Road to Next

Q2 2025

The next era of VC: The evolving roles of generalists and specialists

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How generalist and specialist VC roles are evolving in a complex dealmaking environment

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Are specialists outperforming? Returns reveal a closer race than expected

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The nestled model: Why firms are merging depth with breadth

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A tale of two strategies: Generalists sustain, specialists supercharge

Regional trends
Specialists shift investment maps in 2025

Deloitte.

Data provided by PitchBook

Editorial team

"Given current levels of uncertainty in markets, executives and investors are trying to plan for multiple contingencies, as well as continuing what investments have a higher degree of confidence."

Heather Gates

Audit & Assurance Private Growth Leader, Deloitte & Touche LLP

With more than 30 years of financial services experience, Heather serves as the national Private Growth leader, with oversight of the Deloitte Private and Emerging Growth Company businesses within Audit & Assurance.

Deloitte and PitchBook have collaborated to produce a unique methodology for the Road to Next series to better analyze a new segment of companies that emerged in the 2010s. Dubbing this segment the "expansion stage," the methodology uses investment data restricted to late-stage venture capital (VC), private equity (PE) growth, and private corporate financing. In addition, companies must still be privately held by investment firms.

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Editorial team

“Subsets of companies are wading through any slowdown in decision-making, forging ahead even if it means accepting a lower capital raise and/or valuation.”

Jason Rissanen

Audit & Assurance Partner, Deloitte & Touche LLP

Over his nearly 30 year career, Jason has served some of Deloitte’s largest technology clients, along with dozens of venture-backed companies. In addition to his client service responsibilities, Jason leads our Bay Area Audit & Assurance practice.

“Companies that can convey a clear, crisp vision and pathways forward across current tumultuous factors are still able to go to market and raise or keep progressing on any exit strategies.”

Denise Diehl

Audit & Assurance Managing Director and New England Regional Emerging Growth Company Leader, Deloitte & Touche LLP

Denise is a managing director in the Audit & Assurance business and serves as the New England Regional Emerging Growth Company leader. With more than 19 years of experience, Denise primarily serves life sciences Securities and Exchange Commission (SEC) registrants and private companies backed by venture capital investors.

“Investors’ focus is honing even more on the financial sustainability of operations and pathways to profitability.”

Scott Coffer

Audit & Assurance Partner, Deloitte & Touche LLP

Scott has over 18 years of experience serving financial services clients, including investment companies, fintechs, broker/dealers, and bank holding companies. He specializes in audit and advisory services for asset managers and business development companies, with deep experience in public offerings, regulatory reporting, and accounting for venture capital, private equity, and private credit.

Executive summary

How generalist and specialist VC roles are evolving in a complex dealmaking environment

This latest edition of the Road to Next series explores an ongoing question for the venture industry and, in particular, the expansion stage: Which firm and fund approach is superior—specialist or generalist? There is no simple answer, but analyzing data sets about how each invests and performs lends insight, especially contextualized against recent chaotic market environments and past booms. In the first quarter of 2025, the expansion-stage investment landscape in the United States demonstrated remarkable strength, driven by heightened activity from both specialist and generalist investors.

- In Q1, specialist participation in deals correlated with higher median deal sizes and valuation growth compared with generalist-led rounds. These investors also proved instrumental in maintaining valuation momentum even amid market volatility. PE-growth investors increased their presence in the expansion stage, adding to the influx of capital.

- Exit activity also rebounded, though slowdowns on the horizon will likely impact Q2 figures. Specialist-backed companies took significantly less time to exit and had higher median exit values than their generalist-backed counterparts, indicating a more efficient path to liquidity.

- Despite assumptions that specialists always outperform generalists, fund return data shows a more nuanced picture. While specialists often lead in distributions to limited partners (LPs), total return metrics converge in more recent fund vintages. This suggests that while specialists bring strategic depth, generalists continue to benefit from broader exposure and diversified portfolios.

Executive summary

Themes and key findings for this issue

- Analysis of how specialist participation shifts metrics such as deal size, valuations, or even exit type.
- An in-depth review of key fund returns metrics between generalists and specialists, comparing total value creation versus cash paid back to investors.
- Deloitte insights as to how specialist funds versus generalist firms have begun to blend and evolve approaches.
- The convergence of both approaches may define the future. A growing trend is the “nestled model,” wherein generalist firms embed specialist teams, blending scale and sector expertise. This hybrid structure may offer the most resilient path forward in a market that demands both focus and flexibility.

Investment trends

In Q1 2025, specialists pile into megadeals, while generalists propel overall investment

At $75.1 billion across 283 transactions, expansion-stage deal activity with specialist participation has already put 2025 at the fourth-highest year on record. Even excluding the $40 billion OpenAI transaction, the $35.1 billion remaining would stand as one of the strongest-ever quarterly tallies of aggregate expansion-stage deal value. The role of megadeals cannot be overstated: If other artificial intelligence (AI)-related rounds, such as the double financing deals that occurred are included, then specialists participated in $60 billion worth of megadeals in Q1. Meanwhile, overall expansion-stage activity without specialist participation remained healthy, tallying $41.4 billion across 864 completed transactions.

These robust figures occurred against the backdrop of a strong if volatile public equities market and prior to any significant economic and market disruptions due to the onset of the new proposed tariff levies in April.

That said, the strength of these figures exemplifies the overall investor optimism across the expansion-stage ecosystem for the first quarter of the year—particularly the critical role of specialists in helping drive outlier financings. This could be due in part to specialists having fewer and more concentrated portfolios, enabling them to write larger checks into investments of higher conviction, if at a slower pace than large generalists. Given the current milieu, that slower pace could become more common, as Jason Rissanen, Audit & Assurance partner at Deloitte & Touche LLP, states: "Executives are trying to prioritize what they can control and the immediate impacts of any type of actualized tariffs on their supply chains, which could have a ripple effect on the pace of business investment overall. With so much uncertainty in the environment, reliable forecasting is tough. Most discussions have not yet centered on the possibility of a recession, but industry players are keeping a close watch."

$30M

Median expansion-stage deal size with specialist participation in Q1 nears the record

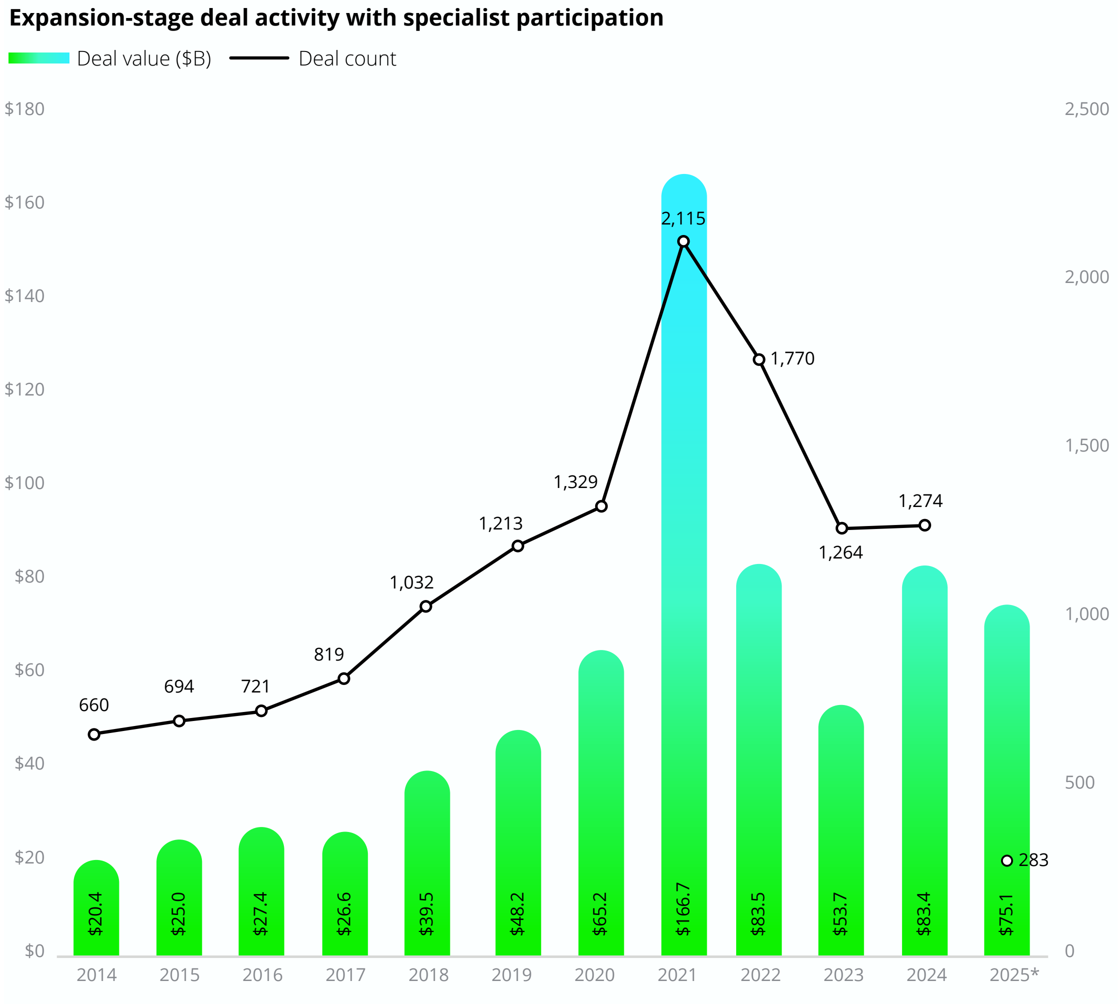
12 deals

Niche software development applications deals done with specialists, pacing 2025 to be the most active year since 2021

42.9%

Median pre-money valuations in Q1 were nearly 43 percent higher when a specialist investor was involved

Investment trends



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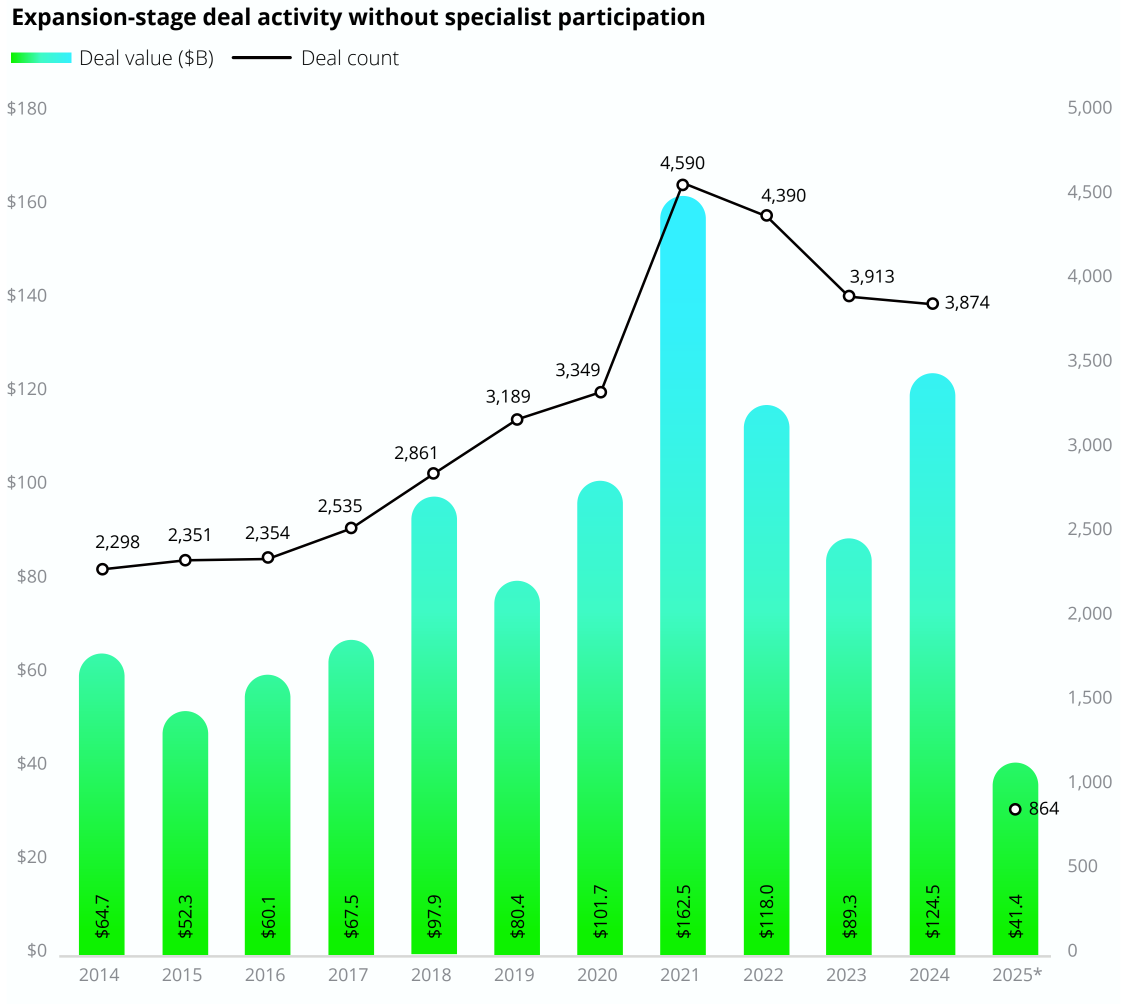

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Investment trends

A tale of two kinds of growth investing

Breaking out expansion-stage activity by specialist participation and type provides further explanation. Specialists have increasingly concentrated both capital and activity on late-stage VC and venture-growth financing. Overall expansion-stage activity, however, has seen a gradual encroachment by PE-growth investors, particularly in terms of aggregate deal value, at $27.9 billion in Q1 alone. PE-growth investing does not tend to be specialist, as more focused venture firms exist that prioritize specific sectors and/or verticals.

