

Funding the Future

How private capital and pensions
can create growth in the UK economy



The UK venture capital and growth equity industry at a glance

[For the purpose of this report growth equity is defined as small private equity funds - those that invest less than £10 million in equity and Mid-private equity funds as those that invest between £10 million and £100 million. All growth equity data is additional analysis based on the BVCA Performance Measurement Survey 2022.]

UK economic contribution

£8.1bn

UK venture capital and growth equity funds are a significant contributor to the UK economy. In 2022, a total of **£8bn** was raised by 74 venture capital and growth equity funds.¹

Industry size

85,000

The UK has created **144 unicorns** and **85,000 startups** and scale-ups.²

Jobs

315,000

The UK venture capital industry supports over **8,000 businesses** and **employs 315,000 people**.³

UK venture capital

£22bn

The UK has the second most active and capital-intensive venture capital market in the world, with **£22 billion** of venture capital deployed in 2022.⁴

Venture 10-year return

23.4%

Venture Capital funds since inception internal rate of return since 2013.⁵

(*Funds that started investing between 2013 and 2018)

Growth equity 10-year return

16.3%

Growth Equity funds since inception internal rate of return since 2013.⁶

(*Funds that started investing between 2013 and 2018)

10 year horizon return

UK venture capital and growth equity funds generated IRRs of 16.7% and 12.8% respectively over the 10-year horizon period to December 2022. This is **well above 6.5% return** delivered by FTSE All-share over the same time period.⁷

International investment

£180.5m

Swedish pension funds invested a total of **£180.5m** into UK venture capital and growth equity funds.⁸

International investment

16x

International pension schemes collectively allocate **16 times more to UK** private equity and venture capital funds than UK pension schemes.⁹

¹ BVCA Report on Investment Activity 2022 / ² UK Government press release / ³ EY Economic contribution of UK private equity and venture capital in 2023 / ⁴ Department for Business & Trade – The Venture Capital Unit
^{5, 6, 7} BVCA Performance Measurement Survey 2022 / ^{8, 9} BVCA Report on Investment Activity - Fundraising data



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Venture capital and growth equity investment in innovative UK businesses drives economic growth and has a track record of strong returns

The venture capital and growth equity industry plays a key role in realising the Government's ambition to make the UK the best place to start and grow a business. It supports over 8,000 businesses and employs 315,000 people.¹⁰ It makes a vital contribution to the development of new businesses that can help tackle some of the most complex national and global challenges. Activity funded by venture capital and growth funds ranges from finding solutions to climate change, to the development of new medicines for use in the NHS, to tackling dementia or diabetes, to the creation of semi-conductors.

The UK is clearly an attractive and competitive environment for businesses to start and grow. In 2022, the UK Government highlighted that the UK has more venture capital investment than its European peers, and more high-growth companies, having created 144 unicorns and 85,000 startups and scale-ups.¹¹ It is the second most active and capital-intensive venture capital market in the world, with £22 billion of venture capital deployed in 2022.¹² The UK tech sector leads the way in Europe, with eight UK cities home to two unicorn companies or more including Manchester, Cambridge, Edinburgh, Leeds, Nottingham, Oxford, Bristol and London.¹³

This success generates significant returns for investors, for the innovative sectors they support and for the wider UK economy. Venture capital funds that started investing in the last ten years from 2013 onwards* delivered a since inception return of 23.4%. Over the same time, growth equity funds delivered an inception return of 16.3%.¹⁴

(*Funds that started investing between 2013 and 2018)

¹⁰ EY Economic contribution of UK private equity and venture capital in 2023

¹¹ UK Government press release

¹² Department for Business & Trade – The Venture Capital Unit

¹³ UK Government press release

¹⁴ BVCA Performance Measurement Survey 2022



UK pension funds have an opportunity to improve returns for savers by increasing investment in innovative UK businesses

Despite the success of this industry and the strong returns it has delivered, accessing capital is a recurring challenge for companies that wish to continue their growth and development in the UK. UK companies continue to face significant challenges in accessing the funding needed to grow. Without investment flowing in to help growing businesses to succeed, we will not boost growth and create the jobs of the future and businesses will look elsewhere for funding.

