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NVP Nederlandse Vereniging
van Participatiemaatschappijen

The untapped potential of Dutch venture capital

Why pension funds
should seize the moment



NVP

Founded in 1984, the *Nederlandse Vereniging van Participatiemaatschappijen* (NVP) is the Dutch Private Equity and Venture Capital Association. With over 100 members, it represents 90% of the capital managed by private equity and venture capital in the Netherlands. NVP is the industry body, public policy advocate, and point of contact for anyone who wants to know more about these investors.

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Techleap.nl is a non-profit organisation funded by the Ministry of Economic Affairs and Climate Policy, helping to quantify and accelerate the tech ecosystem of the Netherlands and empowering Dutch leaders in tech to scale up programmes and initiatives for improving access to technology, market, capital and talent. Special Envoy for Techleap.nl is Constantijn van Oranje.

The untapped potential of Dutch venture capital

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Foreword



Annemarie Jorritsma
NVP Chair



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The Netherlands punches above its weight as one of the key ecosystems for innovation and entrepreneurship in Europe.¹ Renowned for its strong universities and for being among the leading countries in areas such as quantum computing, agriculture, food and health tech. Innovations from universities and entrepreneurs address global challenges such as climate change, access to health, and financial inclusion.

Funding is a crucial aspect in bringing these innovations to market and growing businesses globally. The startup ecosystem has matured over the past decade, with capital inflow reaching record levels every year in recent years. Dutch companies are among the leading tech companies, so-called unicorns.² Yet, something is missing – a growing lack of capital support from local investors.

Despite Dutch venture capital³ funds having raised impressive amounts, their pockets are not deep enough to invest in these growth companies as they raise ever-larger rounds. Meanwhile, the Dutch pension funds are among the largest globally in terms of assets, but contrary to their global peers, they are largely absent in funding Dutch or European venture capital funds.

This absence from the venture capital asset class impacts European technological autonomy, economic prosperity and political power. US and Chinese investors are taking the lead investing in Dutch and European innovative growth companies, ultimately benefitting from the healthy returns they deliver as well as the innovations and jobs they create. It would suggest that, although local venture capital investors facilitated the start of many promising companies, the benefits from growth are being reaped overseas. On top of that, Europe and the Netherlands, particularly, risk becoming increasingly dependent on American and Chinese digital, payment and capital markets infrastructure.

A growing
lack of capital
support from
local investors

1 | EIF & IE VC Factor Report 2021 – A new Glance at the European VC Ecosystem: <http://engage.eif.org/the-vc-factor/home/>

2 | Unicorn is a term used in the venture capital industry to describe a privately held startup company with a value of over \$1 billion.

3 | Includes growth capital.

Suppose we want Dutch and European values, ideas, and input to be part of shaping our future, for instance, when it comes to human rights, data privacy, and autonomy. In that case, we need Dutch venture capital funding and should not depend solely on overseas investments.

There is strong momentum in European and Dutch venture capital. It is a maturing industry and asset class. European entrepreneurs coupled with strong local universities and research are well-positioned to change the world and improve lives for many while securing domestic economic prosperity. Yesterday's groundbreaking tech companies are among today's largest capitalised companies. European and Dutch venture capital funds sit in a privileged seat to fund the growing companies of today. However, they cannot do it without investments from the pension funds, especially for larger financing rounds in the later stage.

Pension funds could have a much needed, and significant, impact on the local and regional venture capital ecosystem and would contribute to a positive global footprint and innovation and growth in the local market. The investment opportunity they could capture, would yield an attractive risk return profile for the long-term return of their portfolios.

The time is right for pension funds to invest more in venture capital.

Annemarie Jorritsma

NVP Chair, Dutch Private Equity
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Maurice van Tilburg

Managing Director Techleap.nl

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The untapped potential of Dutch venture capital

Key Highlights

Technology and innovation have become new frontiers to address challenges such as climate change, transition to a sustainable economy, healthy ageing, equality, and a sound pension system, while driving domestic prosperity.

Dutch and European venture capital is a maturing industry with a solid financial track record, outperforming public equity markets.

Dutch venture capital creates jobs and is well positioned for future leadership, with strong universities and track record in bringing innovations to market, specifically in deep tech sectors (e.g. biotech, quantum).

If Dutch and European pension funds were to allocate the equivalent of 20% of their private equity allocation per year to venture capital, this would be €4 billion a year. Increased allocation by pension funds would significantly impact the industry, enabling larger follow-up financing rounds and thus keeping the shareholder base of promising companies in Europe.

The Dutch pension funds could realise long-term financial returns, impact domestic prosperity and innovation while contributing to a more sustainable global economy.

The role of venture capital in the financial and economic ecosystem

1

Venture capital (VC) refers to equity investments in early-stage, high-growth companies that need funding and support to get innovation off the ground, commercialise it and expand into the market globally, contributing to economic growth and impact.

Venture capital funds provide the essential capital and hands-on support to companies, primarily in the adolescent phase of a company. They are so-called active investors who provide strategic and financial support and access to their network. They engage directly with founders and management teams, and for a determined time of five to ten years⁴ mainly contribute to accelerating growth through, for example, manufacturing, sales and marketing. Venture capitalists tend to look at high-growth market segments and industries on the verge of change and disruption. By doing so, venture capitalists accelerate and facilitate innovative entrepreneurs and companies to address the challenges regarding climate change, a transition to a sustainable economy, healthy aging, and inequality. They will likely invest in people and teams they deem capable of executing the growing demand.⁵ At the nascent stage of the innovation life cycle, e.g., when research & development is critical, other stakeholders, such as governments, corporations and the entrepreneur's friends and family, more commonly provide the capital needed.

