

Untapped Opportunities for European Venture Capital:

Pension funds and Sovereign Wealth funds



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Untapped Opportunities for European Venture Capital

Pension funds and Sovereign Wealth funds

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The EU faces significant challenges in scaling companies due to fragmented financial markets, underutilised household wealth, and a risk-averse investment culture, resulting in limited venture capital availability for startups.		SWFs also represent an untapped source of capital for EU VC. Attracting SWF investments could enhance funding for startups while fostering strategic partnerships.	
2. Venture Capital development and regulatory challenges in the EU	11	5. Recommendations	48
The EU has grown its VC industry, but a significant gap remains compared to the US and even China. Key differences, such as larger funds, faster deployment, and better exit opportunities in the US, highlight the EU's challenges. Regulatory fragmentation further hinders growth despite moves toward harmonisation.		Key findings and recommendations to unlock the potential of pension funds and SWFs in EU VC.	
3. Unlocking pension fund potential	30	6. References	55
EU pension funds manage significant assets but invest minimally in VC. Regulatory hurdles, risk aversion, and limited expertise restrict their participation. Strategic reforms and improved investment knowledge could unlock their potential.		A. Annex	59
		Workshop: Unlocking Europe's Scale-Up Potential	

1

The EU has a scale-up financing gap

The EU faces a scale-up financing gap, driven by underutilised household assets, fragmented financial systems, and a risk-averse investment culture



The EU economy lost half of its share of global market capitalisation

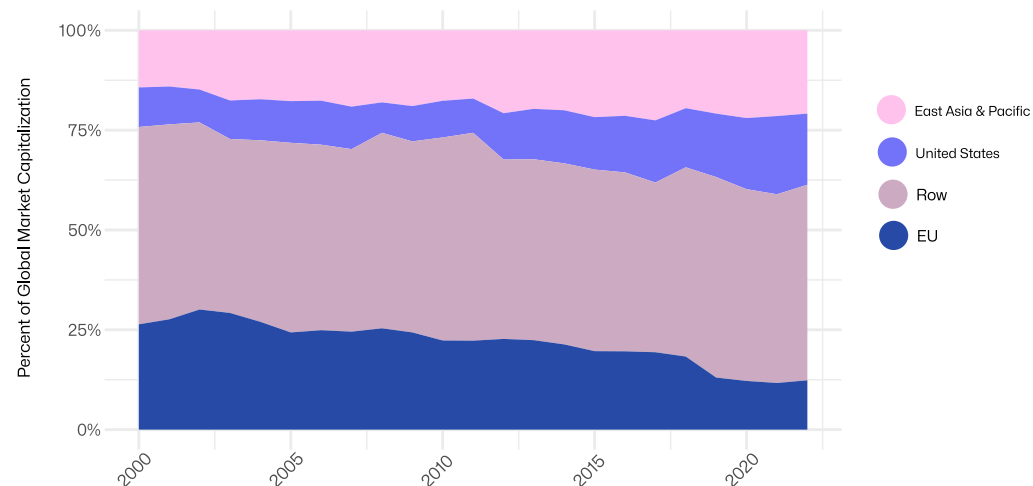
EU's position in global capital markets has been steadily eroding

EU's global stock market capitalization share has contracted from more than a quarter in the 2000s to little over ten per cent today. During the same period, the United States' share doubled.

Strengthening Europe's venture capital ecosystem for economic competitiveness

This stark reality reflects a broader challenge: Europe's difficulty in scaling companies to compete on the global stage. To reverse this concerning trend and ensure Europe's future economic competitiveness, urgent action is needed to strengthen the EU's venture capital ecosystem and create better conditions for scale-ups within the single market.

EU share of global stock market capitalization



Source: World Bank Market capitalization of listed domestic companies

"Europe is stuck in a static industrial structure with few new companies rising up to disrupt existing industries or develop new growth engines. In fact, there is no EU company with a market capitalisation over EUR 100 billion that has been set up from scratch in the last fifty years, while all six US companies with a valuation above EUR 1 trillion have been created in this period."