UK businesses often look overseas for capital that will help them expand. In 2022, UK-managed venture capital and growth equity funds received approximately £432m from international pension funds. Swedish pension funds were the largest contributor to both venture capital and growth equity funds, investing a total of approximately £180m. In contrast, UK pension fund investment accounted for only approximately £48m in venture capital funds. UK pension funds did not make any investment in UK growth equity funds.¹⁵

Overseas investment is welcome as it validates the quality of UK companies and investment opportunities being created in the UK's knowledge-intensive sectors.

However, it is a concern that the UK lacks a domestic scale-up investment capability to support these sectors. Relying on foreign investment to scale-up companies exposes the UK to geopolitical risk and fluctuations in global capital allocations. It also prevents the UK from growing a generation of investment managers experienced in scaling knowledge-intensive businesses, which is vital to ensure that UK start-ups can continue to grow.

Lower levels of UK pension fund investment, in particular, mean that UK pension savers are currently missing out on the returns generated by venture capital innovation in the UK, which pension savers across the EU and North America currently benefit from. The Treasury Select Committee has recently identified that UK pension funds could invest more capital in the UK venture capital and growth equity industry.¹⁶

Addressing this funding challenge by broadening pension schemes' investment into venture capital and growth equity funds would drive funding towards the UK's most innovative businesses whilst improving the retirement prospects of UK workers.



¹⁵ BVCA Report on Investment Activity 2022 / ¹⁶ Treasury Select Committee report into venture capital (p.23 and p.4)

The Venture Capital Investment Compact commits signatories to help unlock UK pension investment into UK venture capital and growth equity

The Mansion House reforms announced by the Chancellor of the Exchequer in July 2023, set out the UK Government's intention to unlock over £50bn of capital by 2030, offering savers a chance for greater returns on their investments.

The BVCA strongly welcomed this and in partnership with the Government has now launched a new [Venture Capital Investment Compact](#) to maintain momentum and signal commitment, enabling more investment by pension funds into venture capital and growth equity funds, supporting the UK's science and technology sector and contributing to diversified pensions investment portfolios.¹⁹

The Compact signals a commitment by UK venture capital and growth equity fund managers to establish and develop constructive working relationships with UK pension investors to achieve greater investment and offer an exciting investment opportunity for pension savers.

20 signatories recognise the Government's target to unlock over £50bn of capital by 2030 which represents a unique opportunity for pension savers.

Signatory AUM is over £25bn, with a combined portfolio of over 1,800 companies.

¹⁹ Oliver Wyman – The British Business Bank: The Future of Defined Contribution Pensions report: Enabling Access to Venture Capital and Growth Equity (p.10)

The pledge

Over the next year, the UK venture capital and growth equity signatories commit to:

- i. Attracting UK pension funds as limited partners into the funds they manage or advise.
- ii. Partner with pension investors to consider how they can produce effective investment structures to suit their needs to allow allocations to funds in the interest of savers.
- iii. Share best practice/rules of engagement for working in private markets with DC schemes, particularly trustees and their consultants/advisers.



The returns generated by the UK venture capital and growth equity industry and the opportunity for UK pension funds

This is an asset class that has historically generated good returns and can add diversification to investment portfolios