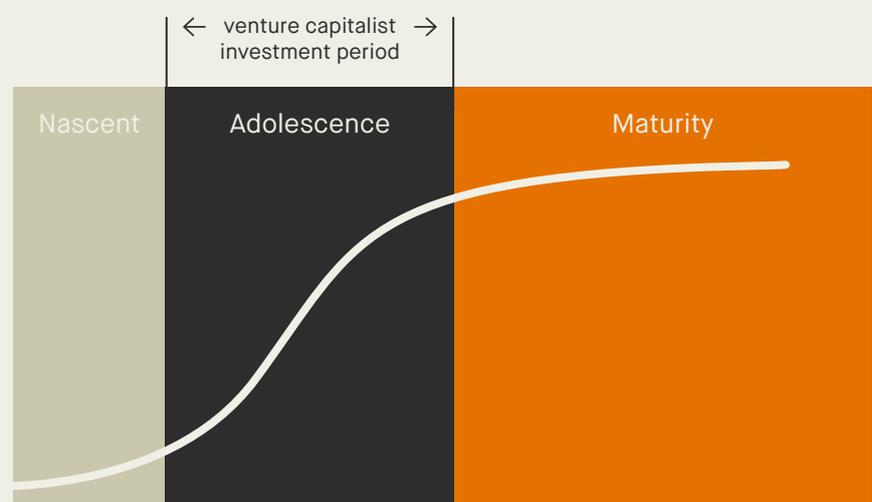
4 | Most VC funds have a life span of 10 years with the possibility, subject to LP approval, to extend beyond if deemed necessary.

5 | HBR Magazine (1998), Bob Zider, 'How Venture Capital works'.

Venture capital invests for a limited time during a period of accelerated growth for a company

Figure 1

Source: HBR Magazine, Bob Zider, 'How Venture Capital works', Nov-Dec 1998



VC funds operate in a segment of the market where traditional and cheaper capital is scarce for companies. After a certain period, the company would typically be sold to a corporation or go on public markets for additional liquidity, a so-called exit.⁶ Companies today stay private for longer with alternative sources of funding such as private equity funds and private credit funds.⁷

6 | HBR Magazine, Bob Zider, 'How Venture Capital works', Nov-Dec 1998, <https://hbr.org/1998/11/how-venture-capital-works>

VC funds (also referred to as a General Partner; GP) typically attract capital from large institutional investors (also referred to as Limited Partner; LP) such as pension funds, insurance companies, asset managers, endowments, family offices and state funds. These investors invest a relatively small percentage of their portfolios into these high-risk investments.

7 | Growth capital operates in this intermediate area of private equity and venture capital.

VC-financed companies are essential for the economic power of the US

Figure 2

The United States, the largest VC market by far in terms of funding,⁸ has had \$1.2 trillion in VC investments since 1995. It has generated economic value in a combined market cap of \$6.8 trillion and 11% of total jobs created as a percentage of all listed US companies.

