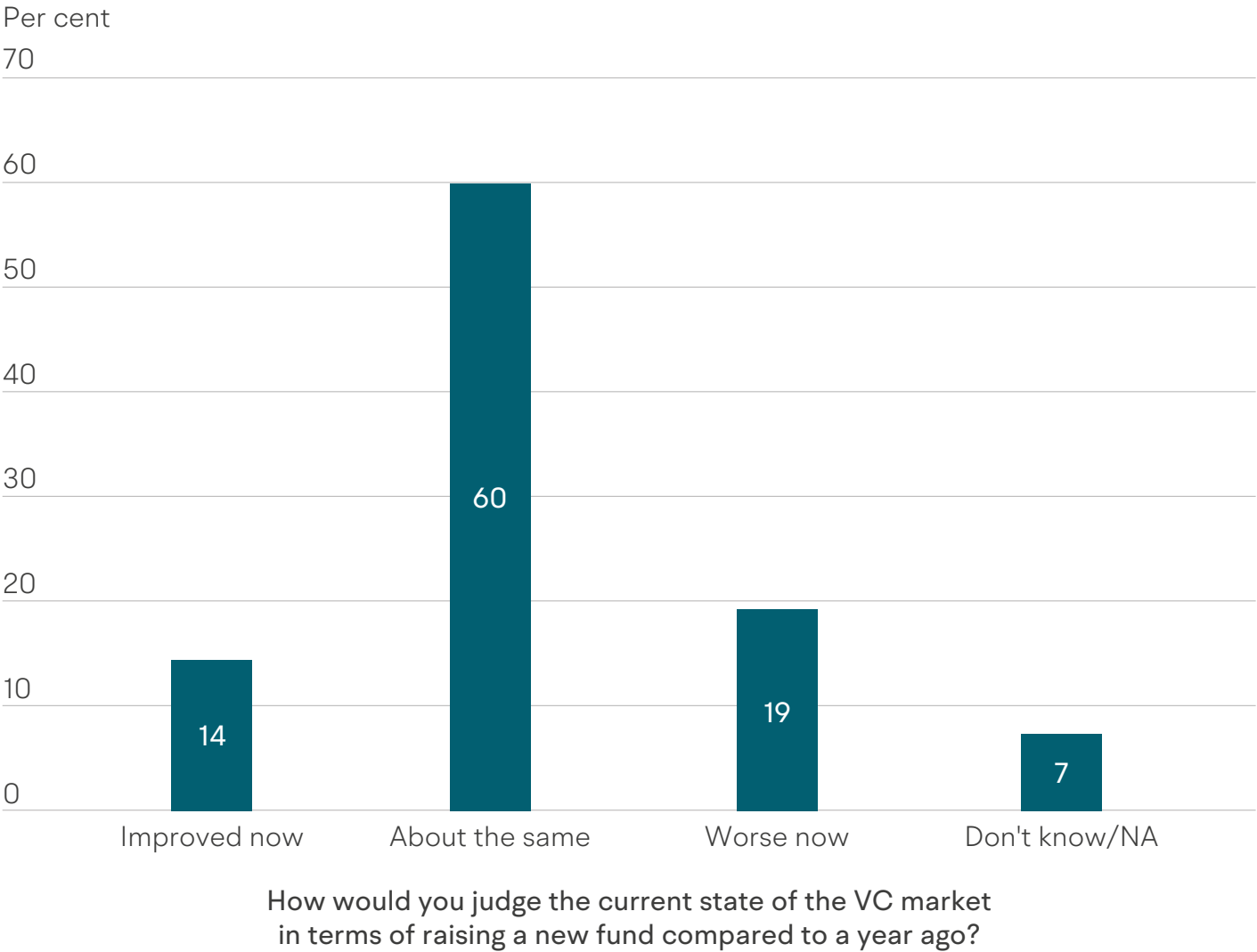


Figure A.2
Fund manager views on future fundraising plans

Source: Bank survey of VC fund managers (2024 n=42).