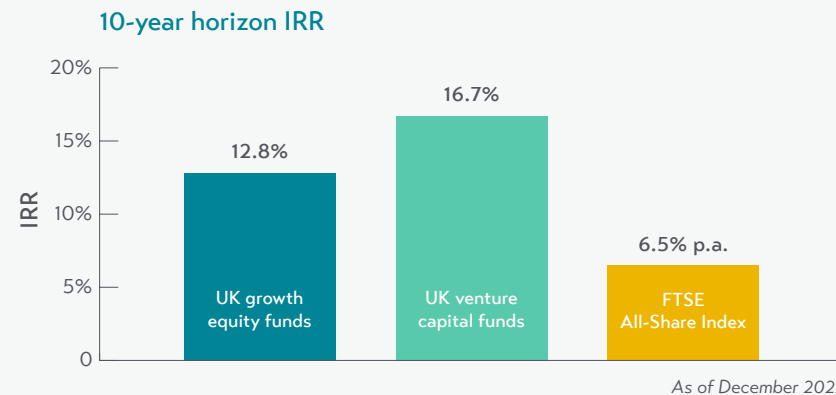
23.4%

Venture Capital funds since inception internal rate of return since 2013*

16.3%

Growth Equity funds since inception internal rate of return since 2013*

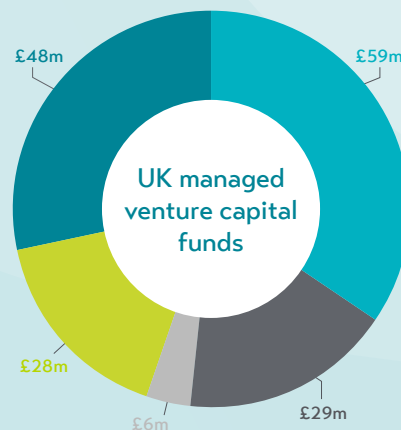
(*Funds that started investing between 2013 and 2018)



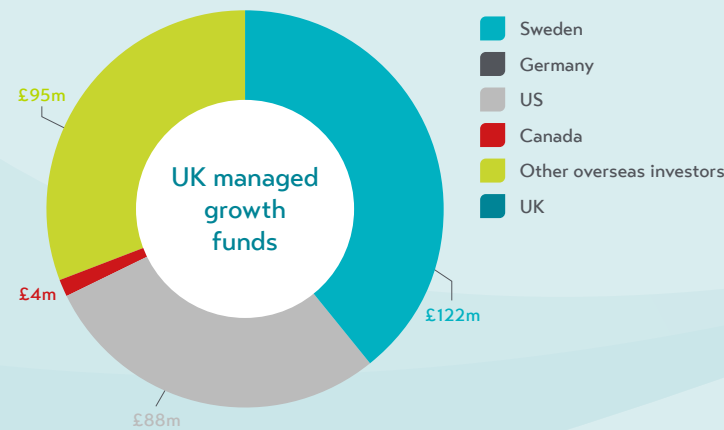
UK pension funds invest less than international funds

In 2022, **UK managed venture capital funds** received a combined £171m from international and UK pension funds. International pension funds invested the largest proportion of this - £123m. Swedish pension funds accounted for £59m of this figure, with £29m from German pension funds and £6m from the US. In comparison, UK pension funds invested £48m into UK venture capital funds. The remainder came from other countries.

In 2022, **UK managed growth equity funds** received £309m from international pension funds. Sweden accounted for the largest investment with £122m, £88m was invested from the US pension funds, £4m from Canadian pension funds and the rest from other countries). UK pension funds invested £0m demonstrating the lack of investment into UK growth equity. The remainder came from other countries.



2022 pension fund investment



Note: All figures outlined in the text above and charts are approximate / All BVCA returns data is after all costs and fees.



Venture Capital Investment Compact:

Examples of successful investments led by signatories



artios
DNA DAMAGE RESPONSE



£ SV Health Investors

Artios Pharma is developing breakthrough cancer treatments that target DNA Damage Response (DDR) pathways to target the cancers that are difficult to treat and play a significant role in the treatment of malignant diseases. Artios has developed a robust pipeline and platform that has facilitated two significant, potentially multibillion dollar collaborations with large pharmaceutical partners. SV Life Sciences founded and seeded the company in 2016 based on innovative science spun out of Cancer Research UK and Artios have since gone on to raise over \$250m from European and US life science investors, helping the development of a strong pipeline of DDR therapies. SV has continued to support Artios in its follow-on financings, including alongside a strong Series C syndicate; this \$153m round has helped advance two wholly owned drugs into 5 different clinical studies.