Report "The future of European competitiveness
Part A | A competitiveness strategy for Europe"

European Commission
2024

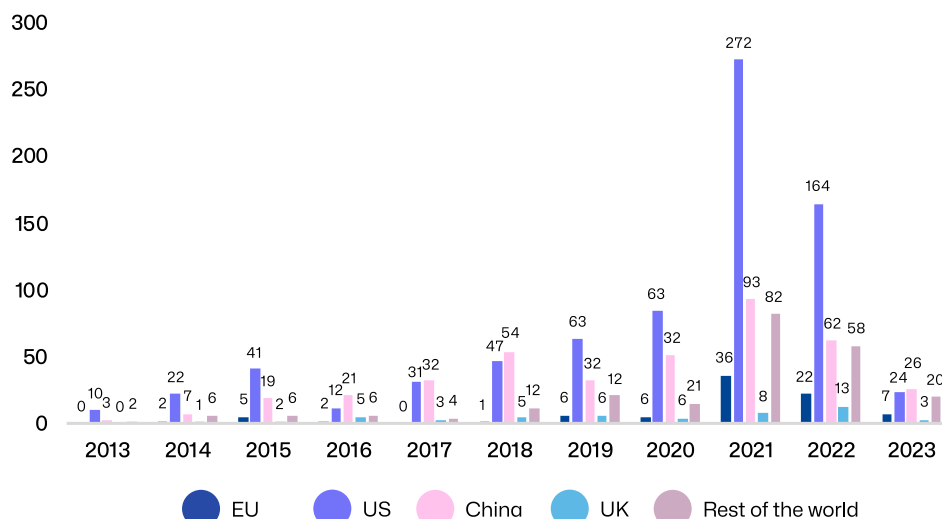


Although the creation of unicorns in the EU has grown steadily, it is still not enough to compete with the US and even China, both in number and value

Between 2013 and 2023, the EU has created 86 new unicorns, reaching in 2023 73 active unicorns

During this period, the number of active unicorns in the EU has grown at a CAGR of 37.3%, being the lowest pace of the geographical locations considered (Rest of the World 57.3%, China 45.6%, UK 42.3% and US 39.3%).

Evolution of New Unicorns created by year and country (2013-2023)



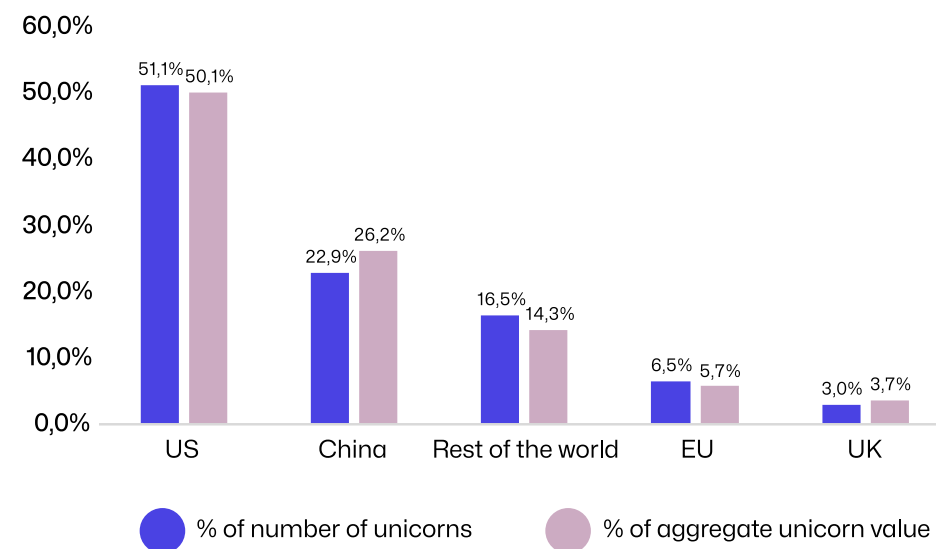
Source: PitchBook

*For the purpose of this report, the consideration of unicorn includes a company with a most recent post-value over €1bn while VC-backed and that is still VC-backed. A company will fall out of this consideration if it ceases to be VC-backed (e.g. it undergoes an exit taking it out VC-backing status) or its valuation falls below €1bn or it goes out of business.

The EU share on the number of active unicorns and the aggregate unicorn value is 6.5% and 5.7% respectively

In 2023, the EU has 73 active unicorns with an aggregated value of €226bn. The US has 574 active unicorns and an aggregated value of €1.973bn, representing 51.1% and 50.1% of global unicorns and global aggregated value.