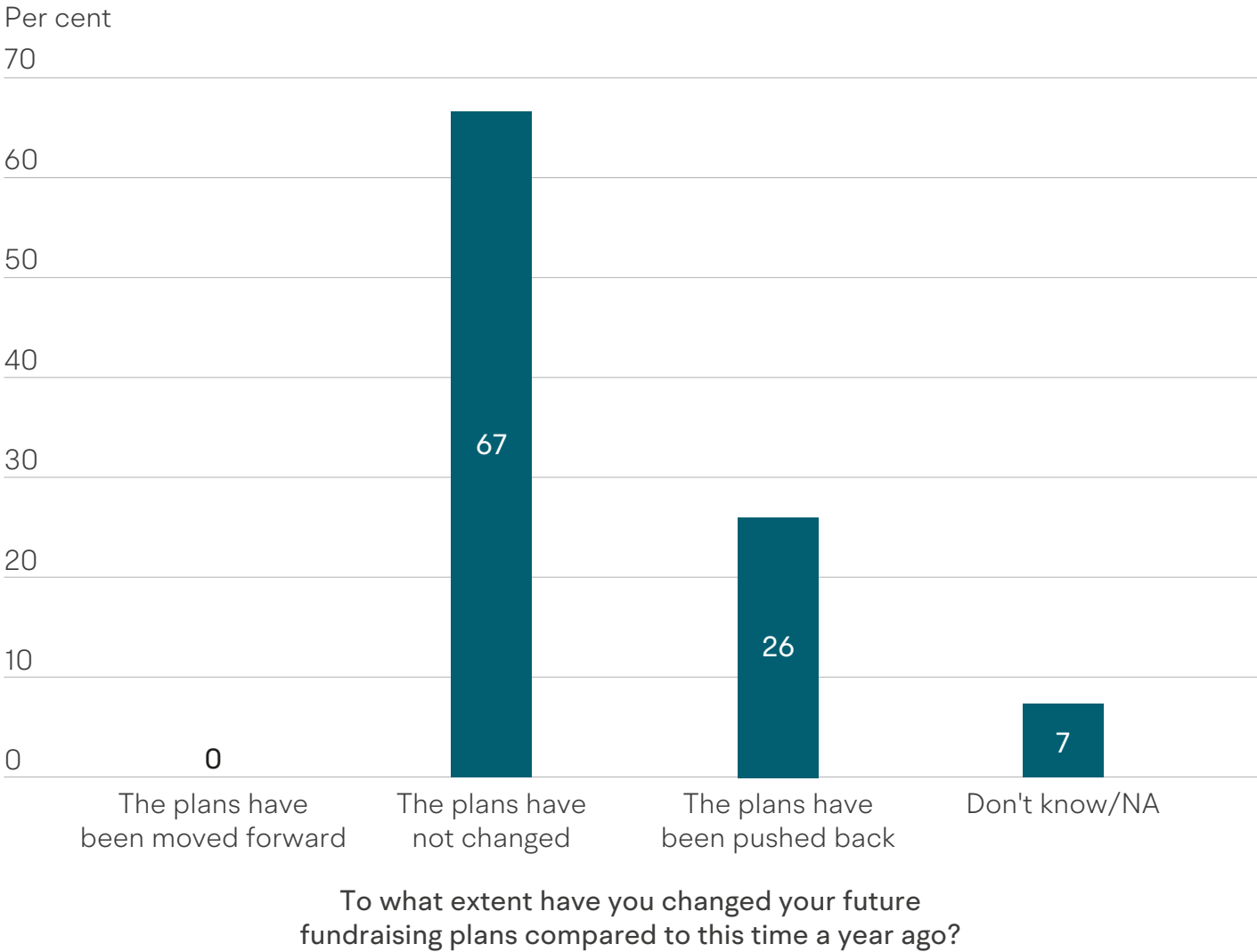