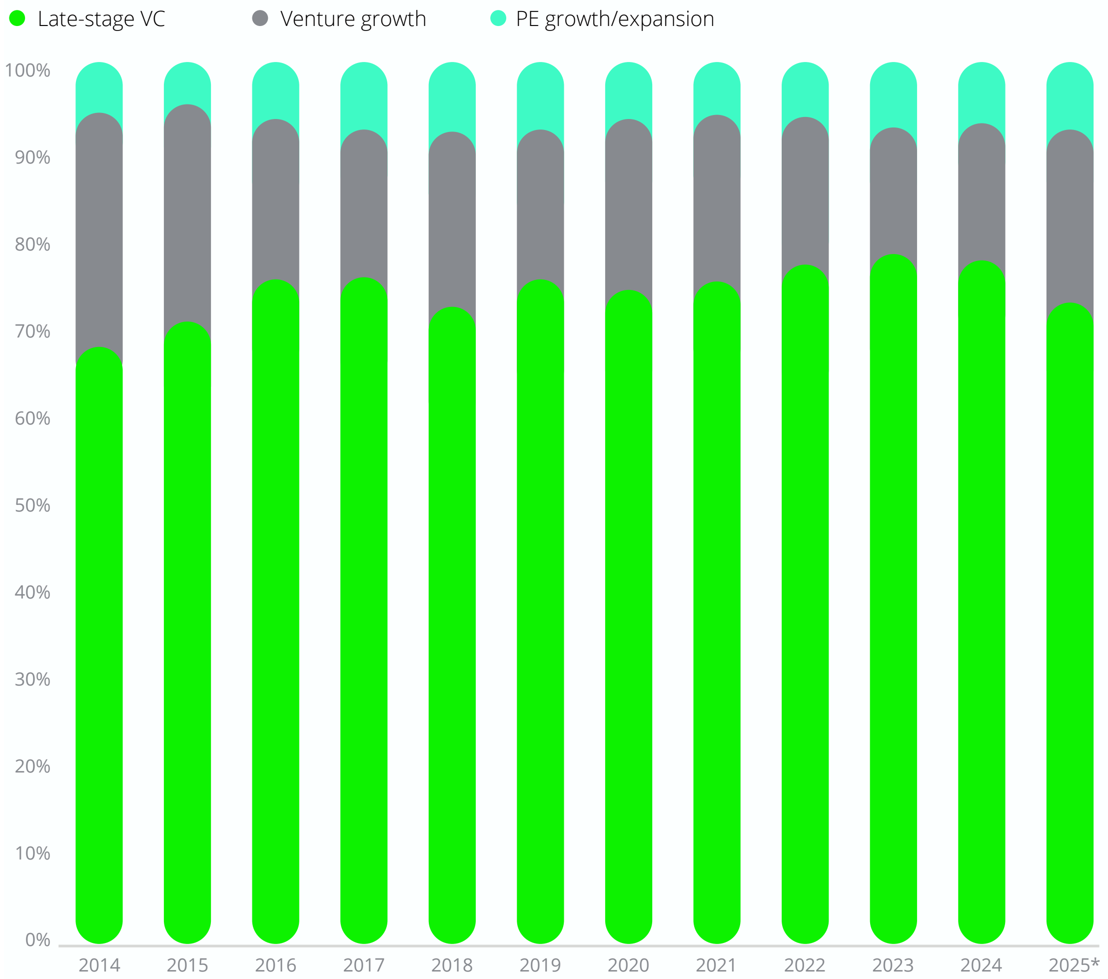
The influx of PE growth into the expansion stage is attributable to two primary factors: first, the sheer degree of competition in the overall buyout and middle-market investing landscape, which is prompting PE funds to deploy capital elsewhere; and second, the growth in the investable universe of larger, expansion-stage companies that better suit the scale and scope of many growth funds. The latter also explains venture growth's swelling proportions of deal value and count, especially in Q1. Specialists, primarily in VC, are still maintaining exposure in expansion-stage companies in order to retain stakes as exit timing likely nears. In addition, specialists are joining these larger rounds given the broader chaotic dealmaking landscape, as they are somewhat more stable prospects. As a result, both kinds of growth investing—venture and PE—have increased.

"From an asset manager perspective, even larger, more traditionally generalist firms are likely to focus on increasingly specific sectoral opportunities, with a bifurcation occurring as more capital flows into the largest, most competitive rounds."

Scott Coffer
Audit & Assurance Partner,
Deloitte & Touche LLP

Investment trends

Share of expansion-stage deal count by stage with specialist participation



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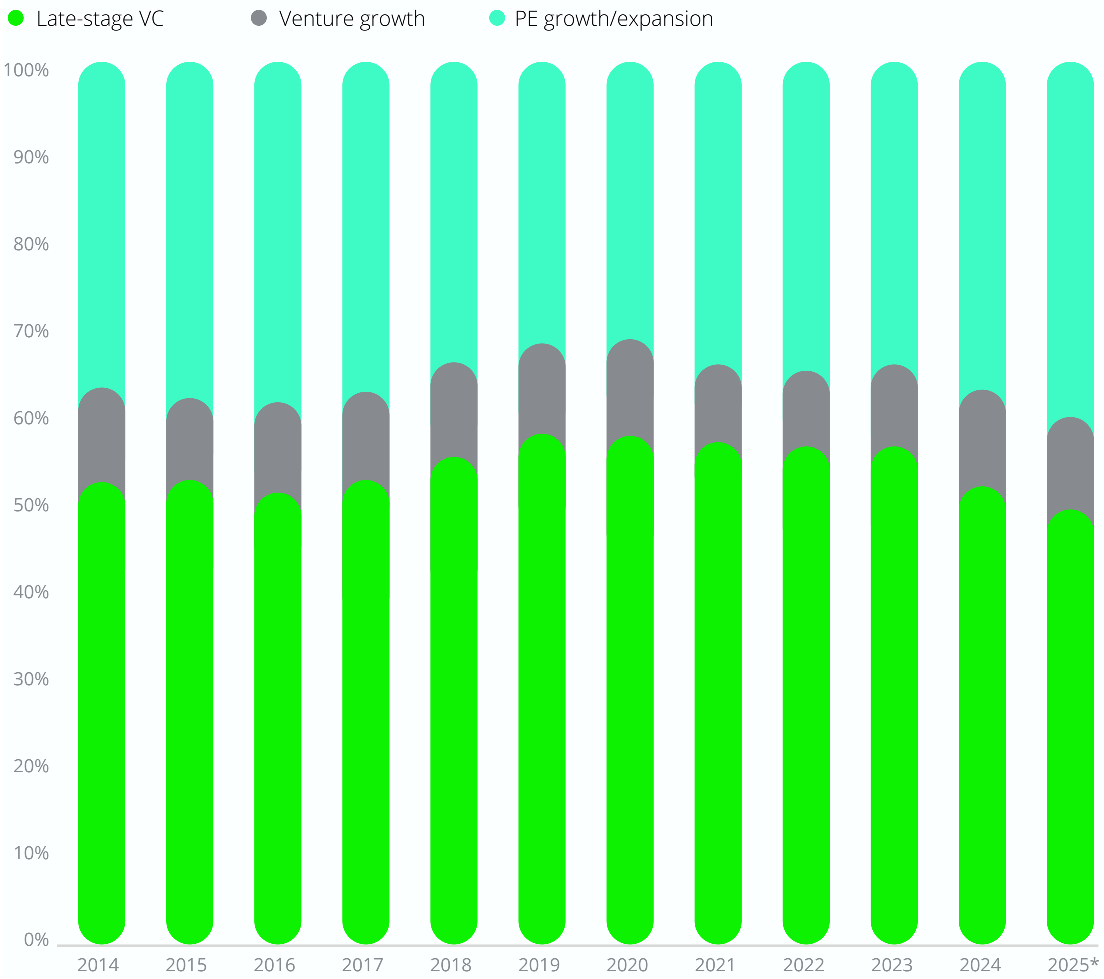
Share of expansion-stage deal count by stage without specialist participation



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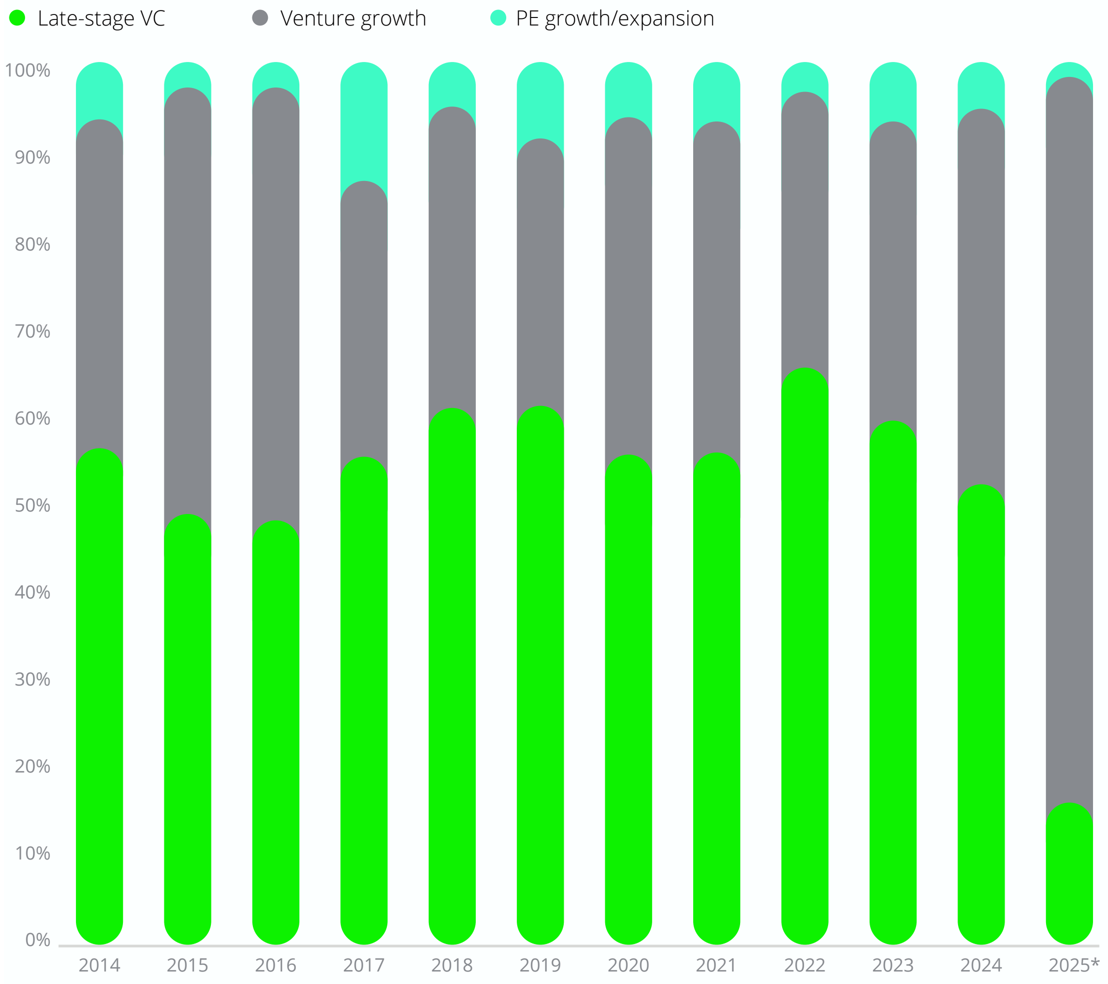
Investment trends

