



## BACKING BRITAIN, DELIVERING FOR MEMBERS

Why UK scale-up exposure must sit within a globally constructed venture portfolio



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### VENCAP THESIS

The UK Scale-up Fund can support British innovation, but it should sit within a global venture programme. Scale-up investing remains risky, with returns driven by rare companies accessed through proven managers. Global exposure is therefore essential to delivering strong outcomes for pension members.



#### 1. Scale-up investing remains risky

More than 41% of mature growth-stage investments fail to return invested capital



#### 2. Outliers drive returns

Less than 5% of companies generate returns above 10x, but they account for almost 50% of all value created.



#### 3. Managers determine access

The best founders choose their investors, giving proven managers privileged access earlier in a company's scale-up phase



#### 4. Exceptional companies emerge globally

96% of unicorns come from outside the UK. A global portfolio complements UK scale-ups and broadens access to the outliers that ultimately drive venture returns

Britain's largest pension funds have made an important commitment to the UK Scale-up Fund. But this raises a wider question: how should that allocation fit within a venture programme designed to deliver strong long-term outcomes for members?

Scale-up investing remains risky, with returns driven by a small number of exceptional companies and average VC funds materially underperforming public markets. The best founders choose their investors, concentrating access among proven managers. And because exceptional companies emerge globally, a UK-focused fund captures only part of the opportunity set.

**The answer is not to choose between backing Britain and investing globally. It is to complement the UK Scale-up Fund with a globally constructed venture portfolio capable of delivering for members.**

### THE SCALE-UP OPPORTUNITY

Over the past 15 years, opportunities to invest in scale-up companies have expanded dramatically. Leading businesses are staying private longer, creating more value before reaching public markets. To capture this growth for members, pension funds need greater exposure to private markets.

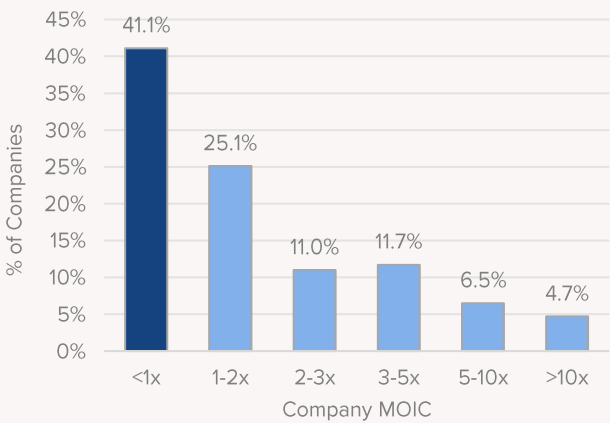
VenCap's experience demonstrates the compelling returns available from scale-up investing. Across the 46 VC-focused growth funds backed by VenCap between 2011 and 2020, the portfolio has generated **3.60x** TVPI, **2.09x** DPI and a **23.0%** IRR, providing exposure to global category leaders such as OpenAI, Databricks, Revolut, SpaceX, ByteDance and Stripe.

VENTURE GROWTH IS STILL VENTURE

While scale-up investment can deliver strong returns, it also presents distinct challenges. In particular, its return profile more resembles early-stage venture capital than traditional private equity or growth equity.

This similarity to venture capital is most evident in loss ratios. Across 2,865 mature growth-stage investments made by VenCap’s investee funds globally, over 41% failed to return invested capital, with more than one in ten companies generating a total write-off.

Figure 1 - Four in Ten Scale-Ups Lose Money



Scale-up investing is therefore not a simple asset-allocation decision. Even at this stage, the median investment return on an individual company is only marginally positive.

Unlike many other asset classes, the power law nature of outcomes means that broad exposure to a portfolio of scale-ups will not necessarily produce attractive returns. With the average company generating only a marginally positive outcome, the performance generated by the typical venture fund struggles to justify the asset class’s additional risk and illiquidity.

MEDIAN RETURNS ARE NOT ENOUGH

MEDIAN UK VC FUND  
(2002-2020 vintages)

1.48x

Net TVPI

10.3%

Net IRR

According to the British Business Bank, the median UK venture fund (2002-2020 vintages) has delivered a net TVPI of 1.48x and a net IRR of 10.3%. While positive, these returns do not provide a compelling case for investing into UK venture capital.

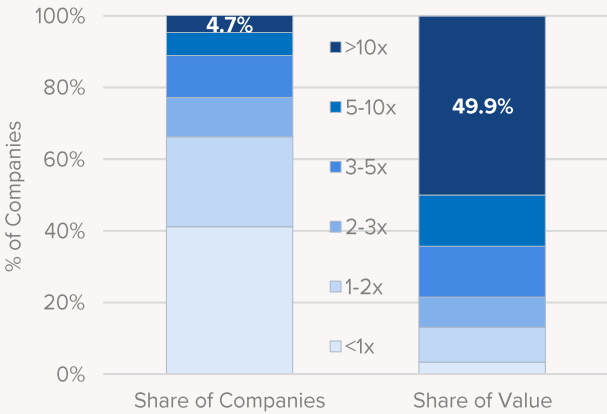
Pension funds should only allocate to venture where they have a credible path to an aggregate 3x net TVPI at the programme level. A 3x return is not a guarantee of public-market outperformance, but a demanding underwriting threshold intended to justify locking up members’ capital for the long term.