Share by region of number of Unicorns and aggregate unicorn value (2023)



Source: PitchBook

High US investment reveals EU's potential but highlights its underdeveloped venture capital industry and the funding gaps it creates

The high share of US investors in EU investments US reflects confidence in the EU's tech talent

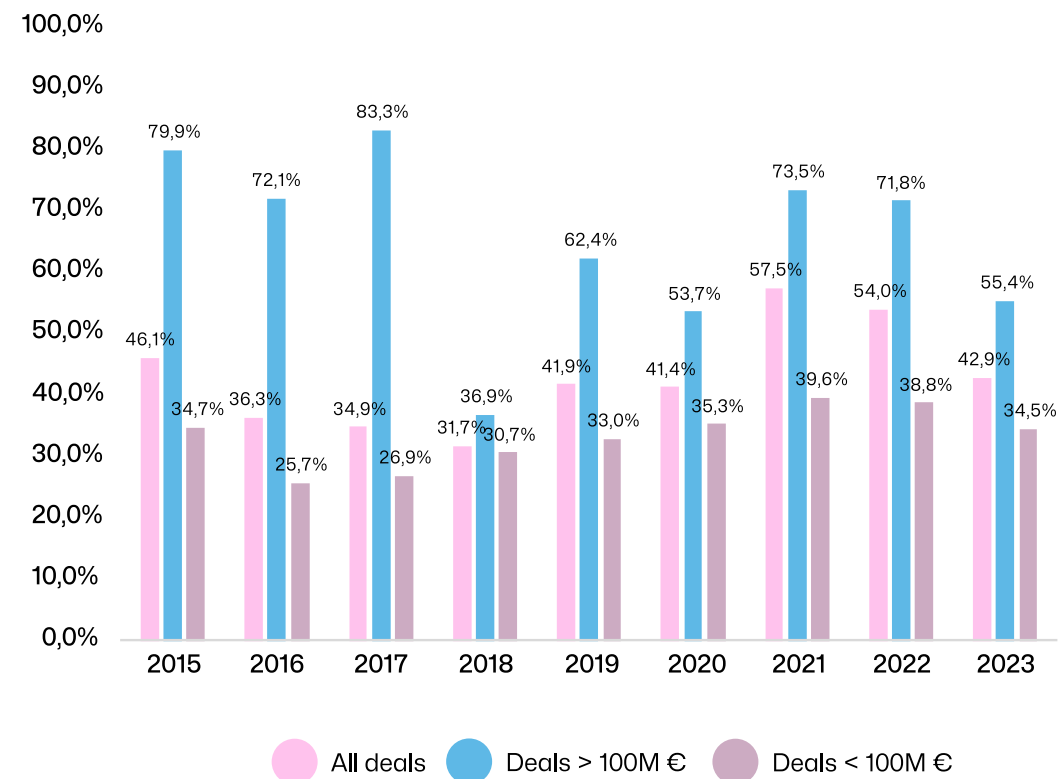
Investment coming from US investors has been on average 43% of investments in the EU VC market in the period 2015-2023. In deals over €100M, this % is even larger: 65.5%. Looking at smaller deals (<100M), EU shows less dependence from US investment. This trend highlights the maturation of Europe's startup ecosystem, with US venture capitalists increasingly recognising its potential.

However, Europe's reliance on foreign capital highlights persistent gaps in its local investment ecosystem

US VCs are often stepping in to fill funding gaps, particularly in large deals where EU funds fall short, highlighting the EU's struggle to scale high-growth companies.

Additionally, US investor involvement increases the chances of relocation. According to a recent study*, around 5% of European startups move to the US after securing funding.

Share of EU investments made by US investors 2015-2023



Source: PitchBook

*Dataset published in Weik, S., Achleitner, A.-K., & Braun, R. (2024). Venture capital and the international relocation of startups. Research Policy, 53(7), 105031.