Share of expansion-stage deal value by stage with specialist participation



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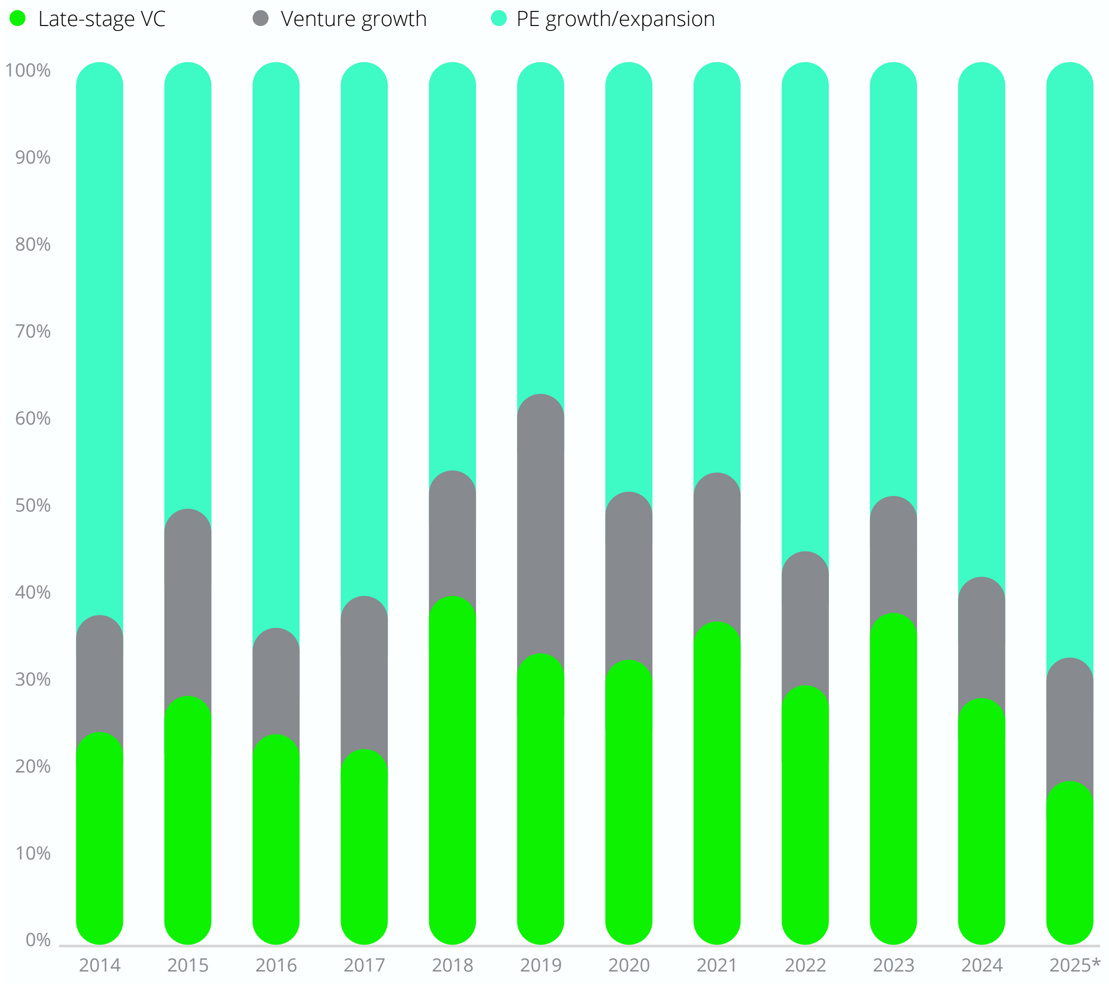
Share of expansion-stage deal value by stage without specialist participation



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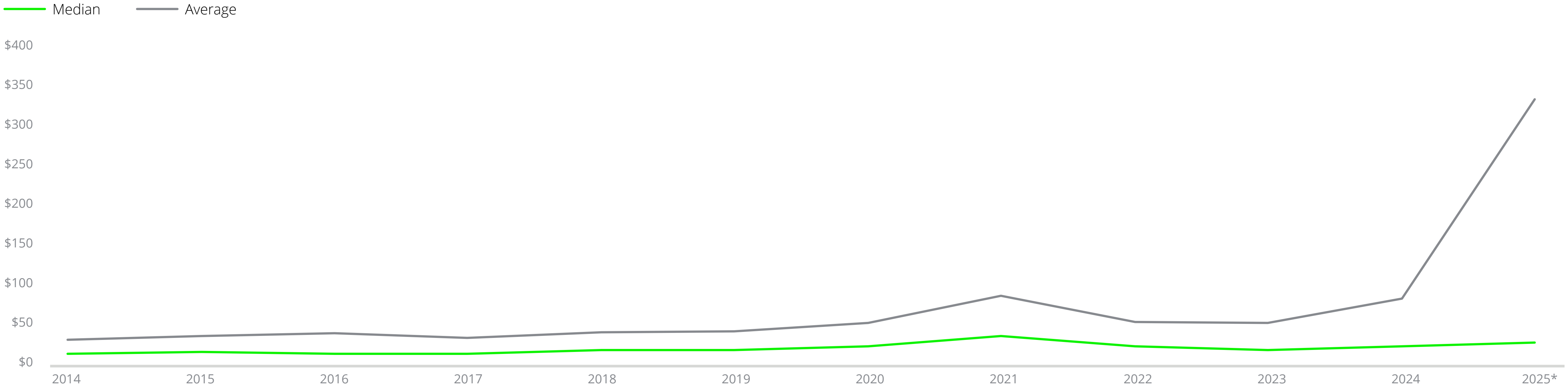
Investment trends

Specialists help drive larger deals and valuations

A distinct spread exists between expansion-stage deal metrics with specialist participation compared with overall figures. The median expansion-stage deal with specialist involvement has not dipped below $20 million since 2017 and surged to $30 million in Q1 2025.

As noted on the previous page, for both specialist-involved and overall deals, the average has been skewed significantly in Q1 2025 due to outlier transactions. Overall expansion-stage median figures, however, have rarely eclipsed $12 million over the past decade. It is difficult to determine any single key factor in such a spread, beyond the fact that a specialist focus often involves greater conviction and concentration of capital, plus, at times, even more competition in sector niches for deal participation.

Median and average expansion-stage deal values ($M) with specialist participation



Source: PitchBook | Geography: US | *As of March 31, 2025

Investment trends

As a result, specialists tend to propel higher median expansion-stage deals. This finding is reinforced by the relatively closer ranges of average deal sizes for both overall expansion-stage dealmaking and those involving specialists. Even for overall dealmaking, averages skew upward considerably given the occurrence of outlier transactions. It is much the same for specialist-involved deals. For example, in 2024, overall expansion-stage dealmaking closed an average of $71.6 million, while deals involving specialists reached $85.3 million, whereas the median disparity is well over 100 percent. Overall, generalist investors are involved in more deals across a wider range of opportunities by quality and size, leading to greater disparity in check sizes, but some at least are large enough that they end up aligning to average deal sizes.

"Although fewer rounds may be occurring in the market currently, specialist VCs that have deep expertise are still helping fund significant rounds to assist companies through inflection points while they wait for the dealmaking environment to settle—for biotechs and medical device companies in particular."

Denise Diehl
Audit & Assurance Managing Director and New England Regional Emerging Growth Company Leader, Deloitte & Touche LLP

Median and average expansion-stage deal values ($M) without specialist participation

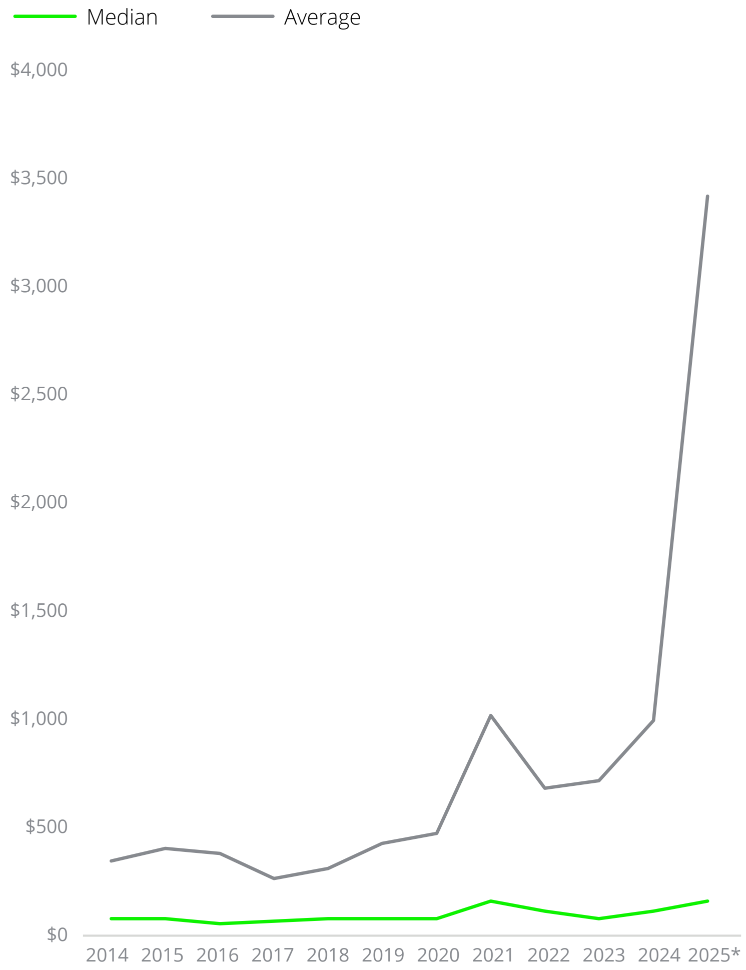
Source: PitchBook | Geography: US | *As of March 31, 2025

Investment trends

No valuation dip where specialists are concerned

As evidenced by the market activity figures already seen, specialist investor involvement does not always produce completely different results than overall market trends but often instead shows different orders of magnitude due to specialist firms' unique incentives and mandates. That said, some contrasts do occur. Valuation trend lines diverge, as the average pre-money valuation for expansion-stage dealmaking in general slid between 2021 and 2022, then dipped further in 2023. Meanwhile, the average pre-money valuation with specialist participation dipped just once, then began to recover. The relative rate of value creation broken out by specialist participation also shows a distinct spread since 2016 of faster valuation growth among specialist-backed companies, until Q1 2025. That rate of increase is also likely to slow for at least a brief period. Heather Gates, Audit & Assurance Private Growth leader at Deloitte & Touche LLP, notes: "Those larger businesses backed by specialists that dominated sectoral financing rates in 2021–2022 do face significant challenges, particularly those that have not raised subsequently, which could result in some rounds occurring at lower valuations this year."

Median and average expansion-stage pre-money valuations ($M) with specialist participation



Source: PitchBook | Geography: US | *As of March 31, 2025

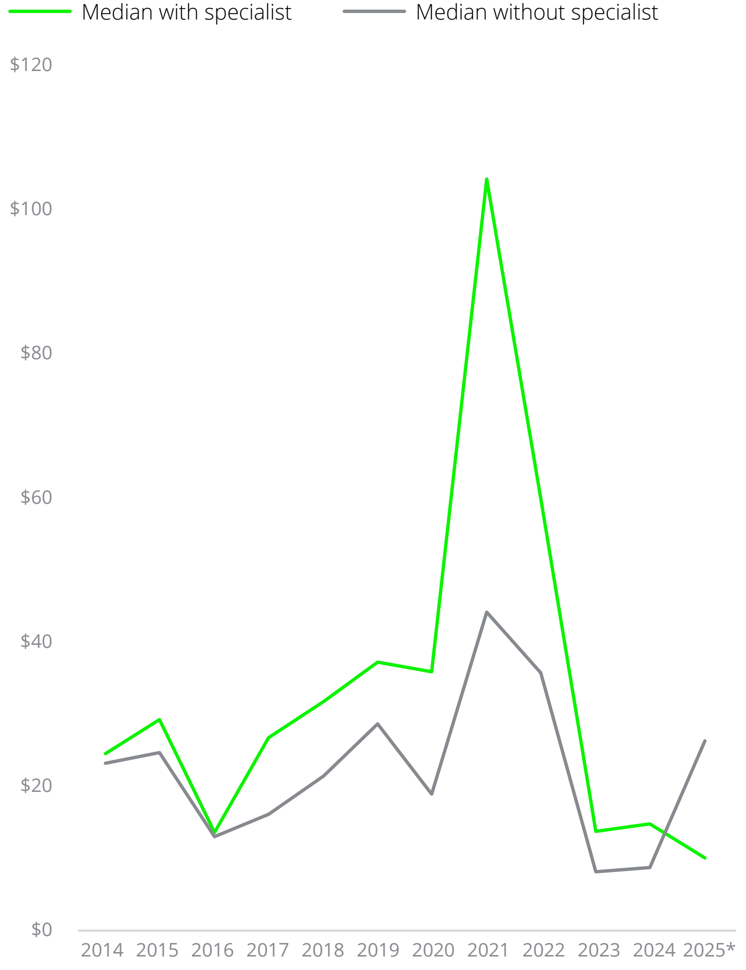
Investment trends

Significant pros and cons exist to focused investing theses versus generalist approaches, especially for venture. However, the expansion-stage ecosystem does exhibit more stability, if at a higher price, due to the types of businesses that tend to reach such a scale. Thus, specialists involved in expansion-stage investing may have missed the worst of the downturn in valuations post-2021, especially as they were not necessarily exposed to all of the highest-valued companies that tourist investors (such as mutual or hedge funds) flocked to during that time. The sector-specific focuses of specialist fund managers during the late 2010s and early 2020s thus far could be driving the faster rate of valuation growth.