Economic value of VC-financed public companies in the US



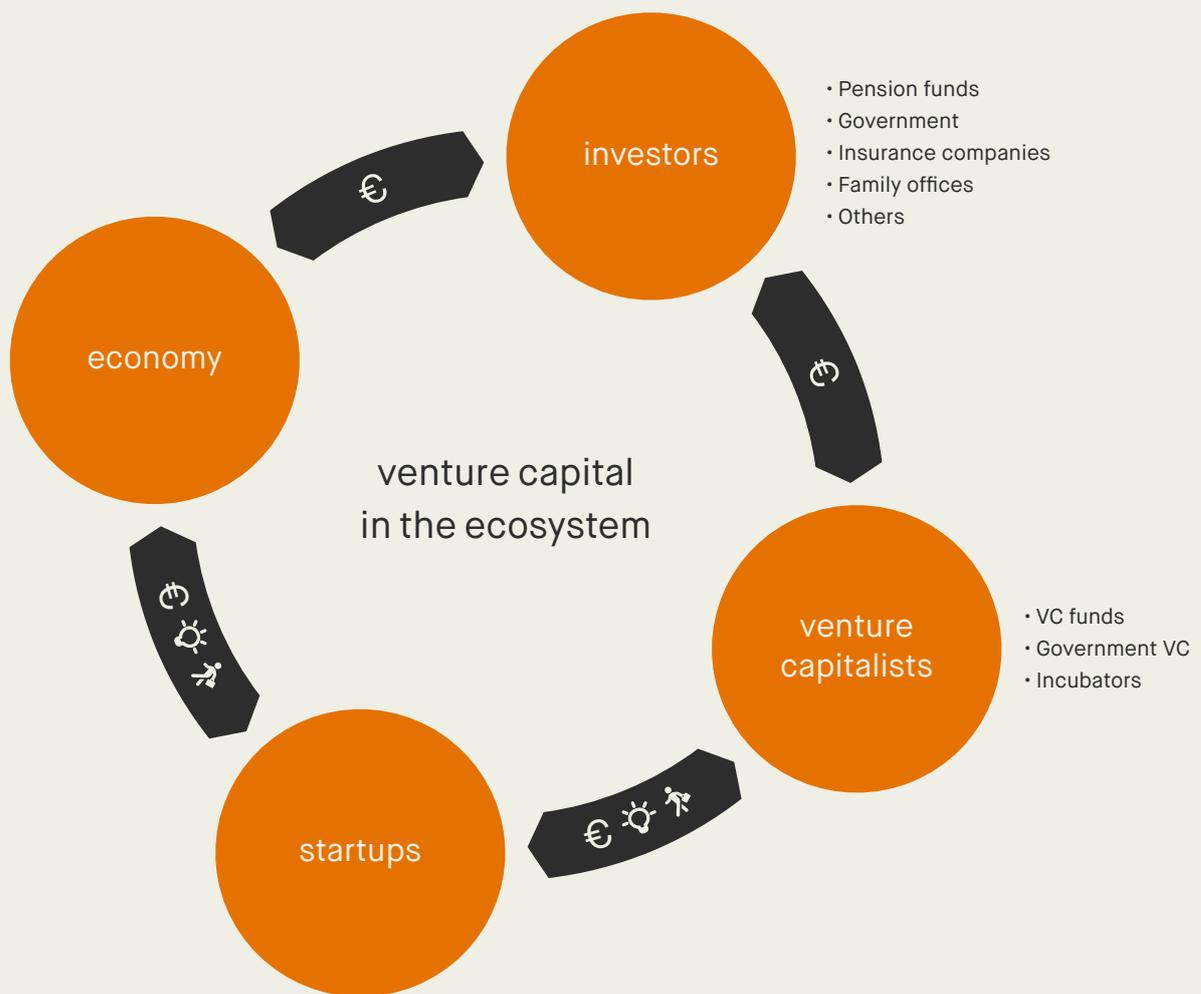
8 | World Bank Data (2020), Pitchbook

For venture capitalists to provide expected returns to their LPs at acceptable risk levels, they typically focus on high-growth markets and spread the risk across several companies. VC funds will focus on bringing each of their portfolio companies to an exit. As the company grows, they will continue to add funding, so-called follow-up rounds, which further contributes to its expected value increase and returns.

VC is an essential part in the life cycle of an innovative company

The cycle of venture capital in the ecosystem

Figure 3



VC funds invest in startups that bring innovation to markets and economies in addition to creating jobs. This economic activity stimulates pensions, insurance and savings, which can be re-invested in innovation through VC fund investments.

Dutch VCs invest in wide range of sectors

2

Dutch VC investments are traditionally concentrated in life sciences and biotech, sectors with an evident strong economic and societal impact. Innovations in this area help to improve the lives of many. The strength of this sector can be attributed to the robust ecosystem of world-renowned universities, entrepreneurship and government support. However, there are now many more Dutch startups, in other sectors as well, which could attract VC capital and accelerate and strengthen economic and societal impact. By sector, investments continue to go into biotech and health care companies, communications, computer and electronics, and an increasing share of consumer goods and services. There is also a remarkable increase in agriculture investments, an area heavily focussed on addressing climate change.

Many more Dutch startups could attract VC capital and accelerate and strengthen economic and societal impact

Venture capital and growth capital investments by Dutch VC funds (€)

Figure 4



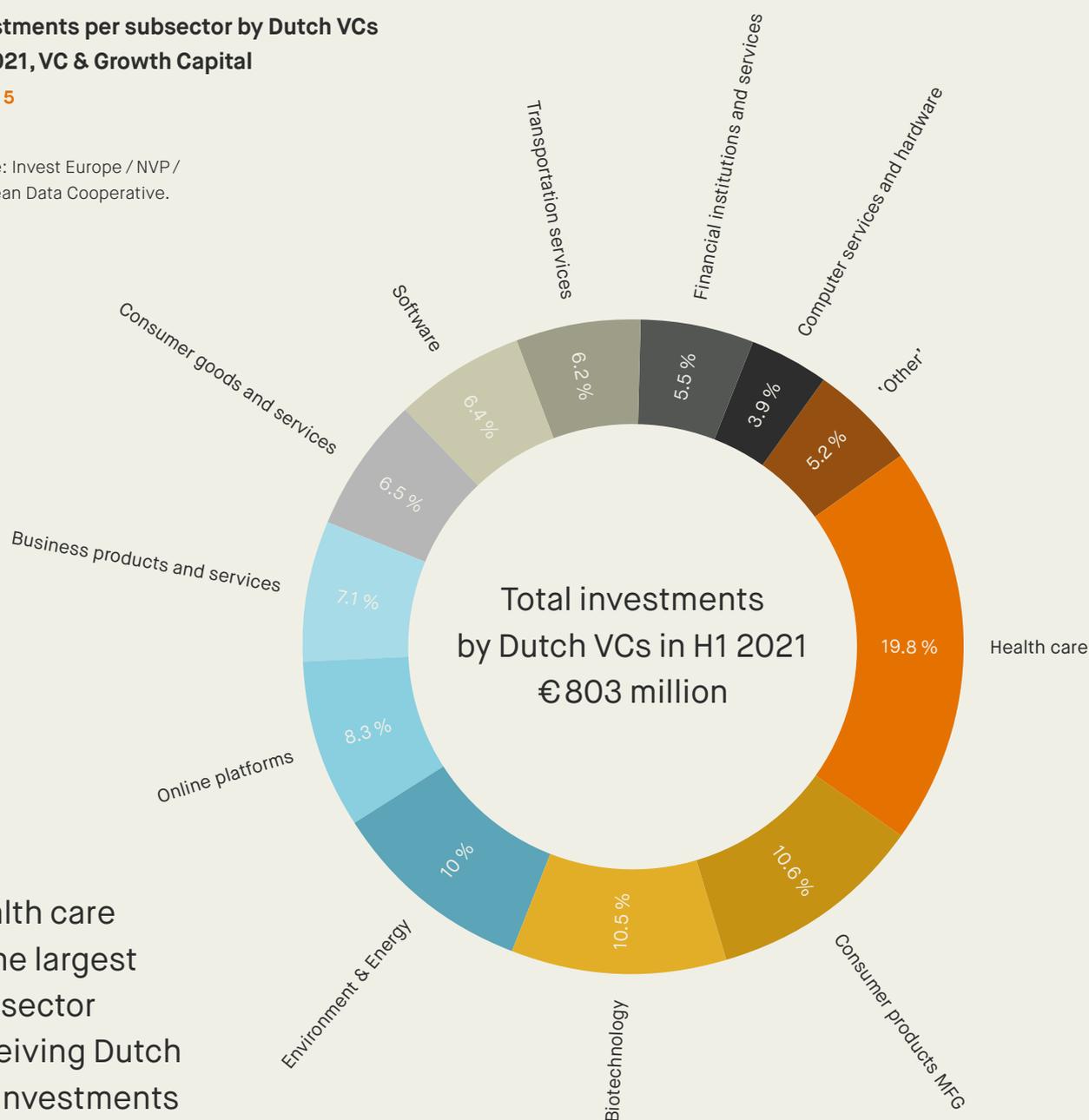
Source: Invest Europe / NVP / European Data Cooperative.