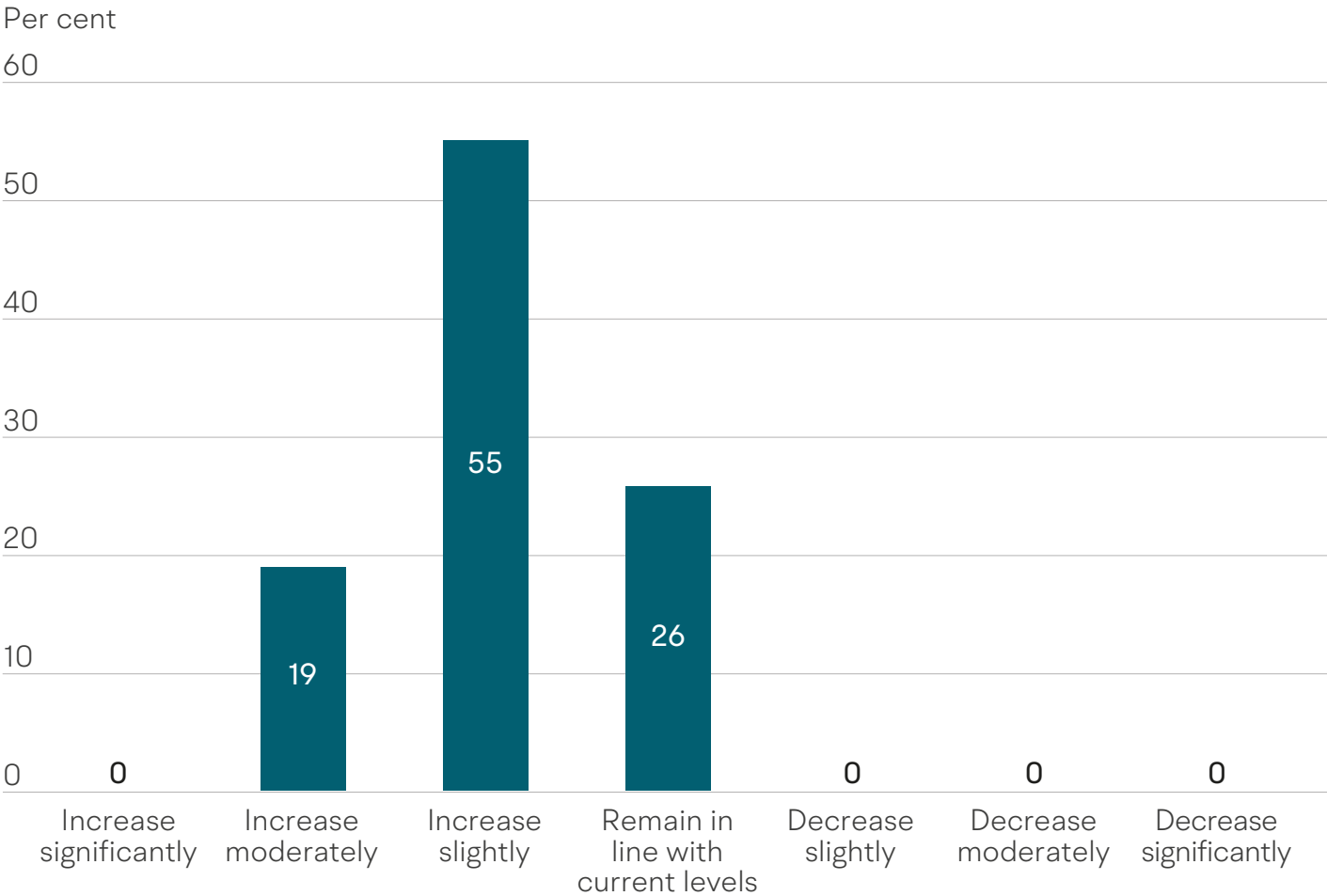


