Special Report

The Shift to Alternatives: Venture Capital & Emerging Tech

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Public
June 2025

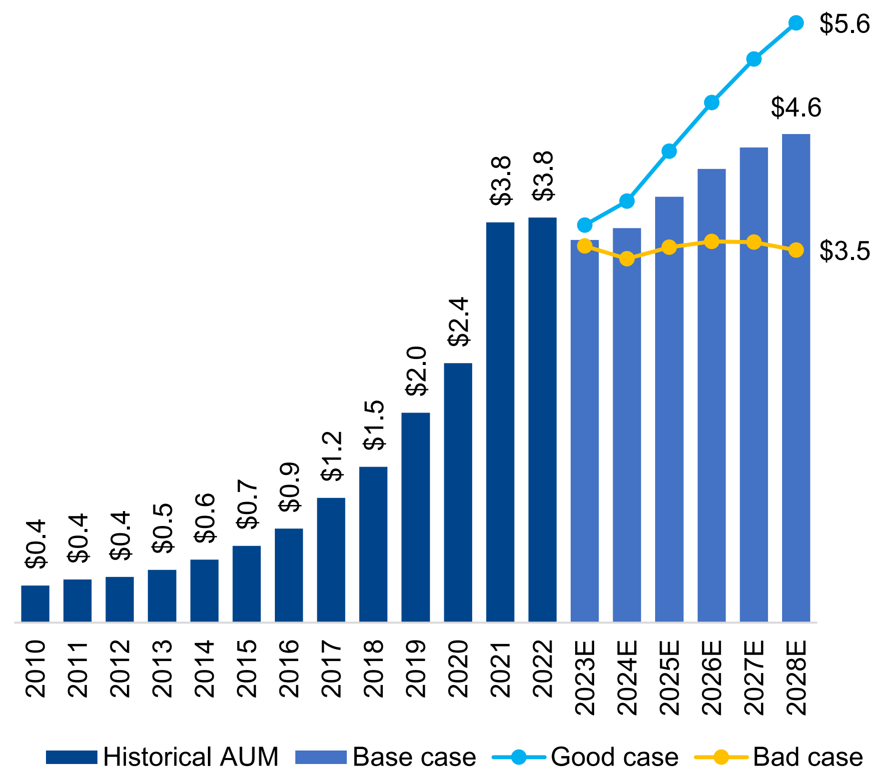
Alternatives as a Preferred Allocation: Focus on Venture Capital

Over the past decade, alternative investments—particularly venture capital— have become a significant portion of HNI and family office portfolios.

Family offices have increased their allocation to alternatives, from ~30% a decade ago to ~50% today. KKR says the average family office allocates 52% of their portfolio towards alternatives, with a growing preference for VC exposure.[1]

Key Factors Driving Market Attractiveness for VC in Alternative Investments

- **VC AUM surged 10x from 2010 to 2022**, reaching $3.8T, driven by record fundraising and valuations. However, 2023 marked a correction with muted exits, fundraising slowdown, and declining NAVs.
- **Despite short-term headwinds**, long-term prospects remain robust. Base-case forecasts project VC AUM to grow to **$4.6T by 2028**, with upside potential of **$5.6T** under favourable conditions.
- **Fundraising momentum is moderating**, with commitments expected to grow at just **2.9% CAGR** through 2028. Persistent exit challenges have slowed capital recycling, weighing on LP allocations.
- The **VC ecosystem is maturing:** Over 55,000 portfolio companies exist today, but a shakeout is expected as capital becomes more selective, and the route-to-profitability takes centre stage.
- **Scenarios vary widely**: The good case assumes improved exits, higher fund returns (19% in later years), and an annual fundraising growth of 5.9%. In the bad case, AUM could decline to **$3.5T** by 2028, a cumulative drop from 2022.
- **Investor confidence remains resilient**—green shoots in IPO markets and rising dry powder ($707B by 2029F) point to future upside, even as capital becomes more disciplined and strategic.



Source: *Fortune.Com; Pitchbook*

Venture Capital: Gaining Confidence & Affinity Among Investors

Venture capital is no longer viewed as just an opportunistic allocation; it has become a strategic pillar in investment portfolios.

1 Access to disruptive innovation

- Focus on sectors driving human advancement (AI, biotech, clean energy)
- Early-stage VC enables access to transformative, under-penetrated markets

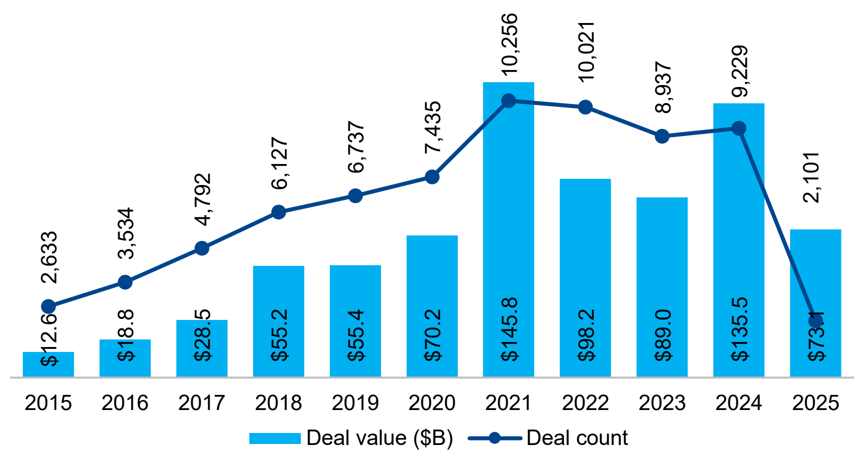
2 Potential for outsized returns

- Space tech and AI show outsized growth due to scale and global impact
- Interconnected innovations enable cross-sector value creation and synergy