Looking specifically at which sub-sectors Dutch VCs invested in, we see a similar focus during 2021 on biotech and health care and a significant share in environment and energy, equally as prominent as consumer goods and services. This trend is a positive development. In previous years, environment was a small part of the 'other' category (<5% of total). Given the energy and climate challenges, this sector has ample opportunities for a step-up in investments.

Investments per subsector by Dutch VCs H1 2021, VC & Growth Capital

Figure 5

Source: Invest Europe / NVP /
European Data Cooperative.



Health care
is the largest
subsector
receiving Dutch
VC investments

The Dutch deep tech⁹ sector is strong and has a competitive advantage globally but is capital intensive. Although the Dutch government has invested in deep tech and other sectors through the €20 billion National Growth Fund¹⁰ more money is still needed.

If the Netherlands wants to establish its position as a future leader in innovation, private capital must go into this segment. Private investments still lag in this sector, partly because the commercialisation life cycle (>10 years) deviates from traditional consumer businesses. Long-term institutional investors, such as pension funds, can play a role here while seizing a promising investment opportunity.

9 | Deep tech — the coined term for technologies not focused on end-user services that includes artificial intelligence, energy, robotics, blockchain, advanced material science, photonics and electronics, biotech and quantum computing.

10 | <https://www.nationaal-groEIFonds.nl/>

European venture capital shows strong financial risk-return profile

3

European venture capital is a maturing segment of private capital, reflected in total assets and the financial performance over the past decade. VC fund managers in Europe increasingly have long track records, and realised returns are on a par with the US, as a recent publication by Invest Europe and Cambridge Associates¹¹ shows.

European VC funds¹² generated, since inception 1986, an internal rate of return (IRR)¹³ of 11.1% outperforming public markets (MSCI Europe returned 7.8%). European VC funds perform strongly over 5, 10, and 15-year horizons,¹⁴ generating IRRs of 21.9%, 19.7% and 12.8%, respectively.

As of end of 2020, European VC fund performance has been competitive with North American performance over 10 and 15-year horizons. European funds delivered a multiple on invested capital (MOIC) of 1.97x compared with 2.03x for North American funds. It has exceeded North American performance over shorter periods, indicating European VC is performing better than its US equivalents.

70% of European VC funds achieved positive returns and delivered an average MOIC of 2.29x, while 82% of active funds are currently generating positive returns.

11 | Invest Europe / Cambridge Associates: The Performance of European Private Equity (2021).

12 | Invest Europe / NVP / European Data Cooperative defines venture capital specifically as investments for an operating company which may or may not be profitable, typically not beyond C or D rounds. Growth capital is typically later, in D rounds and beyond.

13 | Internal Rate of Return, a measure of returns adjusted for time invested. See Invest Europe / Cambridge Associates: Benchmarking Public and Private Markets with the Public Market Equivalent (PME) (2020) for more on performance metrics.

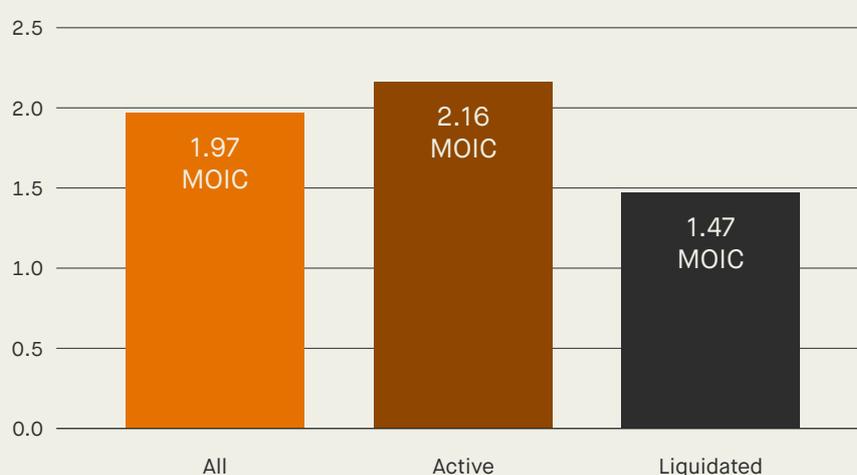
14 | Considering the long period it takes for VC funds to be fully divested, typically 5, 10, 15 years and taking into consideration inception time horizons. These are reasonable indicators of realised returns instead of valuations.

European VC funds realised returns are on a par with the US

MOIC of all active and liquidated European venture capital funds

Figure 6

Source: Invest Europe, based on Cambridge Associates



A closer look at European growth capital

European growth capital funds,¹⁵ primarily supporting maturing businesses with double-digit growth rates in terms of revenue, generated an IRR of 13.7%, an outperformance of 6.4% to the MSCI Europe and 11.8% outperformance to the S&P Europe Small-Cap Growth index. European growth capital funds provide reasonably consistent performance over long periods, with an IRR of 13.7% over a 25-year horizon and 15.1% over a 10-year period.