Figure A.3

Fund manager views on future exit opportunities

Source: Bank survey of VC fund managers (2024 n=42).

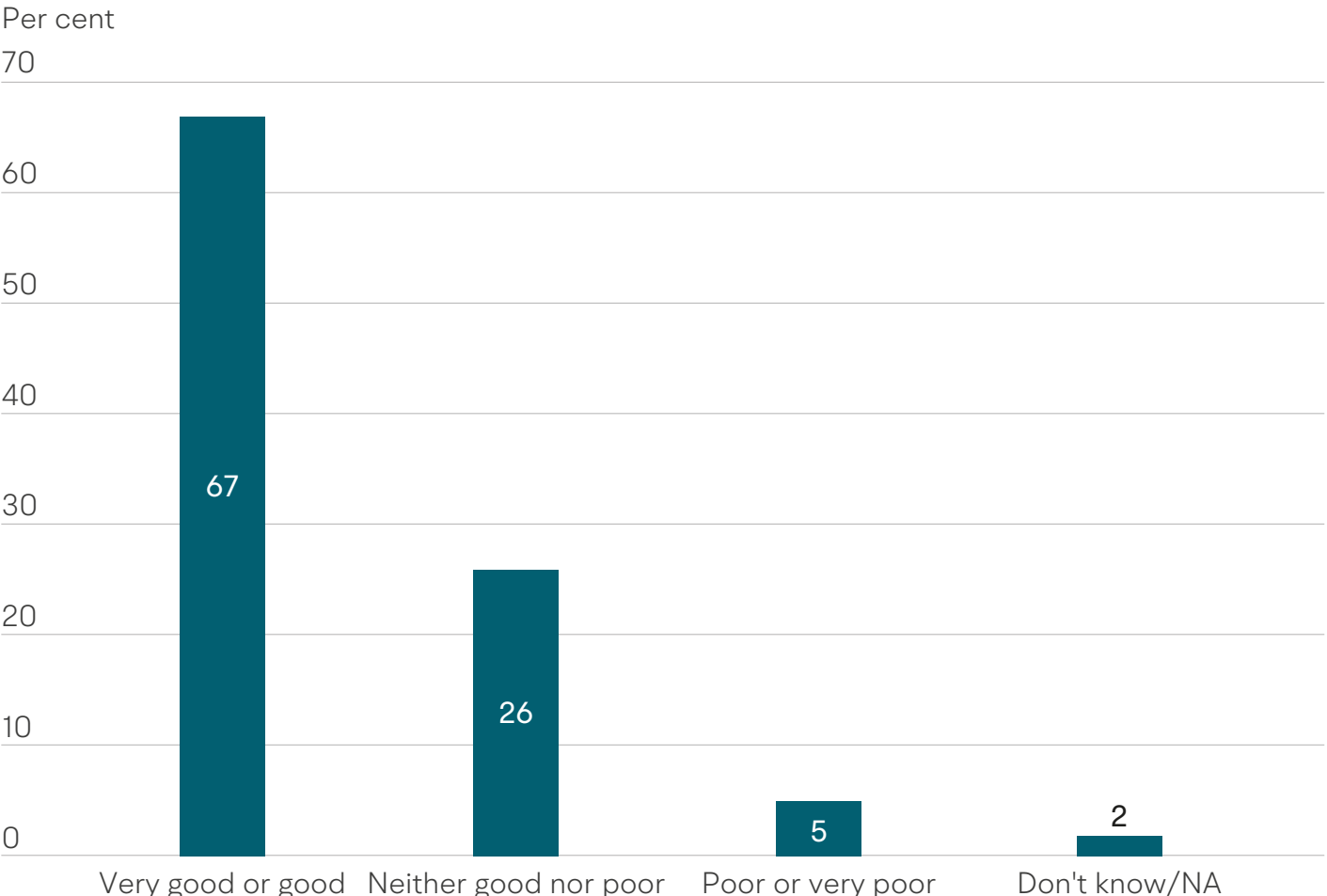


How do you expect the availability of exit opportunities to change over the next year?