EU citizens have their assets in the bank

Key differences in household financial asset composition EU Vs US

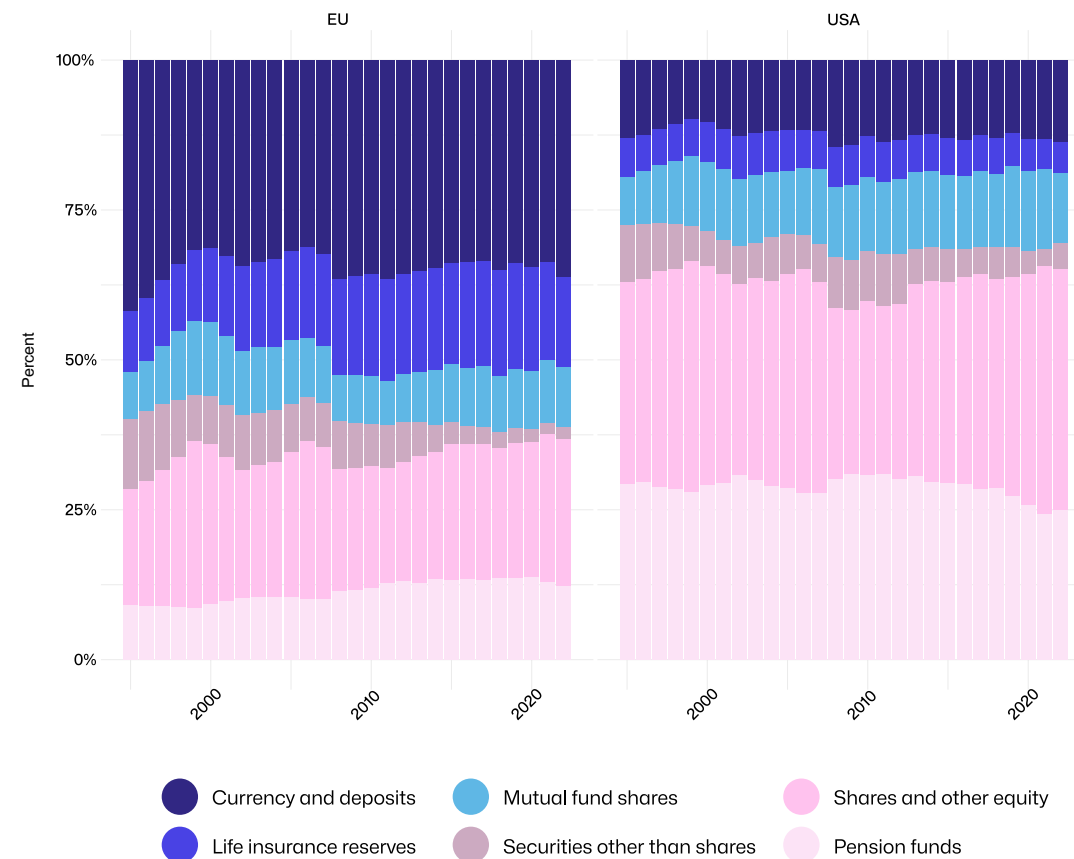
While U.S. households hold most of their financial wealth in stocks and mutual funds, EU households remain significantly more conservative, with over 30% of assets held in currency and deposits, and only about 20% in market-based investments. Another striking difference is the prevalence of pension funds that are much more common in the US. Most EU countries operate public pension systems that do not have a fund structure.

The need for cultural change to unlock VC potential in Europe

This risk-averse investment culture not only limits household wealth building but also restricts the availability of growth capital for EU companies. Transforming this deeply rooted savings pattern is crucial for developing a more dynamic venture capital ecosystem and enabling more companies to scale.

The challenge is not only to create new financing instruments but to foster a cultural shift in how Europeans engage with capital markets

Financial assets of households in the EU and US. (1995-2022)