Median and average expansion-stage pre-money valuations ($M) without specialist participation

Source: PitchBook | Geography: US | *As of March 31, 2025

Median relative velocity of valuation creation (RVVC) by specialist participation



Source: PitchBook | Geography: US | *As of March 31, 2025

Investment trends

Specialists focus more on fintech, drug discovery, and network management

In line with specialists' often greater concentration, the rate of VC invested with specialist participation surged in key business/productivity software deals in Q1. Expansion-stage dealmaking in that vertical in Q1 was the highest of the 2020s thus far, but specialists varied in their participation of multibillion-dollar rounds. Beyond business/productivity software, however, comparing the ratio of the sectors that had more consistent deal counts with specialist participation versus those that did not yields some surprising results.

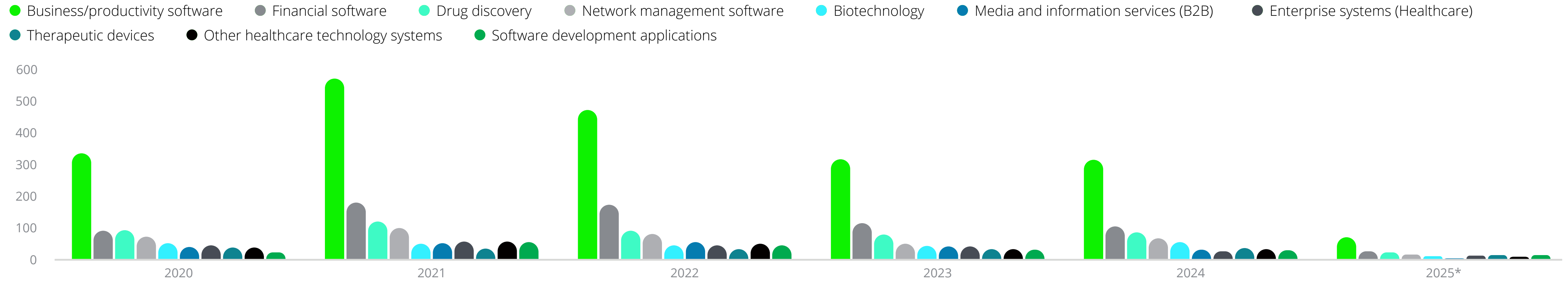
Since and including 2021, drug discovery has had more rounds with specialist participation than not, barely falling below 100 percent in terms of the aforementioned ratio. In fact, there have been consistently more deals in network management software and software development applications with specialist participation than without. PitchBook research has demonstrated that firms focused on healthtech, and pharmaceuticals have been much likelier to see IPOs or acquisitions of portfolio companies.[1] Life sciences and biotech investing is usually dominated by consistent activity led by domain experts at dedicated funds. Given the increasing participation of specialists in rounds across network management software and development applications, domain expertise is possibly also becoming an unspoken requirement or focus area for backing startups in those arenas. As those two industries can require a significant degree of sophistication spanning many areas of software engineering, network architecture, multiple tech stacks, and more, it makes sense that specialists are a deciding factor in actual deals closing.

"Many biotech players have pressed pause on going public, but others that may have an asset in clinical trials, or proofs of concept for diagnostic or medical devices, are still able to court significant interest from investors, often raising sizable rounds without waiting."

Denise Diehl
Audit & Assurance Managing Director and New England Regional Emerging Growth Company Leader,
Deloitte & Touche LLP

Investment trends

Expansion-stage deal count by major sectors with specialist participation



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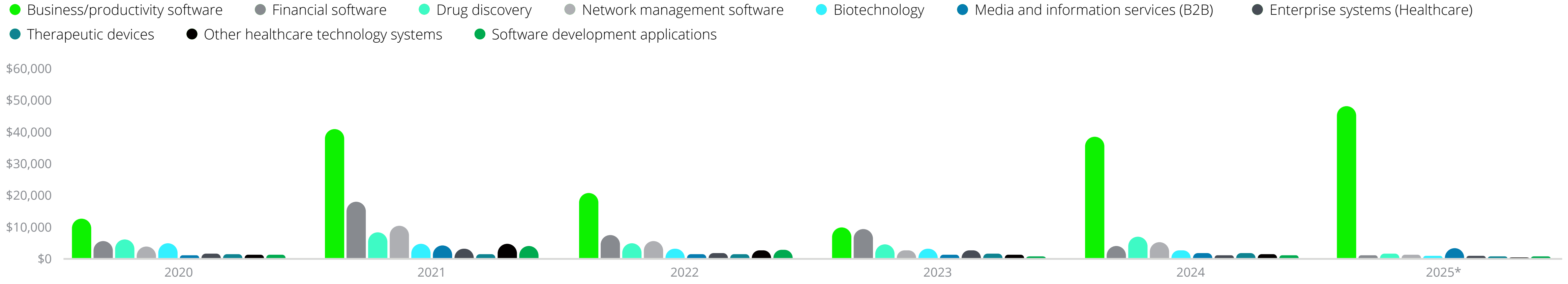
Expansion-stage deal value ($B) by major sectors with specialist participation



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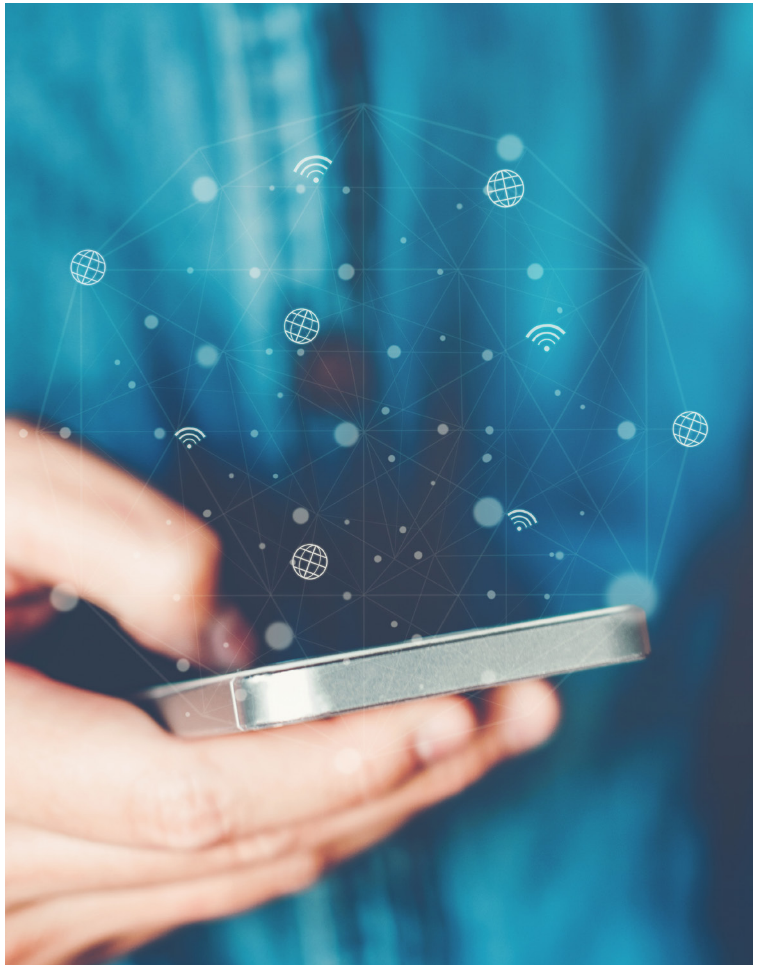
Investment trends



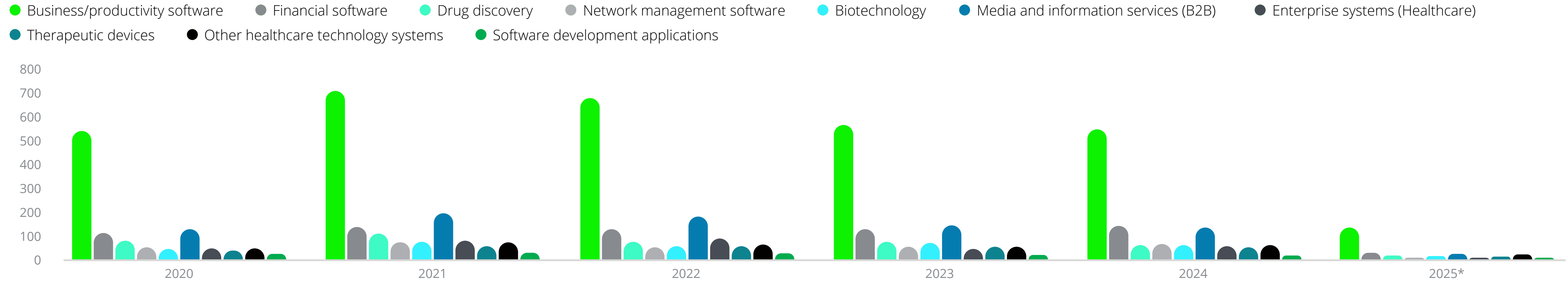
Among general expansion-stage dealmaking, the media and information services sector is much more represented in both deal count and value than in specialist-participating transactions only. In that industry, platforms that aggregate information and services but do not provide such services directly, such as food delivery platforms, are overrepresented and thus do not receive as much specialist investment because traditional generalist VCs compete for the most successful companies.

"Not surprisingly, the AI sector is a standout in terms of investor optimism. Companies across the infrastructure, model, and application layers continue to raise significant capital to accelerate investments in future growth."

Jason Rissanen
Audit & Assurance Partner,
Deloitte & Touche LLP

Investment trends

Expansion-stage deal count by major sectors without specialist participation



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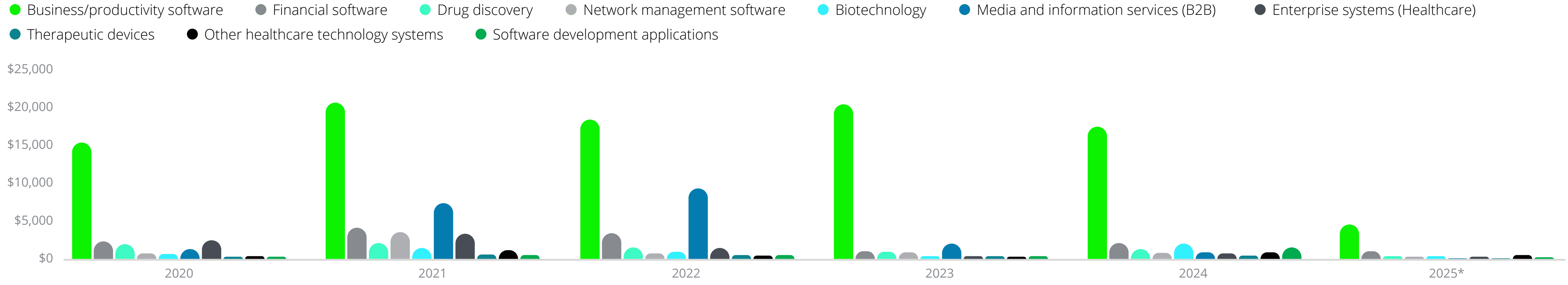
Expansion-stage deal value ($B) by major sectors without specialist participation



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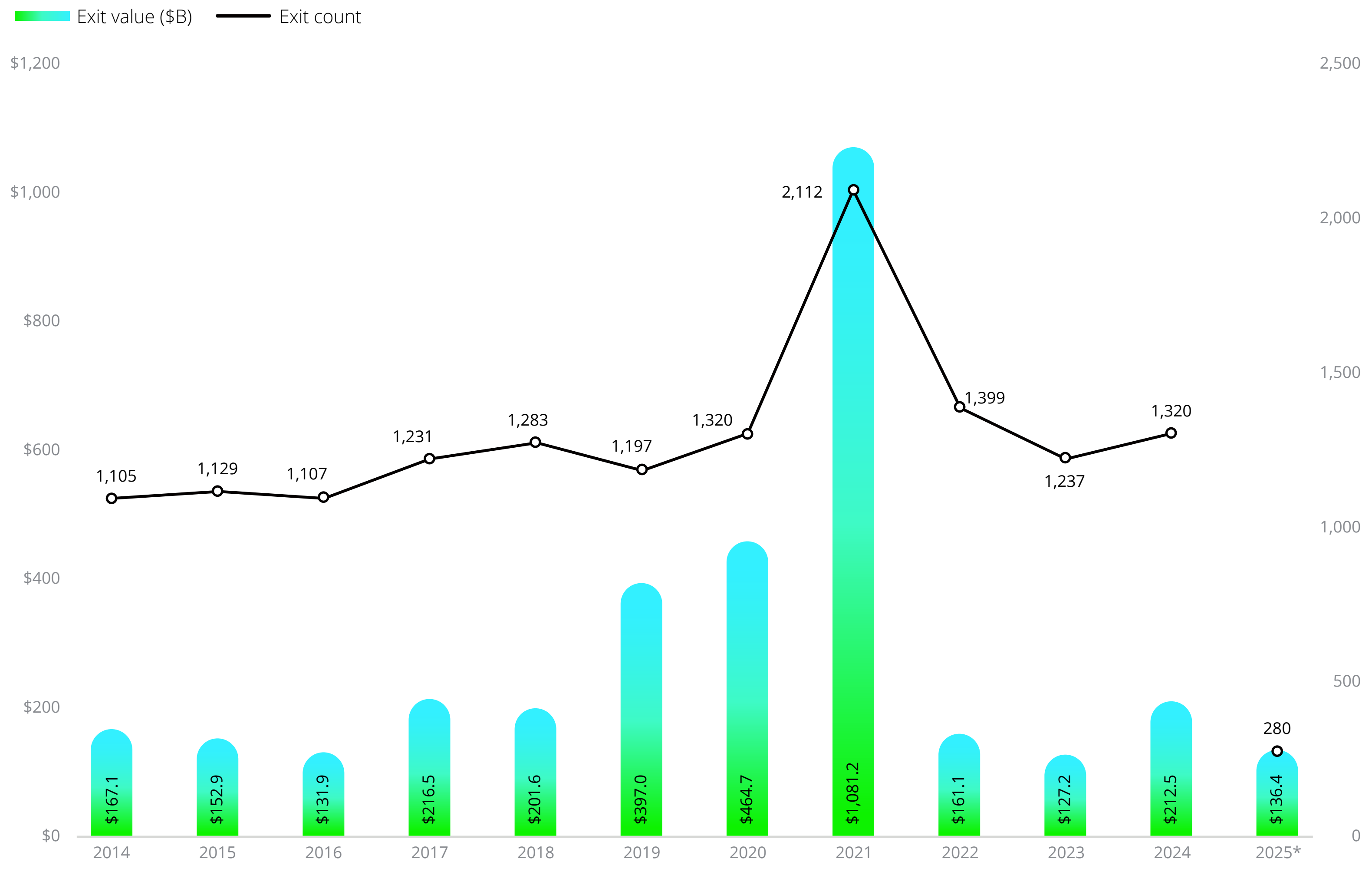
Investment trends