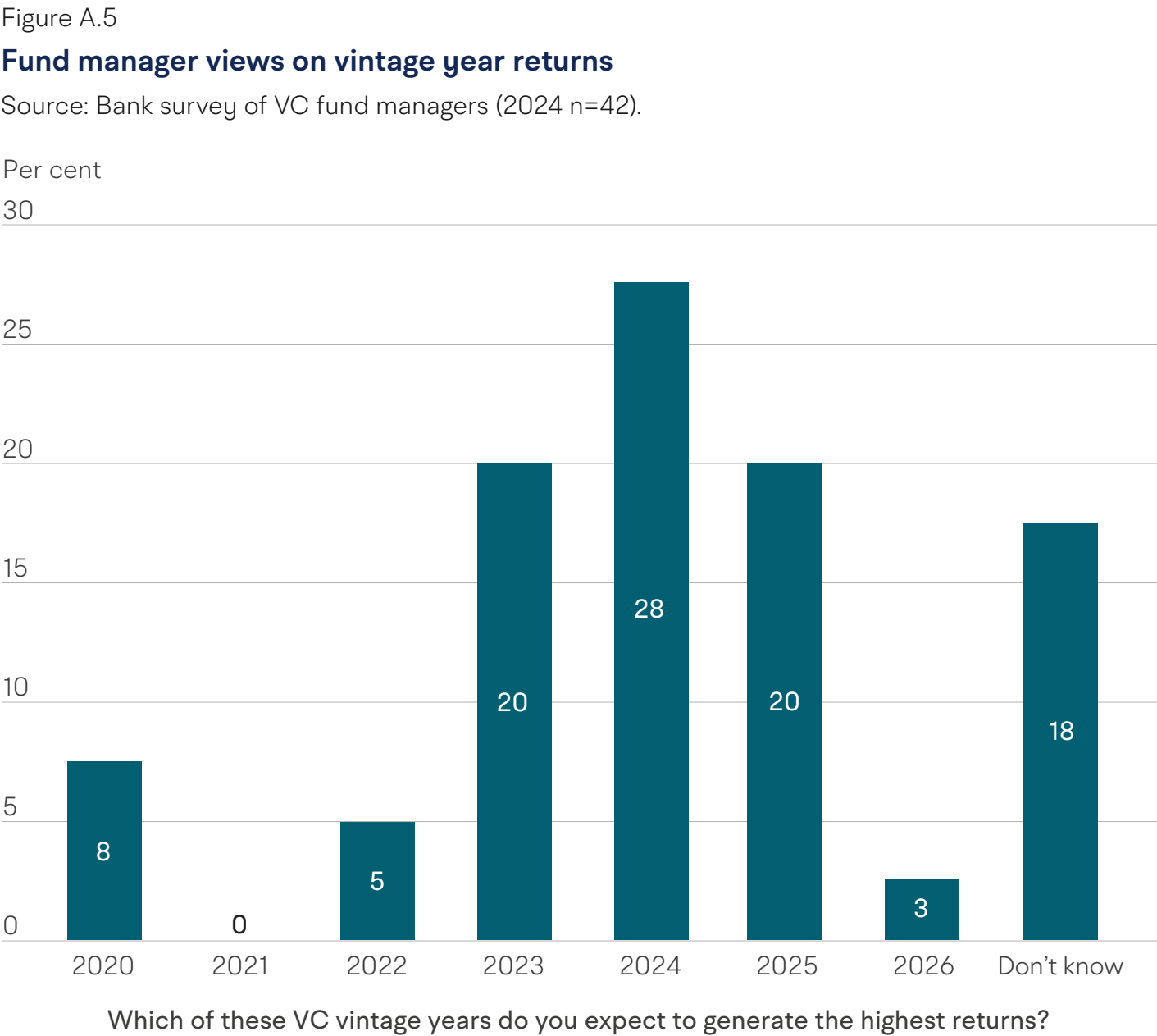
Figure A.4

Fund manager views of quantity of investments available

Source: Bank survey of VC fund managers (2024 n=42).



How would you judge the current state of the VC market in terms of the quantity of investments available?



Endnotes

- 1. The pooled multiple captures the total returns of a group of funds, and is therefore generally the most appropriate metric when assessing the performance of the overall market.
- 2. BVCA (2024) Performance Measurement Survey 2023.
- 3. BVCA (2023) Performance Measurement Survey 2022.
- 4. British Business Bank (2024) Small Business Equity Tracker 2024 report.
- 5. For these earlier vintage cohorts of 2002-2007 and 2008-2013, during which the UK market was relatively young, it is worth noting that there are relatively small sample sizes for the UK (and as such outlier funds can have a larger impact on the reported overall market performance).
- 6. World Bank national accounts data.
- 7. The Bank’s Small Business Equity Tracker analysis is based on equity deals raised by high-growth smaller businesses, drawing upon Beauhurst data. This primarily captures VC, angel investment and crowdfunding.
- 8. For younger funds that have yet to reach maturity, a high DPI may also signal that there have been early or premature exits, and therefore lower returns that could potentially have been achieved.
- 9. British Business Bank (2024) Small Business Equity Tracker 2024.
- 10. While funds in the 2008-2013 vintage period have seen significant improvements in DPI multiples, there is only a small proportion of those funds in this sample with the latest reporting dates.
- 11. PitchBook (2024) European VC Valuations Report.

- 12. These definitions for life sciences and green tech align with those used in the Small Business Equity Tracker 2024 report.
- 13. British Business Bank analysis of user defined PitchBook search.
- 14. MIT Technology Review (2023) “Climate tech is back—and this time, it can’t afford to fail”.
- 15. British Business Bank (2024), Small Business Equity Tracker 2024.
- 16. British Business Bank (2024) Annual Report and Accounts 2024.
- 17. Further results from the fund manager survey.
- 18. Figure A.1 in Appendix 5.
- 19. Figure A.2 in Appendix 5.
- 20. Further results from the fund manager survey.
- 21. Figure A.3 in Appendix 5.
- 22. European Investment Fund (2024) The EIF VC & PE Mid-Market Survey 2024.
- 23. Further results from the fund manager survey.
- 24. Further results from the fund manager survey.
- 25. Figure A.4 in Appendix 5.
- 26. Further results from the fund manager survey.
- 27. British Business Bank (2024) Small Business Equity Tracker 2024.
- 28. BVCA (2024) Performance Measurement Survey 2023.

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