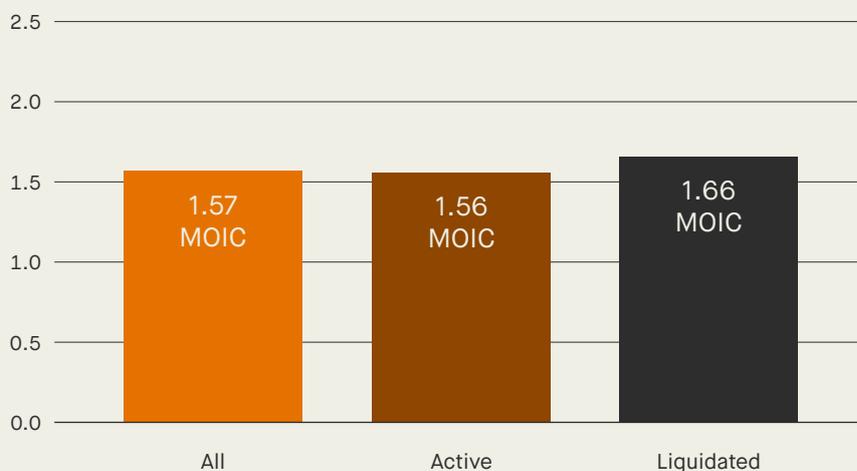
84% of growth capital funds generated positive IRR returns for investors while just 16% had negative returns (this minority nevertheless returned most of their capital with a MOIC of 0.9x).

15 | Invest Europe / NVP / European Data Cooperative shows performance numbers per category and separates growth capital, which is typically investments in later stages, i.e. series D and beyond. However, generally, growth capital is considered a subcategory to venture capital and included when mentioned venture capital in general.

MOIC of all active and liquidated European Growth Capital funds

Figure 7

Source: Invest Europe, based on Cambridge Associates



The risk of losing capital when investing in growth capital funds is relatively limited¹⁶

16 | Invest Europe / Cambridge Associates: The Performance of European Private Equity (2021).

Investments in Dutch VCs and startups are growing

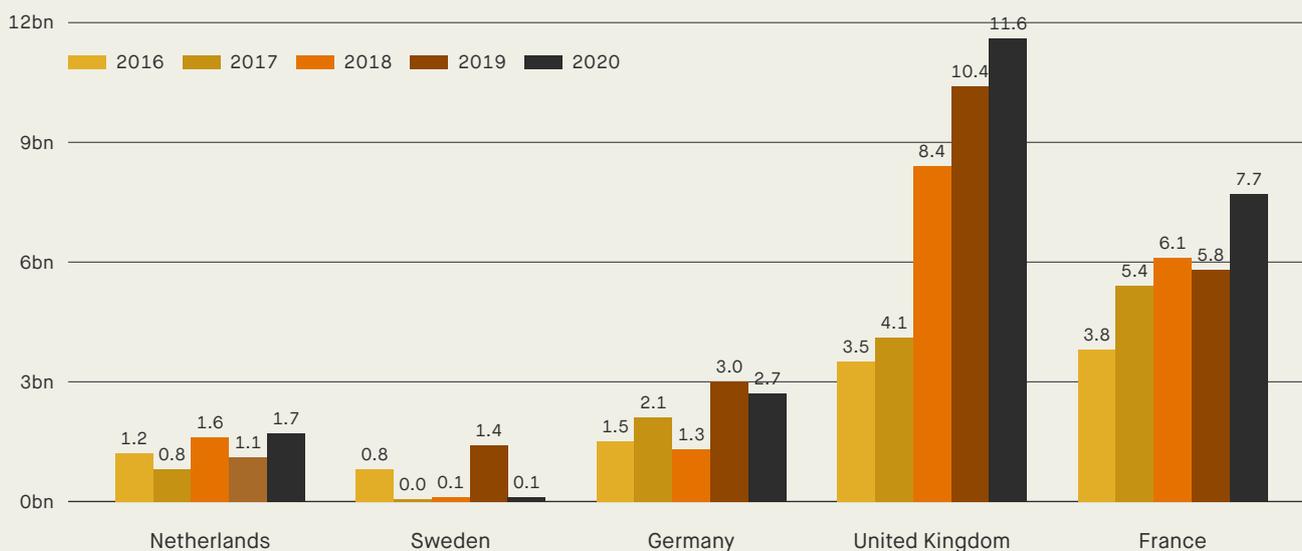
4

Momentum in the Dutch venture capital industry has been growing over the past decade with increasing amounts invested, a growing global appetite among investors, a vibrant startup ecosystem and good government policy. Nevertheless, the industry still lags behind the US and some of its European peers in absolute numbers.

Momentum in the Dutch venture capital industry has been growing over the past decade

Steady growth in Dutch venture and growth capital fundraising, yet still behind European peers (€)

Figure 8



Source: Invest Europe/NVP/ European Data Cooperative.

However, on a relative per capita basis in 2020, the Netherlands (17 million inhabitants) surpassed Germany (83 million inhabitants) by a wide margin and closely rivalled France (67 million inhabitants).

The increasing appetite by private and non-institutional investors for investing in venture capital is reflecting a combination of factors:

- It follows a general trend of the increasing sophistication of private markets, including infrastructure and private equity, offering more and deeper investment opportunities.
- With growing track records, venture capital fund managers can increasingly show they can offer steady outperformance to other asset classes.
- Steady government support has enabled a vibrant ecosystem to develop.