Exits

The expansion-stage ecosystem has enjoyed relatively steadier exit counts than the overall global venture landscape due to maturity and scale. Granted, exit value aggregates are still more sluggish than investment rates, leading to a mismatch between invested capital and anticipated returns. However, the promising start to 2025 with $136.4 billion in exit value across 280 liquidity events could bode well for the rest of the year—barring further macroeconomic and market volatility. Specialist participation and domain expertise lead to an approximately 20 percent edge in garnering an exit.[2] Looking at a comparison of overall exit activity to specialist-led investor participation exit rates, the latter has generated an outsized portion of exit value compared with exit count. For example, in 2021, 11 percent of expansion-stage exits had a specialist as a lead investor, but that 11 percent generated 19 percent of all expansion-stage exit value that year.

Expansion-stage exit activity



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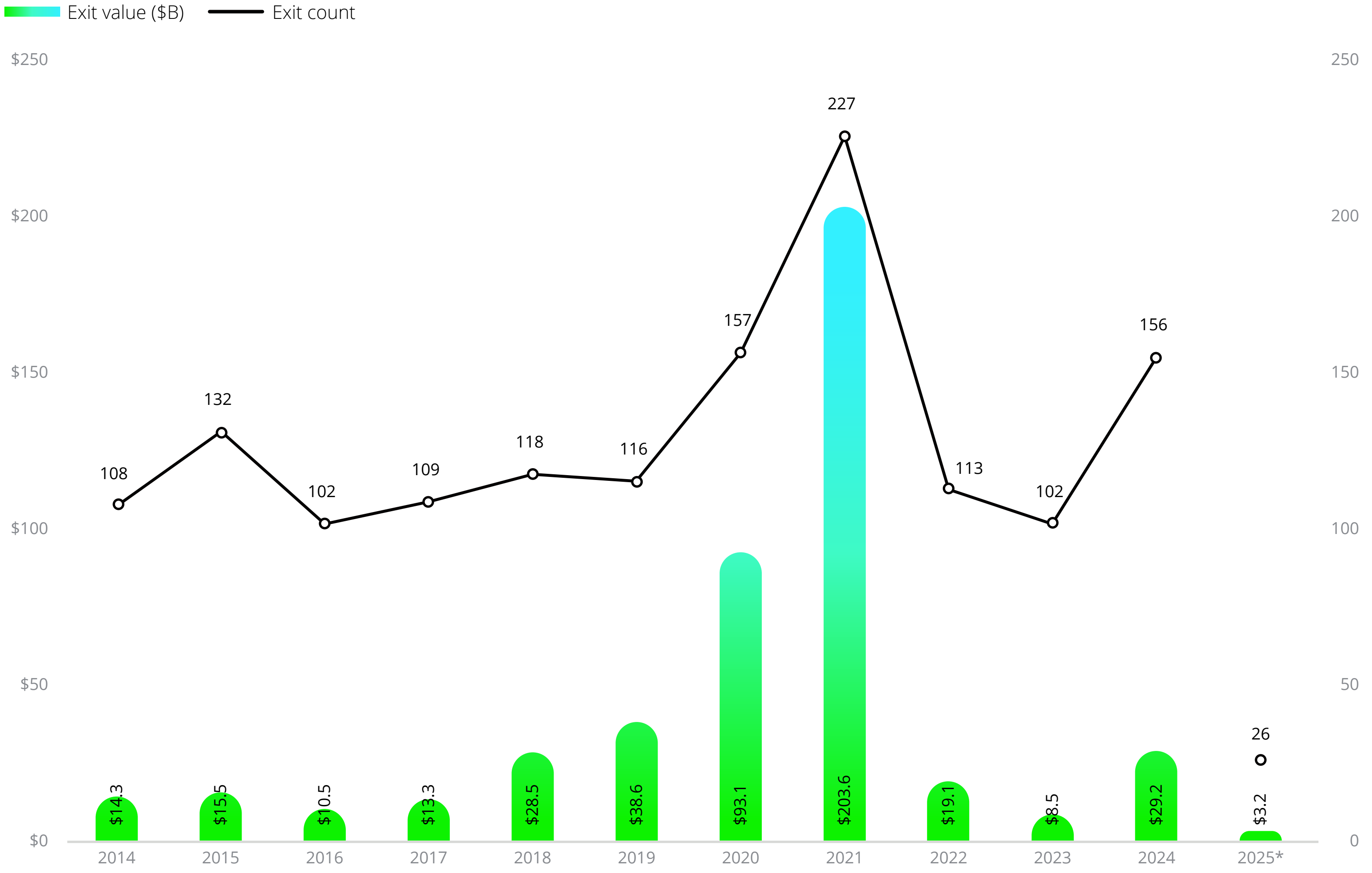
Investment trends

Expansion-stage exit activity with a specialist lead investor



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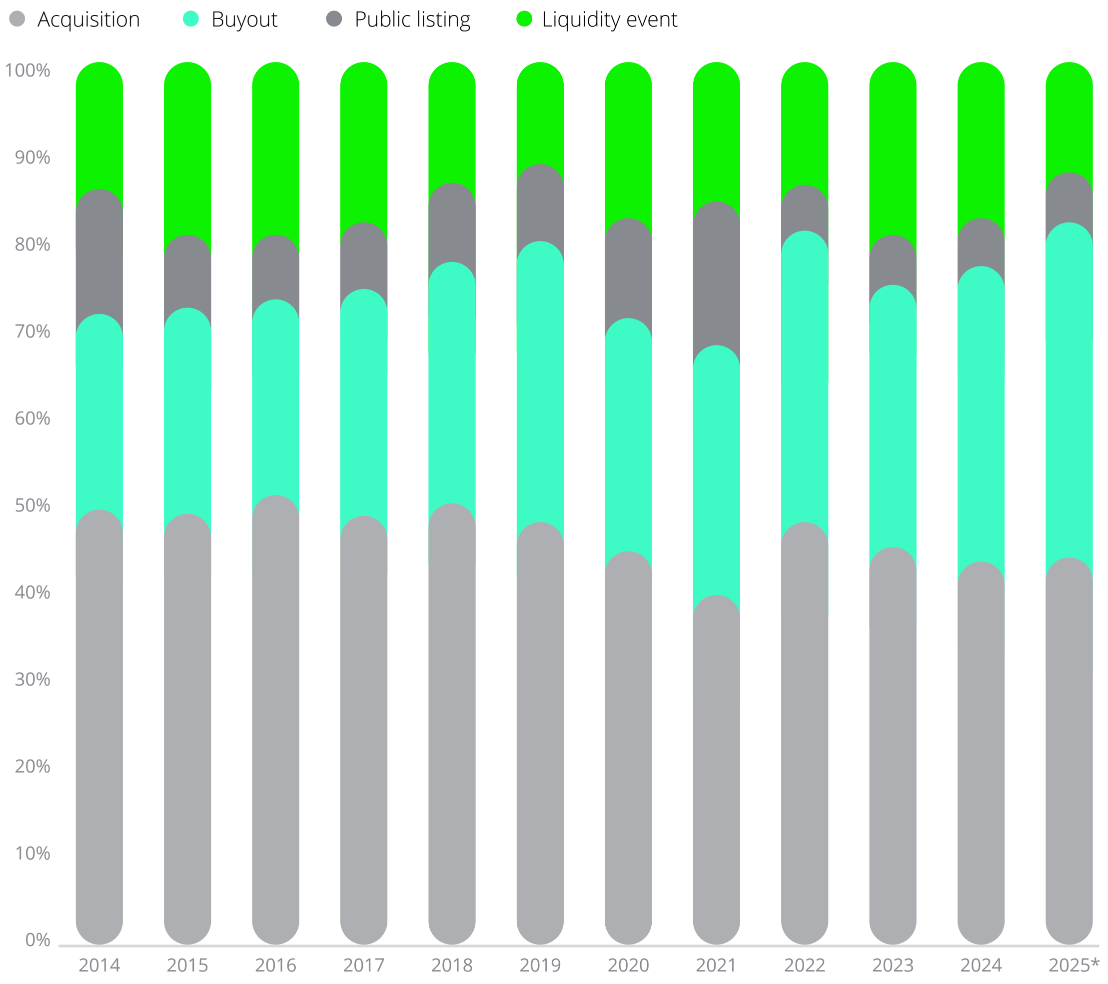
After a two-year period of more sluggish exit activity for both expansion-stage companies overall and those with specialist lead backers, 2024 saw a rebound for the specialist group: 156 exits were completed for an aggregate of $29.2 billion. Specialist portfolio companies seized acquisition opportunities in 2024, as 56 were completed in the second-highest tally of the past 10 years. The volume of buyouts trended similarly, with 34 recorded. As Scott Coffer, partner at Deloitte & Touche LLP, notes, "For some companies, especially in the current market given the subdued rate of liquidity in the past couple of years, VCs may not have gotten the returns they were initially anticipating at higher valuations in the past, so preparation for acquisitions are occurring or at least discussions around those potential strategies."

"Recent extreme market volatility has had a significant chilling effect on the IPO markets."

Jason Rissanen
Audit & Assurance Partner,
Deloitte & Touche LLP

Investment trends

Share of expansion-stage exit count by type



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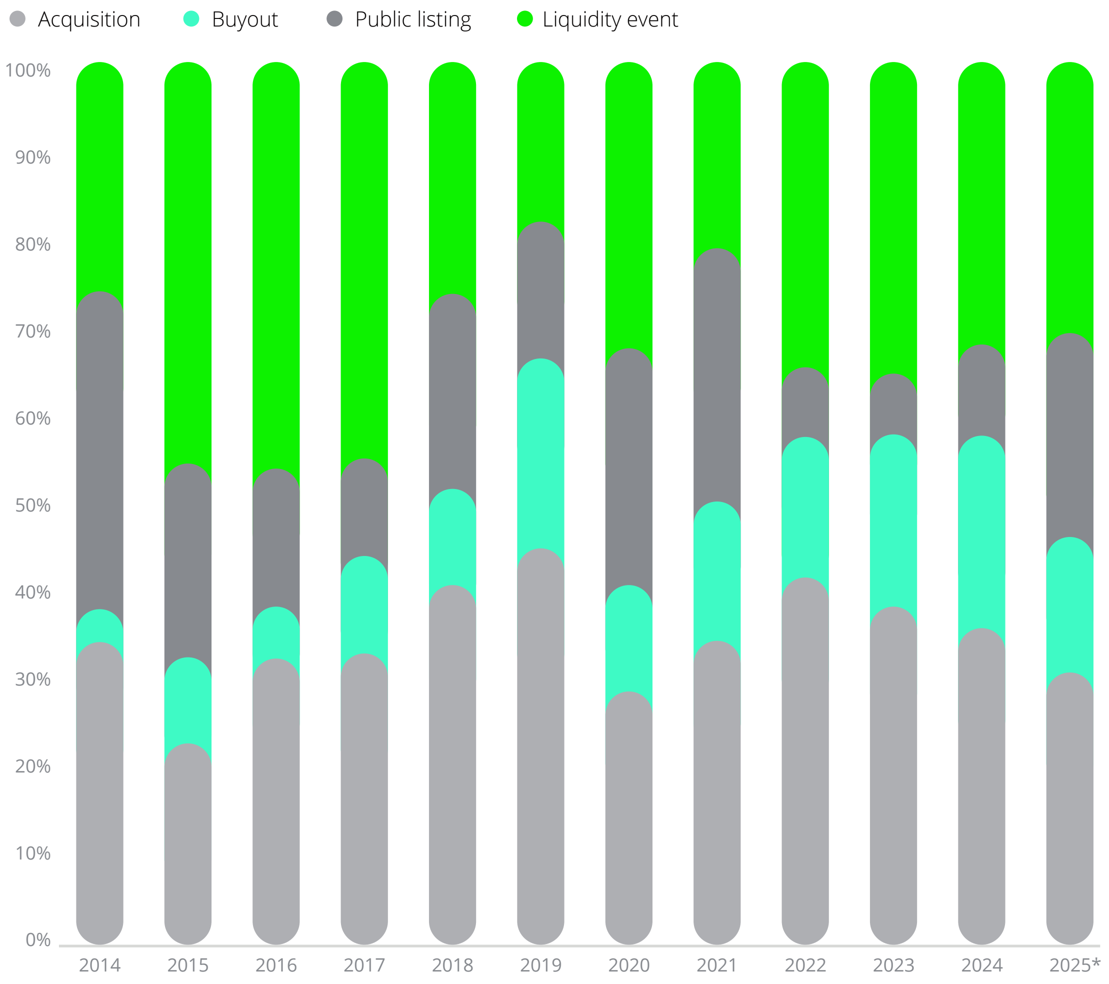
Share of expansion-stage exit count by type with a specialist lead investor