Source: OECD

Untapped potential for venture capital in EU household financial assets

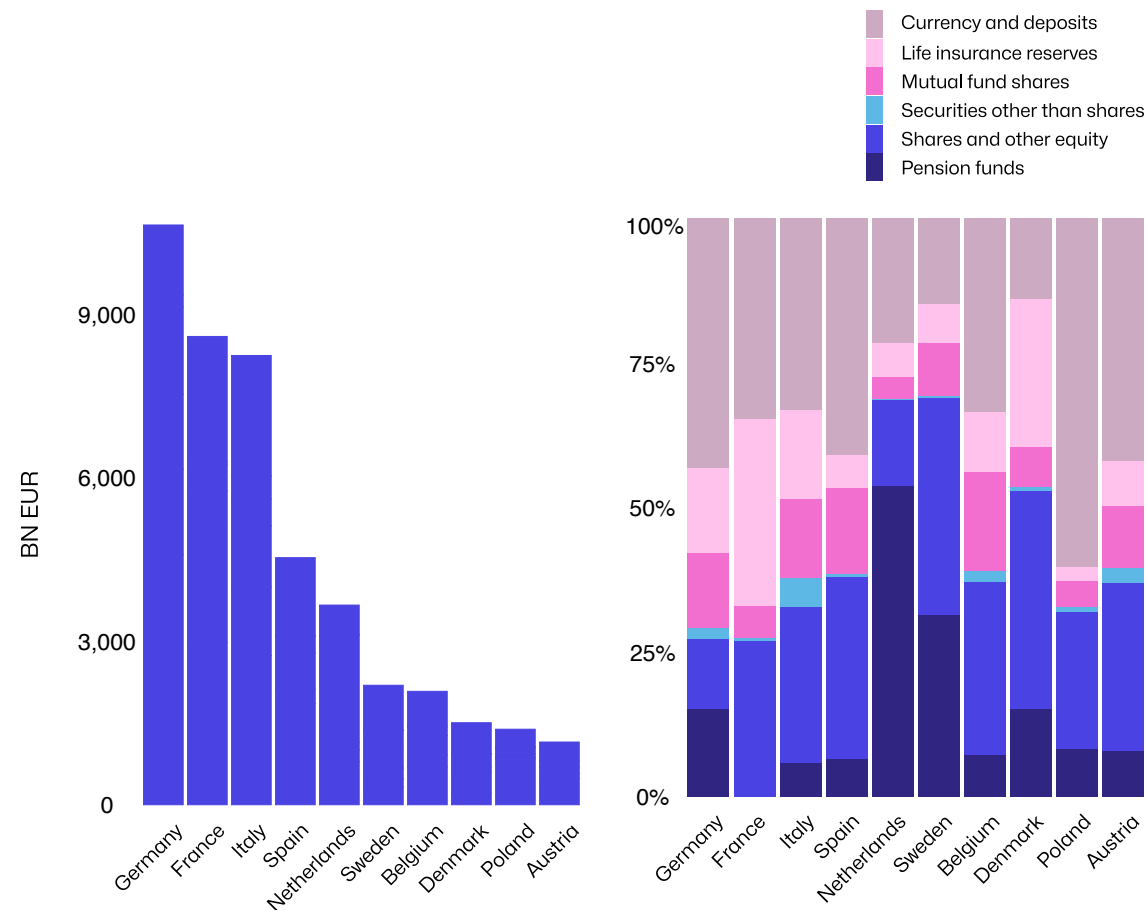
The structure of household financial assets varies substantial across EU member states, revealing untapped potential for venture capital funding.

This fragmented landscape of institutional investment presents both a challenge and an opportunity.

The Netherlands stands out with pension fund sector of more than 50%, but also Germany, Sweden, Italy, and Spain have large amounts of capital allocated in pension funds.

Conservative estimates suggest that aligning major EU economies' pension fund allocations only modestly could mobilize tens of billions in additional investment capacity for European scale-ups. Sweden, Denmark, and the Netherlands already have more assets in pension funds and equity.

Household financial assets in the EU (2022)