“ Dame Kate Bingham Managing Partner, SV Health Investors

Artios represents a unique opportunity to build a world-class DDR pipeline through partnerships with leading DNA repair researchers in the UK and worldwide. We are delighted with the strong investor interest in Artios, reflecting the potential of DDR. I am pleased to say that this UK-based company has the potential to deliver best-in-class treatments for cancer patients across multiple programmes already in the clinic.



correla



£ NorthEdge (Growth Equity)

Correla is an innovative technology and data services company that aims to create a more sustainable and less complex energy sector. Based in the Midlands, Correla's Managed Service solutions and SaaS products aim to simplify the market, support the implementation of more efficient operational processes and facilitate the transition to net-zero. Correla enables customers to monitor the impact of Carbon reduction programmes and ensure efficient energy usage. In 2021, NorthEdge invested in Correla to support its expansion into alternative energy markets, alongside providing Correla with the opportunity to develop new services, products and technologies that will shape the future of the energy industry.

“ Sian Jones CEO, Correla

The UK has an incredible task ahead to meet its decarbonisation targets and we're committed to supporting customers every step of the way. NorthEdge's acquisition has come at a critical time for us as we look to develop new products, services and technologies that will remove complexity from the market and unlock operating models that better support the UK's energy transition.

NorthEdge's values and objectives align with the sustainability needs and requirements of the team at Correla and the wider UK energy market. This, alongside their commitment to Environmental, Social and Corporate Governance (ESG), as well as their experience of backing businesses in the energy and utilities software and services industry, proved to us that they were the right partner to support us on this exciting journey.

Venture Capital Investment Compact:

Examples of successful investments led by signatories

Crucible Therapeutics



£ Northern Gritstone

Crucible Therapeutics, a spin out of the University Of Sheffield, is a biotechnology company developing novel therapies to treat frontotemporal dementia (FTD), amyotrophic lateral sclerosis (ALS) and the most common genetic form of MND. In 2023, Northern Gritstone and Argobio Studio invested £5m into Crucible Therapeutics to finance development and manufacturing which will enable the company to reach its first clinical trial. The company is the first spinout focused on advanced therapeutics to receive investment from Northern Gritstone. Argobio Studio will provide operational guidance and support during the preclinical development stage.

“ Professor Dame Pamela Shaw

Co-Founder, Crucible Therapeutics, Professor of Neurology at the University of Sheffield and Director of the Sheffield Institute for Translational Neuroscience

Our novel therapeutic approach has made significant strides in our pursuit of transforming how these devastating diseases are treated and potentially achieving meaningful therapeutic impact. Today marks an important milestone, which brings us closer to supplying transformative treatments to people with neurological diseases like MND and FTD. The significant experience and support that Northern Gritstone and Argobio Studio bring to Crucible further enables our pre-clinical development while allowing us to strategically build our team.

Pragmatic



£ Cambridge Innovation Capital

Pragmatic is revolutionising semiconductor fabrication with ultra-low-cost, flexible integrated circuit (FlexIC) technology that makes it quick and easy to embed intelligence almost anywhere. FlexICs are a new alternative to silicon chips. With rapid cycle times that substantially accelerate time to market, Pragmatic's foundry provides high-volume fabrication at a fraction of the cost of silicon, with a significantly lower environmental impact. Cambridge Innovation Capital (CIC) first invested in Pragmatic in 2014 after it required further funding to support its transition from research & development to the installation and commissioning of Pragmatic's first manufacturing line. Since this early investment, CIC has continued to invest in Pragmatic as the company has continued to grow. In response to increasing customer demand for its FlexICs, Pragmatic will soon complete the build of a new manufacturing line in the company's large-scale manufacturing facility, Pragmatic Park. Housing the UK's first state-of-the-art 300mm fab, this facility will set the standard for smart, sustainable semiconductor manufacturing. It will be the highest-volume semiconductor manufacturing facility in the UK.

“ David Moore

CEO, Pragmatic

CIC is a tremendously important investor for Pragmatic. Having CIC as an investor, with their level of understanding of what we are trying to achieve on both a technical and commercial level, is critical. CIC has helped to guide and support our vision and connected us with partners that can help make it a reality.

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