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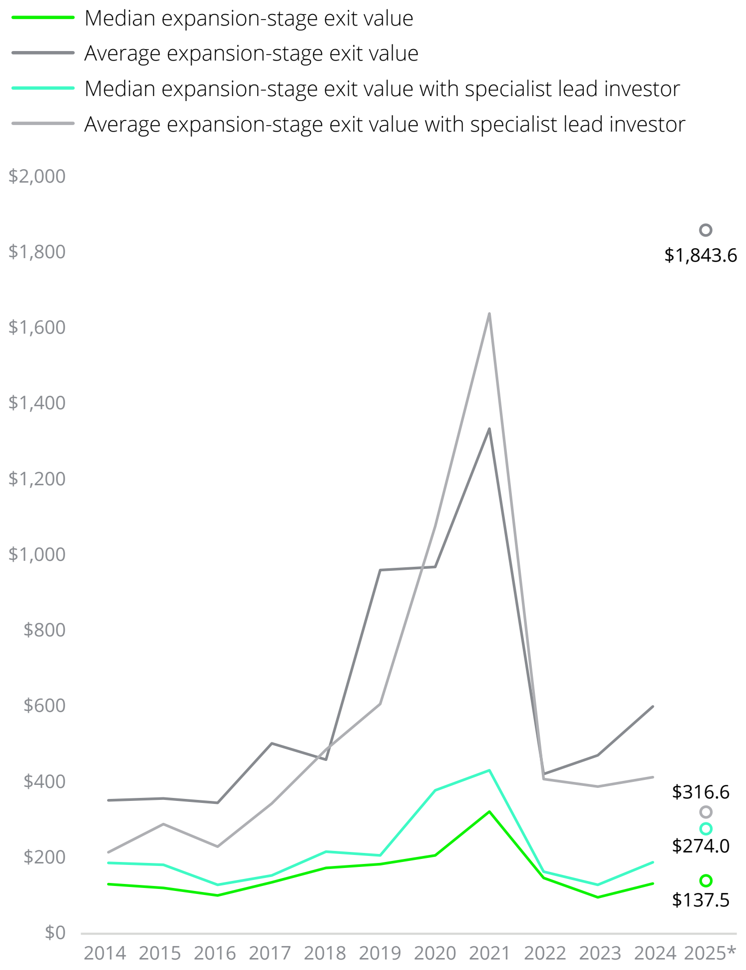
Investment trends

However, specialist-backed companies participate in a much higher proportion of minor liquidity events compared to the overall expansion-stage ecosystem. That category comprises secondary private market sales, open market secondaries, and public investments in private entities. Specialist-backed companies engage in those types of liquidity events far more often due to the more protracted or at least variable liquidity needs of specialist funds. In addition, such companies may be more involved in those due to sustained growth and demand over time. Examples include a successful publicly listed company opting to engage in an open-market sale, or a still-private unicorn opting to buy out early employees and investors via a secondary sale to provide them with some much-needed liquidity.

Median and average expansion-stage exit values ($M) with and without specialist lead investor



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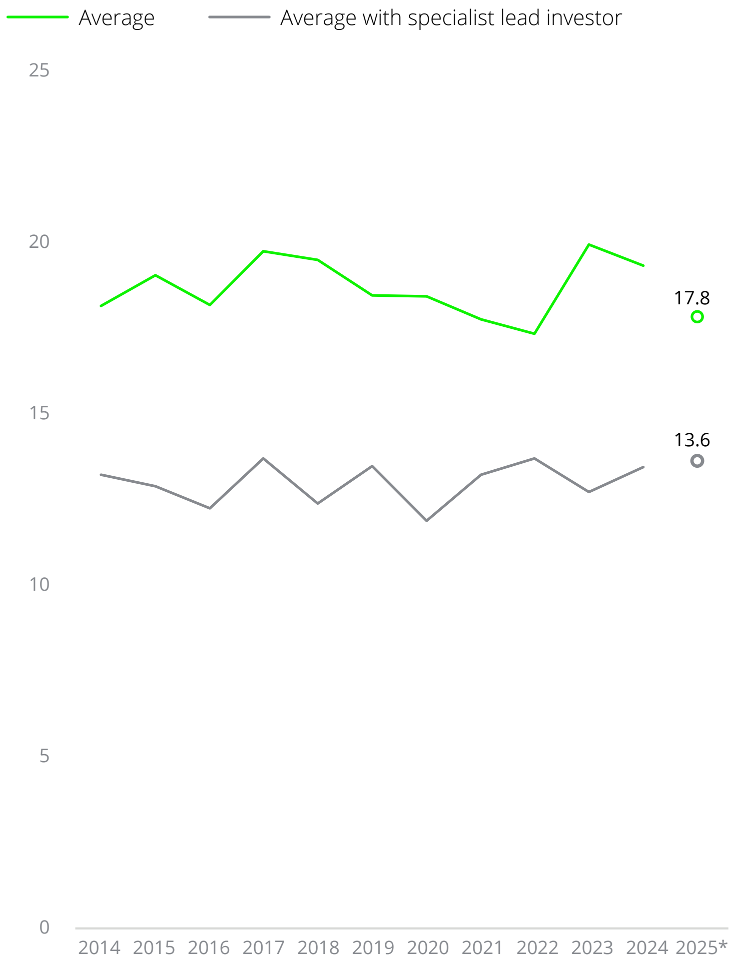
Average expansion-stage time (years) to exit with and without specialist lead investor



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Investment trends

Minority liquidity events may also be logistically simpler in the current environment, as Denise Diehl, Audit & Assurance managing director and New England Regional Emerging Growth Company leader at Deloitte & Touche LLP, notes: "For firms considering M&A, especially in the current environment where tariff rates may be changing, the impact of onshoring intellectual property is also a key implication to consider."

As specialist funds are more focused and often have smaller portfolios, they can also push companies to achieve some type of liquidity needed by the specialist fund managers sooner than average. In assessing the average time taken to exit since founding by backing, there has been a remarkably consistent spread between the overall expansion-stage ecosystem and specialist-backed businesses. The average tenure for a specialist-backed company between founding and exit has hovered between 12 and 14 years since 2014; the average for expansion-stage companies overall is usually five to seven years longer. There is a payoff, even in that shorter time frame, as the median specialist-backed exit ranged from 10 percent to 83 percent larger from 2014 to 2024. It may be tempting to conclude that specialists possess a conclusive edge over the overall venture investor universe, but that is not the full picture. Instead, to complete a review of the role of specialists, we must investigate how their fund returns stack up to VC overall.

"LPs are increasingly more attentive to their rates of return on their investments in venture funds and other asset classes, especially as exits of portfolio companies and therefore cash flows to LPs have worsened over the past half decade."

Heather Gates
Audit & Assurance Private Growth Leader,
Deloitte & Touche LLP

Spotlight

Returns converge more often than suspected, but performance gap does exist

Some research has concluded that it is almost a foregone debate that specialist funds exhibit higher returns than generalist funds. A recent investor blog stated as much for PE firms when analyzing fund return metrics of vintages from 2006 to 2020.[3] But what about funds in the expansion stage? Looking at VC funds, which constitute the bulk of all active funds in the expansion-stage space, yields a nuanced portrait of the eventual outcomes of specialists versus generalists. Given that horizon internal rates of return (IRRs) can skew significantly and are more impacted by recency than other metrics, fund return multiples are best utilized instead. These include the total value to paid-in (TVPI) multiple, which assesses the total value in a given fund, including both realized and unrealized value; the residual value to paid-in (RVPI) multiple, which shows how much unrealized value is yet to be liquidated by a fund; and the distributions to paid-in (DPI) multiple, which is the ratio of what has been distributed back to LPs in funds relative to the overall fund's called capital. Looking at TVPI multiples for funds from 2015 onward, there is no clear pattern of specialist outperformance.

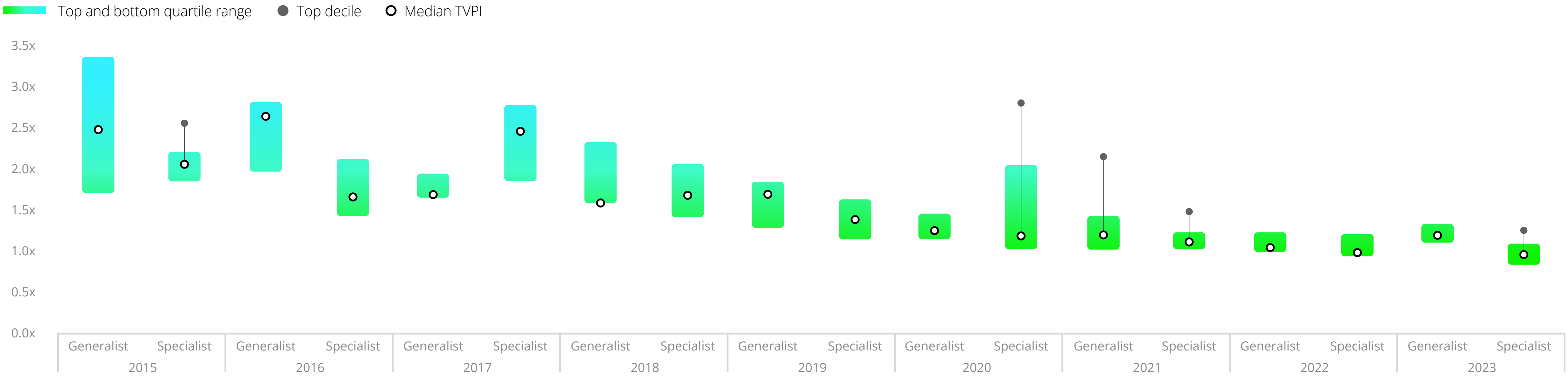
Spotlight

The 2017 vintage has one of the greater imbalances, as the median TVPI of specialist funds is 80 percent larger than that of generalist funds. However, for 2015 vintages, the generalist TVPI is 2.3x versus 1.9x for specialists. The median TVPI for vintages from 2018 onward seems to converge for both generalists and specialists. On at least one occasion, the top decile of specialist funds from the 2020 vintage far exceeded any metric from generalist funds in the same past five years.

"After a prolonged period of elevated capital overhang, especially if liquidity has also been subdued, institutional investors are likely to put even greater emphasis on distributions as the top priority for active fund managers."

Heather Gates
Audit & Assurance Private Growth Leader,
Deloitte Tax LLP

VC TVPI by fund vintage and style



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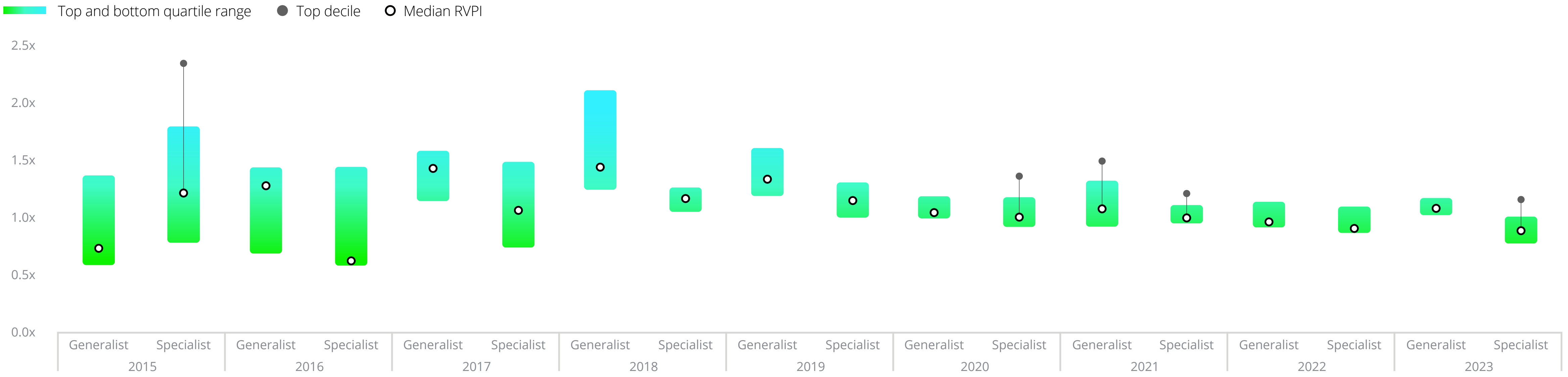
Spotlight

In terms of remaining value, which can be thought of as gains yet to be turned into liquid capital to return to fund investors, the median RVPI is primarily generalist in the oldest vintages predating 2019—although again the top decile of specialist funds in the 2015 vintage far outstrips any comparable generalist metric. Older funds tend to exhibit similar interquartile ranges for both generalist and specialist, with an occasional edge to generalist funds. However, from then on, a convergence exists, which can be partially driven by sluggish liquidity and prolonged hold times in the past several years.