When looking at the government framework in more detail, government investments in VC funds in the Netherlands have been at a steady 23% of the total since 2007. Academic evidence¹⁷ shows this enables rather than crowds out private investors to invest in VC capital funds. It often works as a 'seal of approval' when a fund manager passes the due diligence process of a European institution like the European Investment Fund (EIF). In the Netherlands, the government support has enabled VC fund managers to raise increasingly large funds without increasing the percentage share of the government contribution.

Growing investments in venture capital have led to investments in Dutch startups and scaleups reaching record levels in 2020 and continued strongly in H1 2021. Also, in this respect, the Netherlands compares well to other European ecosystems.

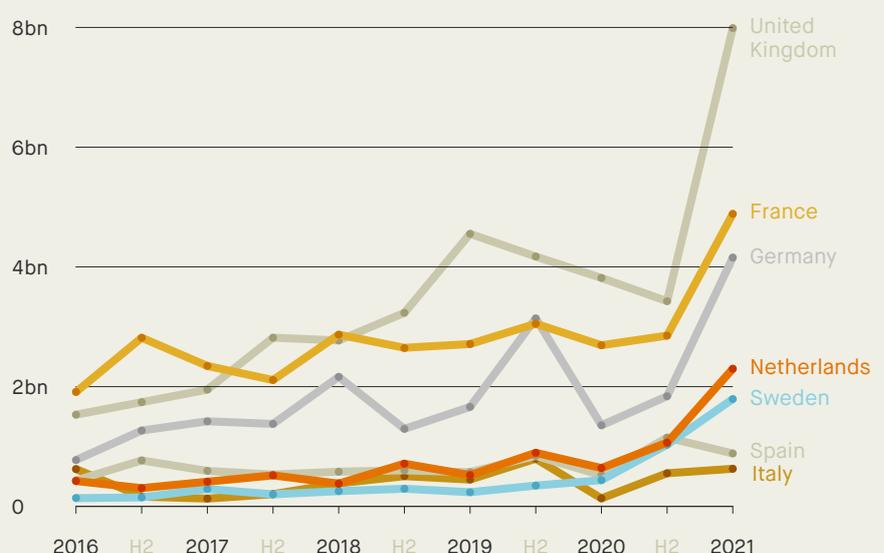
17 | E.g. Direct and indirect government venture capital investments in Europe. Yan Alperovych, Anita Quas and Thomas Standaert (UGent), 2018, Economics Bulletin. 38(2). p. 1219-1230.

When it comes to investing in startups and scaleups the Netherlands compares well to other European ecosystems

Investment in startups & scaleups by country (€)

Figure 9

Source: Invest Europe/NVP/ European Data Cooperative. H1 2021 data is preliminary and subject to change.



Meanwhile, it is important to note that close to 85% of all deals in the Netherlands went to male-only founding teams.¹⁸ These numbers are on a par with global numbers. Women and people of colour remain underrepresented in investments, both as beneficiaries and as decision-makers.¹⁹ Dutch venture capital funds have only around 10% of women in senior investment roles.²⁰ Diverse teams generate higher returns²¹ and more capital needs to be allocated to VC funds with diverse investment teams as well as startups with diverse management teams. More diverse VC investment teams lead to increased funding to diverse founding teams and hence help address inequality issues.²²

18 | Atomico (2021): 'State of European Tech'.

19 | European Commission: Gender Smart Financing – Investing in & with women: Opportunities for Europe (2020).

20 | NVP / Level 20 (2021).

21 | Forbes, 10 Stats That Build The Case For Investing In Women-Led Startups (2019).

22 | Kauffman Fellows research, Women VCs invest in 2x more female founders (2020).

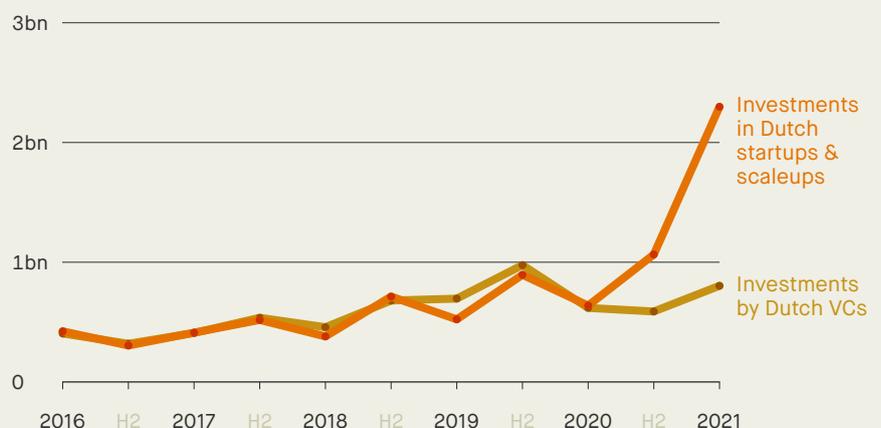
However, when we look at the source of investments into Dutch companies, the increase over the past 1.5 years is primarily driven by non-domestic VC funds. Dutch venture capital funds have also increased activity, but the upward trend is not as pronounced. In H1 2021, Dutch VCs invested about €800 million, about 70% in the Netherlands. Dutch startups and scaleups received around €2.3 billion of VC funding. This funding mainly comes from outside the Netherlands and shows that even though Dutch VC funds have raised record amounts, it does not add enough firepower to sufficiently support Dutch scaleups in their financing needs for growth.

Foreign VCs drive record amounts of investments in Dutch startups

Investment in Dutch startups & scaleups versus investments by Dutch VCs (€)

Figure 10

Source: Invest Europe/NVP/ European Data Cooperative. H1 2021 data is preliminary and subject to change.