Achieving this threshold requires substantially better-than-median performance. The route to achieving it lies in capturing the small number of exceptional companies that generate the majority of venture returns.

OUTLIERS DRIVE RETURNS

The high loss ratios inherent in scale-up investing make exposure to exceptional outcomes essential. VenCap’s analysis shows that less than 5% of VC growth-stage companies generated returns of 10x or higher. Yet this small group accounted for almost **half** of total value generated.

Figure 2 - The Scale-Up Power Law



These outliers can transform the performance of an entire fund. Across the growth funds analysed by VenCap with a TVPI of 3x or higher, **86%** contained at least one company that returned the fund on its own.

**Venture returns are determined not by the average investment, but by a handful of companies at the extreme right edge of the distribution curve.**

Capturing these outliers in a portfolio is essential, but access is not evenly distributed. For pension funds, the challenge is therefore how to structure their programmes to ensure consistent exposure to the small group of companies that drive scale-up returns.

FOUNDERS CHOOSE THEIR INVESTORS

Capital alone does not guarantee access to the most attractive scale-up opportunities. The strongest companies are often oversubscribed, allowing their founders to select investors based on reputation, relevant expertise, networks and their ability to support the company’s continued growth.

This creates an important distinction between venture capital and many other asset classes. Manager selection determines not only the quality of investment decisions, but also the opportunity set from which those decisions can be made. Managers with established venture franchises and strong founder relationships are more likely to gain access to the exceptional companies that ultimately drive returns.

Crucially, access must come at the right stage. Many investors may be able to invest in a proven category leader at a valuation of \$100 billion or more; far fewer will have secured access when it was valued at \$1–2 billion. Both provide exposure to the same company, but only the earlier entry point retains the potential to generate a 10x multiple or return an entire fund.

Pension funds should therefore assess whether a scale-up programme can provide consistent exposure to the best companies while valuations still leave scope for the outlier outcomes required to drive 3x fund returns.

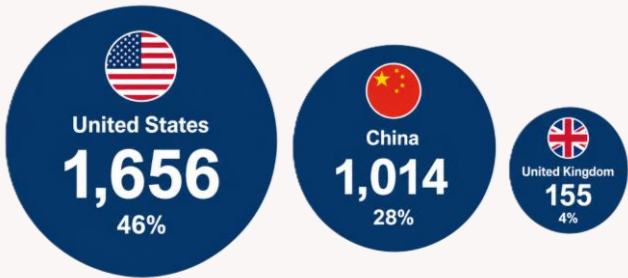
OPTIMISING OUTLIER ACCESS

Britain has built one of the world’s strongest startup ecosystems, producing global companies such as Revolut (reportedly now valued at \$115 billion), ElevenLabs (\$22 billion potential secondary sale value) and Synthesia (\$4 billion last-round value). These are exactly the kind of companies that UK pension capital should be looking to support.

According to analysis by Ilya Strebulaev, the UK ranks third globally in terms of current unicorns – behind only the US and China – with 155 companies valued at \$1 billion or more.

However, as impressive as this achievement is, when seen through a global lens it takes on a different context. The US accounted for 1,656 unicorns – more than 10x the UK total – while China has produced 1,014. While Britain may rank third, it represents only 4% of the global unicorn population.

Figure 3 – Global Distribution of Unicorns



Source: Ilya Strebulaev, Venture Capital Initiative, Stanford Graduate School of Business (02/2026)

The evidence from realised outcomes is starker still. VenCap’s analysis of venture-backed companies exiting at valuations of \$1 billion or more over the last decade found that the UK accounted for just 2.4% of companies by number and just 1.3% by exit value. By comparison, the US generated half of the total number of billion-dollar exits and more than two-thirds of total value.

This does not weaken the case for backing UK scale-ups. Britain is capable of producing exceptional companies—but the outliers that drive venture returns emerge globally. Restricting investment to any single market, however successful, inevitably narrows the opportunity set.

This is not a choice between backing Britain or investing globally. A well-designed programme should do both – **supporting the growth of exceptional UK companies while giving members broader access to the global outliers that drive strong long-term returns.**

About VenCap

VenCap was founded in 1987 and has invested over \$3.0 billion into approximately 500 venture capital funds. These funds are underpinned by over 17,000 portfolio companies including the likes of Google, Facebook, Nvidia, OpenAI, Spotify, Anthropic, Coinbase, Uber and Stripe. Over the last 15+ years, VenCap has focused its investment activities on a small group of “Core Managers”. These managers are established VC firms that have demonstrated a proven ability to consistently back the top 1% of companies that emerge from the VC ecosystem globally.

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