The actual capital paid back to fund investors is one of the more concrete metrics that LPs assess, and in that specific metric, specialists appear to finally demonstrate a clearer edge over generalists. Looking at just fund DPIs from 2015 to 2021 due to a lack of returns data in more recent vintages, the median DPI for specialists is higher in most cases, while the top decile exceeds the median generalist DPI in the oldest vintage of 2015.

VC RVPI by fund vintage and style



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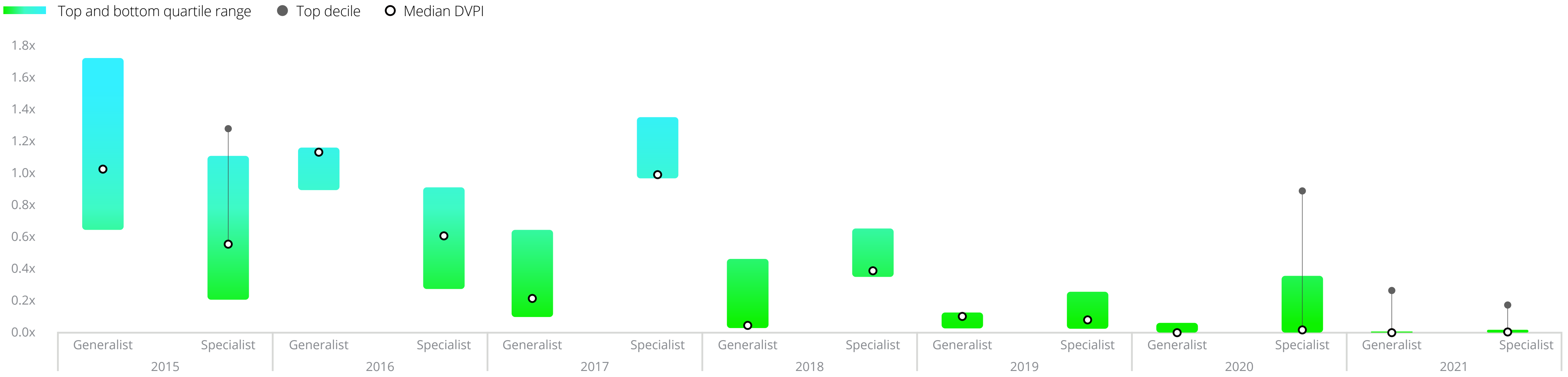
Spotlight

Comparing exit breakouts against fund returns reveals contradictory trends. However, if specialist fund performance outpaced generalists most of the time, the venture industry would look quite different, as LPs would have flocked to focused firms. Moreover, exit disparities that favored specialist-backed companies contributed to the strength in DPI multiples achieved by specialist fund vintages.

The relatively greater RVPI multiples logged in generalist fund vintages are based on currently assessed fund valuations and may not yet translate to ultimately strong tallies of capital paid back to fund investors. Ultimately, the TVPI trend line also reinforces the conclusion that specialists have an edge in distributions as of recent fund vintages, likely due to opportunistic capitalizing on market conditions over the past several years and especially in 2024. Propelled by the liquidity boom in late 2020 to early 2022, generalist funds can also post strong returns. Not that specialist firms did not also benefit from a surging bull market then too, but generalist funds backed most exiting companies and thus saw a greater proportion of total exit value, potentially enabling significant boosts to TVPI and DPI.

VC DVPI by fund vintage and style



Source: PitchBook | Geography: US | *As of March 31, 2025

Regional trends

Specialists drive expansion-stage investing in different top metropolitan areas

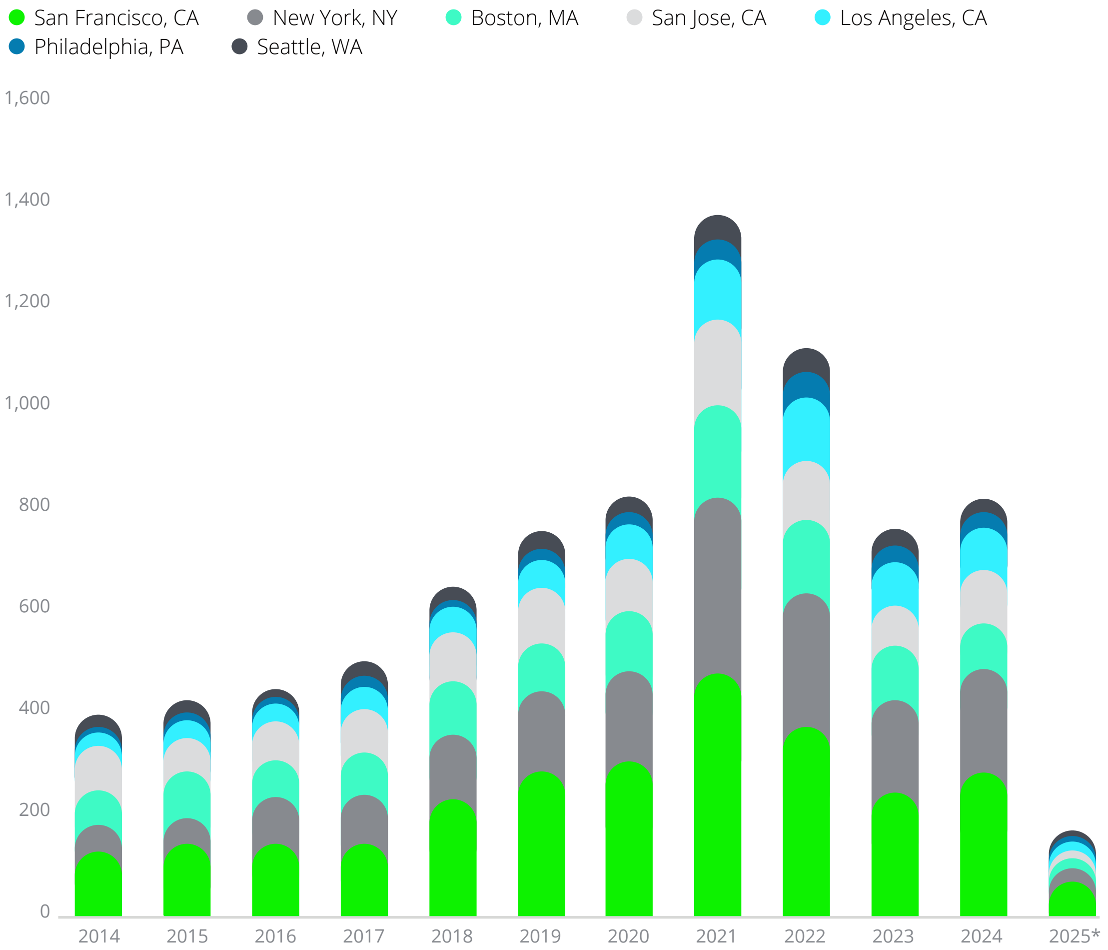
Breaking out expansion-stage activity by specialist participation and top metros produces a surprising finding: The top metros without any specialist participation and those with, differ by a few key metro areas. The largest expansion-stage and venture ecosystems in the United States, such as New York or the Bay Area, have sufficient levels of investing that they appear on both lists. But two Texas metros—Austin and Houston—are only on the list of expansion-stage hotspots without any specialist participation. Seattle and Philadelphia are the converse, appearing only on the list with specialist participation. Granted, that is based on Q1 2025 sorting by most active metros. But even when looking at decade-long averages, the only additional metros to appear among more active metros without specialist participation are Dallas and Washington, DC. Because the overlapping areas consistently dominate expansion-stage deals each quarter, fast-growing metro venture ecosystems may still lack enough specialist firms to significantly drive deal volume.

"Specialists are smaller in number as a population of active VC firms, so they often also are clustered in mature VC hubs. Generalists can more likely crop up in emerging startup and venture ecosystems, which also aligns with the typical progression of investing hotspots into maturity."

Justin Yahr
Audit & Assurance Partner,
Deloitte & Touche LLP

Regional trends

Expansion-stage deal count with specialist participation by top seven metropolitan statistical areas (MSAs)



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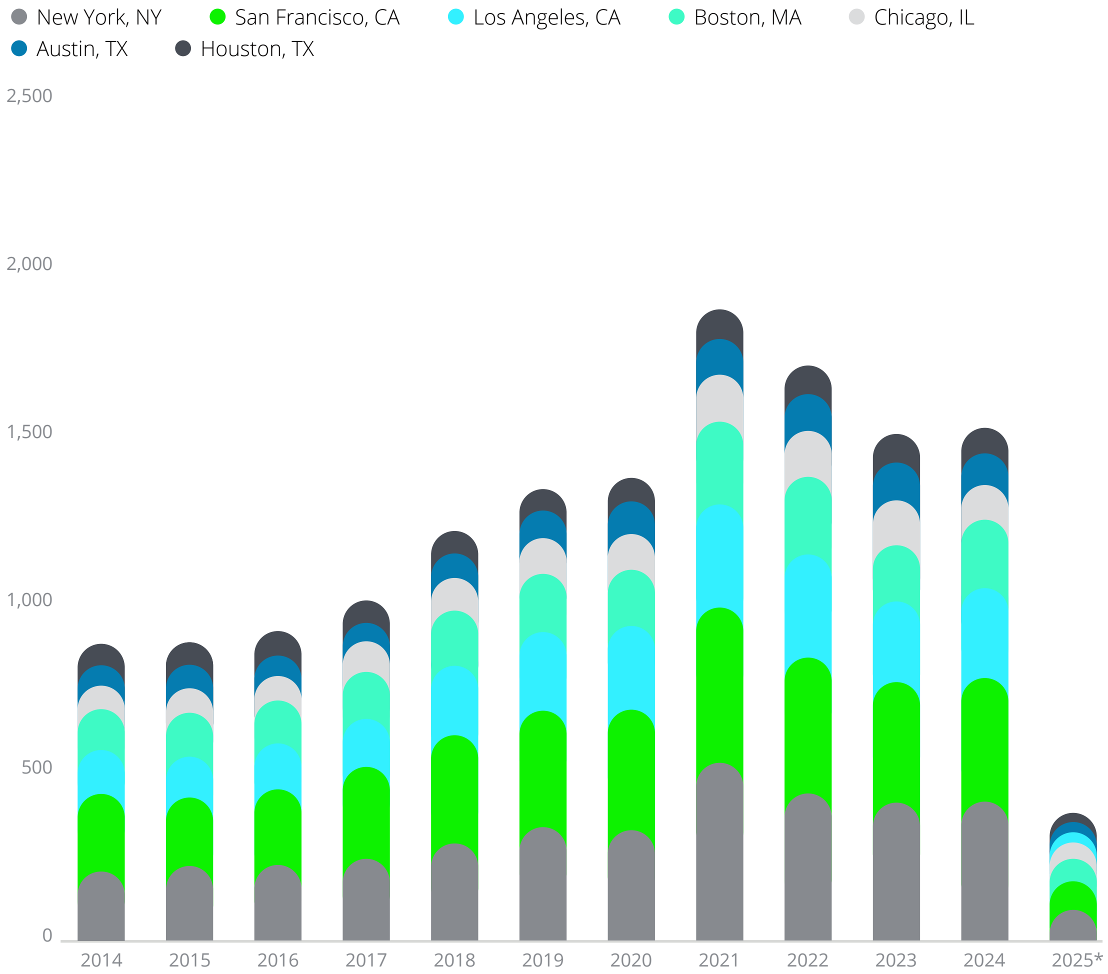
Expansion-stage deal count without specialist participation by top seven MSAs



Source: PitchBook | Geography: US | *As of March 31, 2025

Looking forward

The nestled model: Specialists within generalists

The role of specialists relative to the overall expansion-stage investor ecosystem is difficult to define cleanly because there can be such differences in approaches. Nonspecialists often focus more on broader networks, cross-industry perspectives, more resources, and overall portfolio diversification. Specialist firms can boast a deep understanding of sector dynamics, valuations, and strategies to optimize a constrained portfolio, yet that can contribute to the need for different types and timing of liquidity and investment participation. Barring the pandemic-afflicted years, the bull market of the late 2010s and early 2020s boosted fund returns enough for many VC firms that any significant specialist fund performance advantages shrunk somewhat, as larger generalist firms in particular that had more investments saw a greater proportional increase. In addition, a larger portfolio can often play directly into the classic venture model's advantages of home runs outweighing capital impairment.