Examples of large funding rounds in 2021 by Dutch scaleups,
primarily funded by international VC funds ²³

Figure 11



23 | From Techleap.nl Finder
<https://finder.techleap.nl/>

Where are the pension funds?

5

Dutch pension funds are among the largest in the world by assets.²⁴

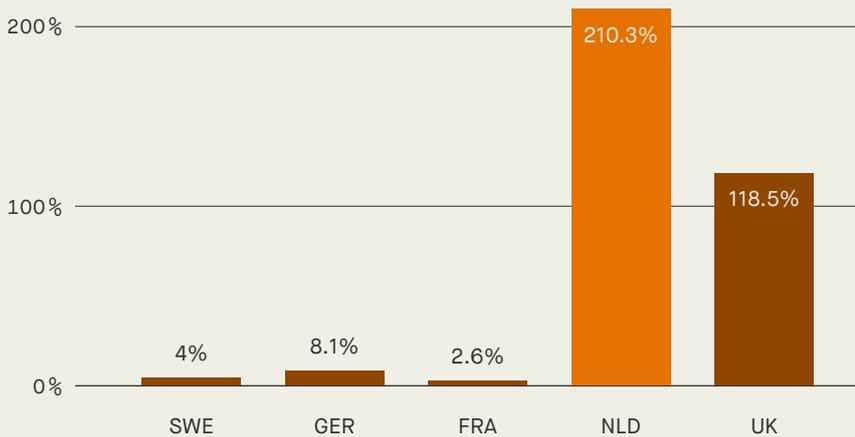
The Netherlands is the largest pension market in the world as a percentage of GDP and Europe's second-largest by total assets next after the UK. Compared to other European countries, pension assets as a percentage of GDP are over 210%, while the European average hovers between 5 and 15 percent.

24 | P&I 1,000 (2021)

The Netherlands is the largest pension market in the world as a percentage of GDP and Europe's second-largest by total assets

Assets in pension funds as percentage of GDP

Figure 12



Assets in pension funds (€)

Figure 13



Dutch pension funds are notably not very active in investing in venture capital compared with their global peers. Despite the promising data and, in general, increasing appetite of institutional investors globally to invest in VC funds, Dutch pension funds are still largely missing from the scene.

25 | Atomico (2020):
'State of European Tech'.

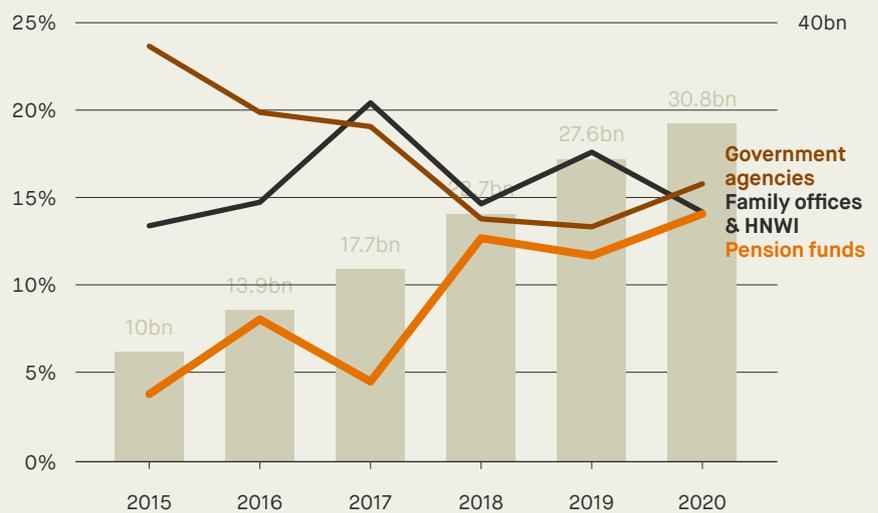
Historically, looking at funds raised by type of investors for European VC funds, government agencies, and family offices have been the most important source of funds. Pension funds represent less than 15% and 5% in 2020 of European and Dutch VC fundraising, respectively. There are also regional differences: the Nordics have the highest share of funds raised from pension funds in Europe. In fact, Nordic VCs raise a greater share of their funds from pension funds than from any other investor, and in Sweden the share is even higher.²⁵ In the Netherlands, however, pension funds invest considerably less.

Contrary to the European trend, Dutch VCs don't see more pension fund interest

European VC and growth capital fundraising from LPs worldwide (€ & %)

Figure 14

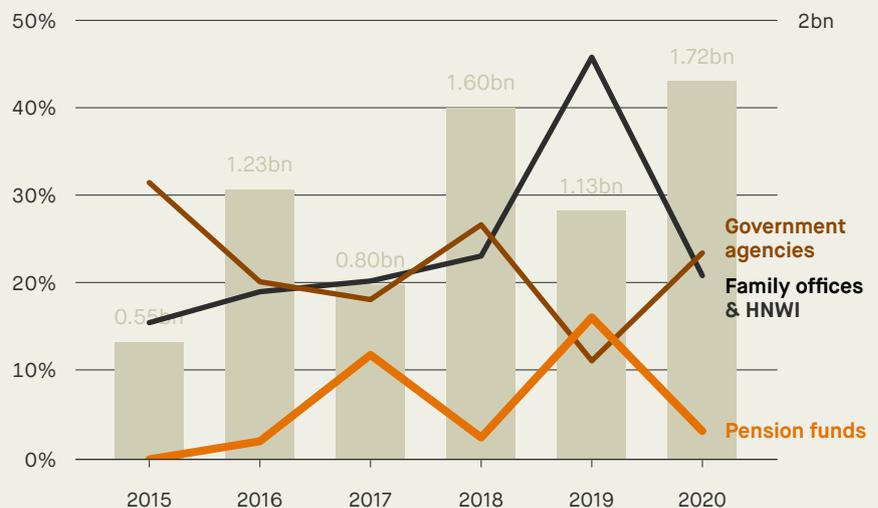
Source: Invest Europe/NVP/
European Data Cooperative.