3 Diversification from public markets

- VC provides exposure to private, non-correlated assets
- Targets niche solutions to structural global challenges, aligning with long-term themes

Global AI & ML VC deal activity



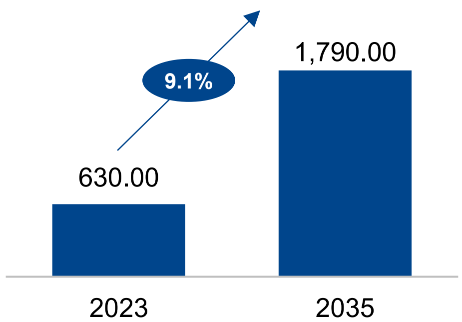
- Venture capital funding in AI & ML has witnessed explosive growth, with deal values rising from $1B in 2016 to over $135B in 2024, underscoring investor confidence in transformative technologies.
- Deal count has consistently exceeded 9,000 annually since 2021, reflecting strong market appetite and continued innovation.
- The momentum in AI-led innovation, especially in verticals like biotech, clean energy, and enterprise automation, is driving multi-sector investment flows.
- Despite recent macro headwinds, sustained deal volume and capital allocation demonstrate VC's resilience and its long-term strategic role in portfolio diversification.

Source: Pitchbook

Why VCs Are Doubling Down on Emerging Tech

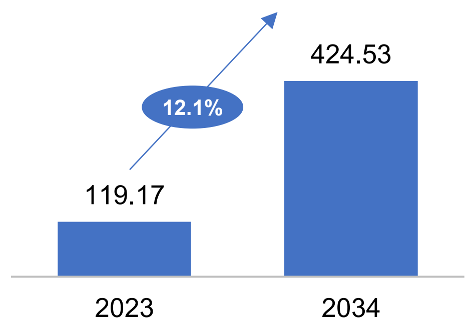
From Disruption to Defensibility — Emerging Technologies Are No Longer Optional, But Central Pillars in the Strategic Playbooks of Leading VCs.

Space Tech (USD Bn)



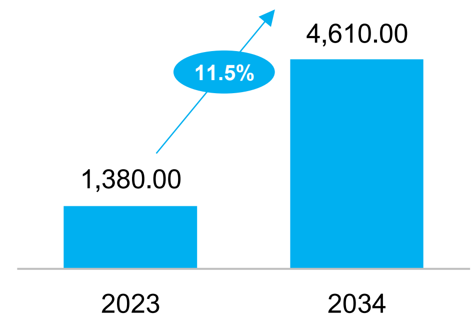
- **Rapid Market Growth:** The global space economy is expected to reach USD 1.8 trillion by 2035, driven by rising commercial launches, satellite deployment, and private investment momentum.
- **Favourable economics and dual-use potential (commercial + defence)** make space startups attractive bets, with VCs targeting scalable platforms in launch tech, satellite data, and in-orbit services.

Deep Tech (USD Bn)



- **Pioneering Frontier Innovation:** From quantum computing to robotics and AI infrastructure, deep tech is driving foundational shifts across sectors, backed by public and private R&D momentum.
- **First-mover advantage in IP-heavy domains** makes deep tech attractive to VCs, offering long-term value creation through hard-to-replicate innovations and spillover potential across industries.

Bio Tech (USD Bn)



- **Transformative Healthcare Advancements:** Biotech is evolving through breakthroughs in genomics, personalised therapies, and biologics, addressing global demand for precision care.
- **Strong exit potential and mission-driven** innovation attract VCs, with pharma partnerships, IPO windows, and the ability to fund category-defining solutions in health.

Source: McKinsey & Company, Future Markets

Venture Capital: From Tactical Bet to Strategic Pillar

Venture capital is no longer an opportunistic allocation—it is a deliberate, strategic component of forward-looking portfolios seeking long-term alpha, thematic exposure, and innovation leadership.

01

Structural Capital Shift Toward Alternatives

HNIs and family offices have structurally increased their exposure to alternatives—VC in particular—amid the search for differentiated returns and uncorrelated alpha.

02

Strong Long-Term Fundamentals Support Continued VC Allocation

Despite recent volatility, the VC market's projected growth to $4.6T–$5.6T by 2028 underscores investor belief in its resilience and long-term value creation potential.

03

VC Is Being Redefined by Emerging Tech Megatrends

Breakthroughs in AI/ML, space, biotech, and deep tech are not just themes—they are reshaping the future of global industries and becoming key drivers of outsized VC returns.

04

Strategic Role in Portfolio Construction

VC provides: Access to innovation before it's mainstream; Uncorrelated exposure vs. traditional public markets; Multi-decade themes that align with global transformation

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