In short, as the dealmaking landscape grows more complex, both approaches may be necessary. The market seems to agree. Looking at fundraising figures, nonspecialist VC and PE-growth fundraising far outpaces specialist fundraising, yet both have boomed roughly in tandem, cresting in 2022 at nearly 1,500 closed funds on $219.3 billion in commitments for the former and 381 for $61.6 billion for the latter. However, for years now, specialist firms have closed at least or nearly 20 percent of the volume of closed pools of capital that nonspecialists have, and in Q1 2025, specialists closed nearly one-third of the capital committed that nonspecialists did. The drop-off in specialist fundraising was more dramatic after 2022, but that may be misleading because some firms have begun to adopt a reorganized firm structure around both models.

Similar in some respects to the multi-pod approach popular in some hedge fund circles, sufficiently large VC firms have begun to embrace specialist teams nestled within a firm-wide, holistic generalist portfolio. For smaller investment firms, a few dedicated thematic vehicles running roughly simultaneously can be a novel strategy to capitalize on the maturation of key verticals, such as financial technology (fintech) or cybersecurity. Certain industries have grown so complex and large that technical expertise is a prerequisite to any type of investing.

Looking forward

At the same time, the laws of mathematics in portfolio construction and diversification will not eliminate the role of quasi-generalist firms. The anecdotal evidence is in their favor as well. Heather Gates, Audit & Assurance Private Growth leader at Deloitte & Touche LLP, notes, “Consistency and track record currently outweigh niche, or specialist plays in terms of fundraising speed and ease. That won’t always be the case, but for now, volatility is still exerting that impact.”

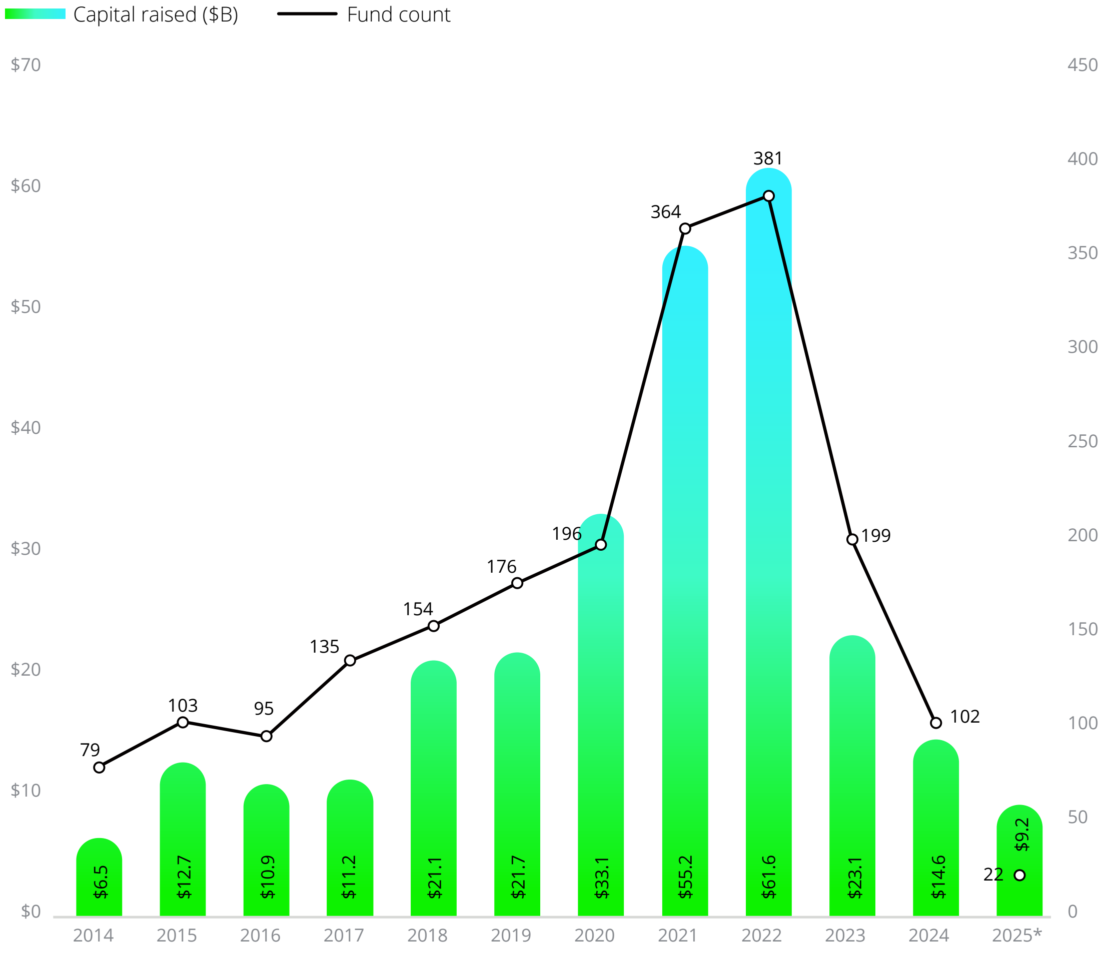
For the expansion-stage ecosystem in particular, diversification and specialization play interesting, contrasting roles as the companies themselves tend to be more mature and scaling rapidly. As a result, they are more expensive and thus could benefit the most from specialist due diligence and operational know-how, while an overall portfolio of such investments could be constructed optimally from a generalist risk-return perspective. That may be the defining philosophy of fund and firm construction for the expansion-stage ecosystem for the rest of the 2020s: the nestled, specialist-within-generalist model. Such an approach could also be particularly well-suited to an environment that requires flexibility – Jason Rissanen, Audit & Assurance partner at Deloitte & Touche LLP, adds, “Those venture capitalists who have maintained strong capital positions and adapted over the past few years are likely to withstand today’s instability. Their prospects for seizing new investments will likely be shaped by whether current volatility leads to a recession and by the opportunities created through deregulation or lower rates in select sectors.”

“Fund managers that are earlier in their life cycles have, in some cases, been able to obtain liquidity in secondary markets, not just for their vehicles but also for portfolio companies that exhibit strong fundamentals but may require a cheaper valuation to be able to raise again. This process is also helping emerging managers in their fundraising efforts for their next pool of capital.”

Scott Coffer
Audit & Assurance Partner,
Deloitte & Touche LLP

Looking forward

Specialist VC and growth fundraising activity



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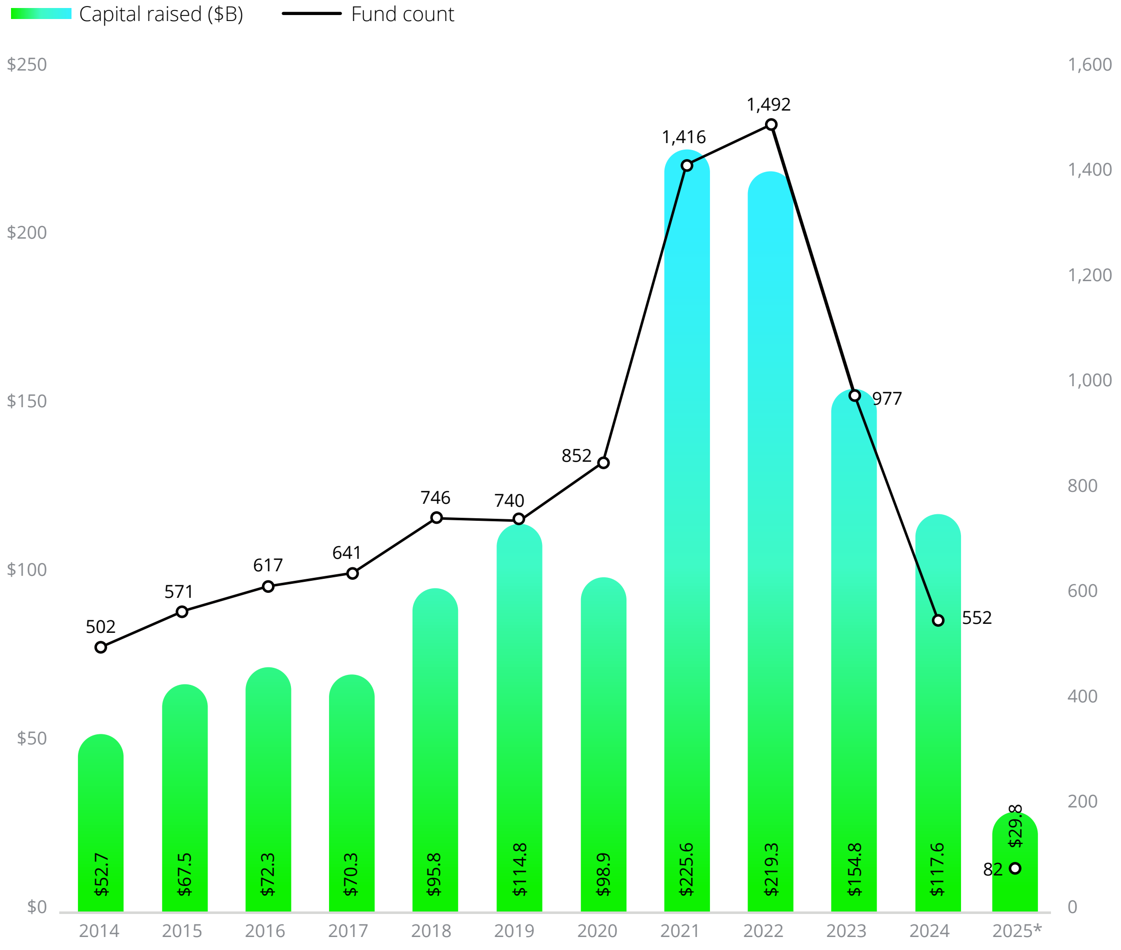
Nonspecialist VC and growth fundraising activity



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Methodology

Geographical region: United States

The **expansion stage** is defined from a transactional perspective as including late-stage venture or growth financings, as defined by PitchBook. All investment data is restricted to late-stage VC, venture-growth, PE-growth, or corporate financing types, as defined by PitchBook. **Nontraditional investors** are defined as any investor that is not classified primarily as a traditional VC firm. "CVC" includes rounds executed by established CVC arms as well as direct equity investments by corporations into VC-backed companies. "PE" includes VC deals by investors whose primary classification is PE/buyout, growth, mezzanine, or other PE. "Crossover" investors are a subset of nontraditional investors—specifically asset managers, hedge funds, mutual funds, family offices, and sovereign wealth funds—that have been active in VC investment across any stage. They are referred to as crossover investors because they are likely to be participating at the late stages directly prior to an exit. The **relative velocity of value creation (RVVC)** metric is the annualized valuation growth expressed in percentages.

Active and specialist investors: The number of active investors is calculated by including either investors that have raised a venture or growth fund in the trailing five years or those that have made four or more VC- or PE-growth investments in the past three years.

There is no exclusion on investor type, apart from angel investors. Specialist investors were defined using a repurposed Herfindahl-Hirschman Index (HHI), wherein to calculate specialist focus as opposed to market concentration, the tally of companies and revenues are replaced by sectors and deal counts. For example, the percentage of deals done in every healthcare subsector such as devices or services is calculated to determine an HHI level for a potential healthcare focus. In this report, an HHI of 4,500 or above was utilized as the determining level for a specialist designation.

Exits: All exits are defined by PitchBook's primary exit types: buyouts, acquisitions, or public listings, which include direct listings, traditional public listings, and special purpose acquisition companies (SPACs), as well as a new category dubbed "additional liquidity events after the public listing," explained in further detail below. The underlying companies are those that have, at minimum, achieved any of the investment data under restrictions.

In the Q2 2023 edition of the Road to Next series, a fourth category of exit was debuted, explicitly for companies that had undergone a public listing. To better capture liquidity for investors' post-lockup periods and for longer-term holders of shares that liquidated after the public listing in general, additional liquidity events classified as secondary market offerings on the open market, secondary public offerings, and private investment in public equity (PIPE) deals were also included. Private investors often hold their shares for longer beyond the initial offering and then utilize additional offerings or secondary market transactions as well as sales to new investors when firms seek a PIPE. Up to three additional liquidity events were included.

Updates: For editions beginning in 2023, underlying methodologies were changed due to PitchBook's methodological changes and incorporation of new pre-seed, seed, and venture-growth stages, which will shift numbers slightly yet be more accurate going forward. A new exit methodology was also incorporated, including the breakout of post-IPO liquidity events.

Endnotes

1. Michael Bodley, "*Life sciences VCs beat generalists in backing IPO- and M&A-bound companies*," October 1, 2024.
2. PitchBook, "*Q3 2024 PitchBook Analyst Note: Should VC investors pick a lane and stay in it?*" September 20, 2024.
3. Mark Hoeing, Tor Martinsen, and Meredith Moran, "*Edging out the competition – The sector specialist advantage, CF Private Equity*," December 6, 2024.

Data provided by

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Data provided by PitchBook. This report was written in late April 2025. All data is as of March 31, 2025.