Dutch VC and growth capital fundraising from LPs worldwide (€ & %)

Figure 15

Source: Invest Europe/NVP/
European Data Cooperative.



There are various reasons why European pension funds have smaller venture capital allocations than their US peers; for instance, pension contracts differ.

Another cause has been that historically, the European VC ecosystem has lagged behind the US in terms of maturity and investment opportunities. However, this is no longer the case as European VC shows a strong track record with attractive financial returns. Several European companies reach the global stage and show value creation with increasing exit values.

There are a few examples of Dutch pension funds already successfully tapping into the VC market. However, relative to their total assets, it is not a significant allocation. Dutch VCs only raised €220 million in total from Dutch pension funds from 2016 until H1 2021,²⁶ this represents approximately 0.012% of total Dutch pension assets.

If Dutch and European pension funds were to allocate the equivalent of 20% of their private equity allocation to venture capital, this would make available an estimated €4 billion a year.²⁷ Such an allocation would substantially positively impact the industry, enabling larger follow-up financing rounds and thus keeping the shareholder base of promising companies in Europe. It would contribute to lesser dependence on American and Chinese infrastructure across essential areas of society and empower European values and technology leadership.

Especially venture capital funds focussing on more mature investments seem suitable for such a re-allocation. Pension funds can allocate relatively large amounts of capital in these funds, as the risk profile is more attractive and ticket sizes are better suited for large investors. They step in where government and private individuals' funding ends.

There has been a long trend of pension funds increasing their allocations to private markets due to, for instance, the negative interest rates of the past decade and the diminishing opportunities for returns in public markets.

Venture capital increasingly seems to be an excellent additional return provider. This assessment is due to its high return profile, yet manageable risk and the underlying nature of investing in innovation through business ventures that can bring these innovations to market, commercialise and make a global impact. These aspects align with the long-term goals of pension funds. Now is a good time for Dutch pension funds to seize this investment opportunity and invest in the future.

26 | NVP / Invest Europe custom data.

27 | Lakestar, (2020): 'State of the European Tech Ecosystem'.

Investing in VC contributes to long-term financial and impact goals of pension funds

'Combine return with impact'

Voices from the Dutch VC industry

'Institutional investors keep increasing their allocations to private markets, and within that asset class there is increasing interest in venture capital. This is first and foremost because returns are good. But we see increasingly that institutional investors are also considering non-financial impact. Life sciences venture, what we do at Forbion, is a highly impactful business where one gets both (high) financial and social return. COVID-19 has only accelerated that trend.'

Sander Slootweg

Managing Partner Forbion



'We cannot only solve environmental problems with platforms and artificial intelligence. We also need physical equipment and installations that make the products of the future in new, clean ways. An increasing number of family offices and corporates realise that their contribution is needed for this urgent shift to a different and circular economy. Backed by such investors, SHIFT is able to provide financial support and knowledge to these, often, capital intensive companies throughout their path to success.'

Florentine Fockema Andreae

Partner SHIFT Invest



'A more diverse environment in the technology world will foster innovation and have a positive impact beyond just tech itself. The institutions funding venture capital firms can accelerate this change by investing in diverse and emerging fund managers. Doing so will make a lasting impact on the entrepreneurial ecosystem and a ripple effect that impacts diverse founders and communities. At CapitalT we support entrepreneurs of all backgrounds who develop brilliant teams and build purpose-driven companies around the technologies of the future.'

Janneke Niessen

Founding partner Capital T



Further reading

Investing in VC

State of European Tech

Atomico

- > 2020.stateofeuropeantech.com/chapter/state-european-tech-2020/
- > 2021.stateofeuropeantech.com/chapter/executive-summary/

Guide to Private Equity and Venture Capital for Pension Funds

Invest Europe

- > www.investeurope.eu/media/1222/invest-europe-pension-fund-guide-to-private-equity-and-venture-capital.pdf

Gender Smart Financing – Investing in & with women: Opportunities for Europe

European Commission

- > ec.europa.eu/info/sites/default/files/economy-finance/dp129_en.pdf

Women VCs invest in up to 2x more female founders

Kauffman Fellows research

- > www.kauffmanfellows.org/journal_posts/women-vcs-invest-in-up-to-2x-more-female-founders

10 stats that build the case for investing in women-led startups

Forbes

- > www.forbes.com/sites/allysonkapin/2019/01/28/10-stats-that-build-the-case-for-investing-in-women-led-startups/?sh=5bb2550359d5

VC performance and market data

NVP

- > nvp.nl/onderzoek

Invest Europe

- > www.investeurope.eu/research/activity-data

The Performance of European Private Equity Benchmark Report 2020

Invest Europe / Cambridge Associates

- > www.investeurope.eu/research/performance-data

Benchmarking Public and Private Markets with the Public Market Equivalent (PME)

Invest Europe / Cambridge Associates

- > www.investeurope.eu/research/performance-data/

Can Europe be the most entrepreneurial continent?

Index Ventures / Dealroom / Sifted

- > dealroom.co/uploaded/2020/10/Index-Ventures-Oct-2020-European-Startups-new.pdf

Winning formula: How Europe's top tech startups get it right

McKinsey & Company

- > www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/winning-formula-how-europes-top-tech-start-ups-get-it-right?cid=soc-app

Overview of Dutch VCs

Techleap.nl/DealRoom Finder Tool

- > <https://finder.techleap.nl>

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Interested in hearing more or sharing feedback?
Please get in touch.

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