Source: OECD

Untapped Potential: aligning EU household wealth with Venture Capital

Unlocking household wealth for European VC

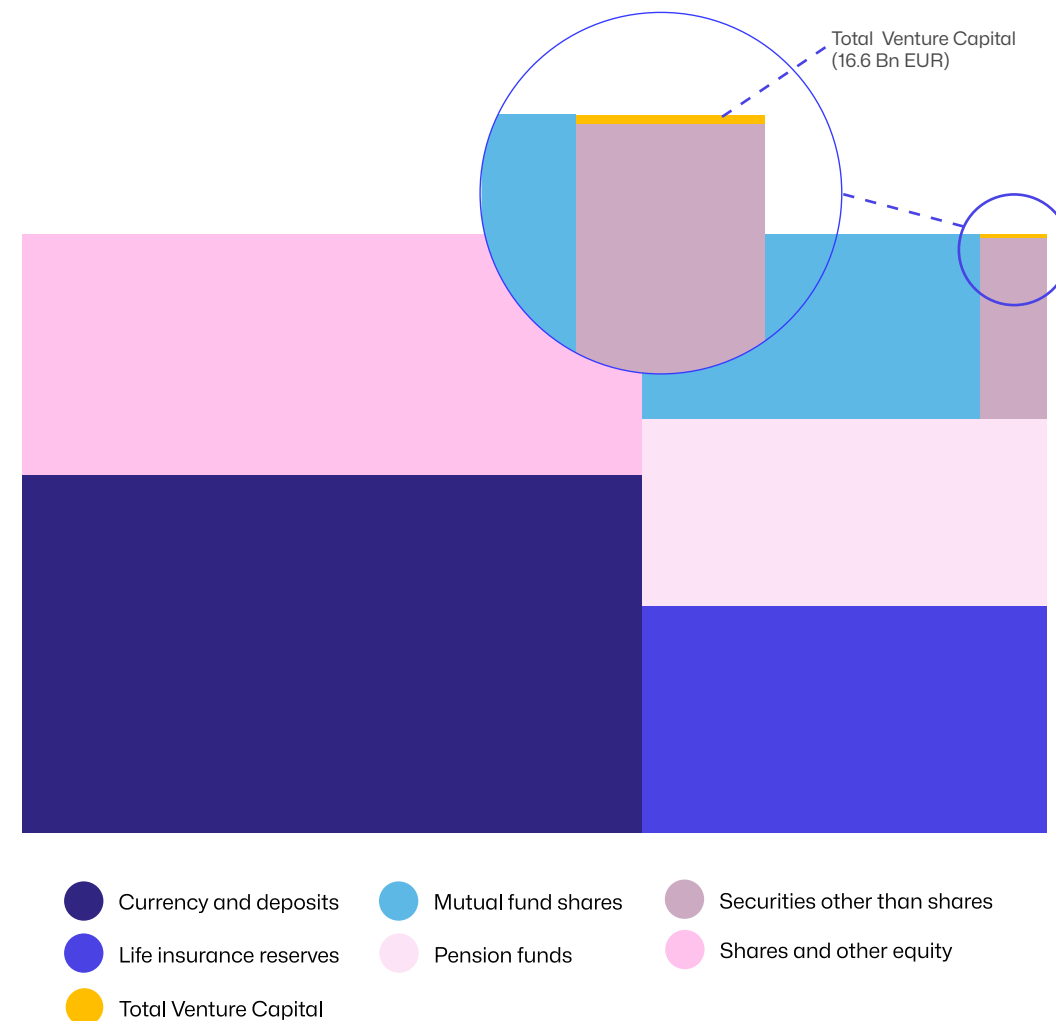
While the EU boasts substantial household financial assets totalling over €48 trillion, this vast pool of private capital remains underutilized when it comes to funding high-growth startups and scale-ups. As the data shows, the €16.5 billion in venture capital raised in Europe in 2022 represents only a tiny fraction of these household assets.

Bridging the funding gap to scale Europe's tech leaders

This disconnect points to a key opportunity. By incentivizing greater participation from institutional investors like pension funds and insurers, policymakers can help unlock billions more in potential VC funding. Aligning the allocation of the region's household wealth with the needs of innovative, scaling companies could be a game-changer.

The challenge lies in reforming structural barriers that have historically channelled EU household assets into more conservative investments. Tackling this imbalance should be a priority, as bridging the funding gap between Europe and global competitors is crucial for cultivating the next generation of tech leaders.

Household financial assets in the EU (2022)



Source: OECD and Invest Europe

The Structural barriers hindering European Venture Capital

The impact of Europe's fragmented financial system on VC

Europe's VC ecosystem remains hindered by the fragmented, bank-centric nature of its financial system. While the region boasts sizeable pools of private capital, with insurance firms and pension funds holding over \$11.9 trillion in assets, institutional investors contribute a much smaller proportion of funding to VC compared to the US.



The Savings and Investments Union

This 2025 initiative is aimed to create better financial opportunities for EU citizens, while enhancing the EU's financial system and its capability to link savings to productive investments. It will include four streams of work: (1) Citizens and savings, (2) Investments and financing, (3) Integration and scale, and (4) Efficient supervision in the single market

Bridging the institutional funding gap in European VC

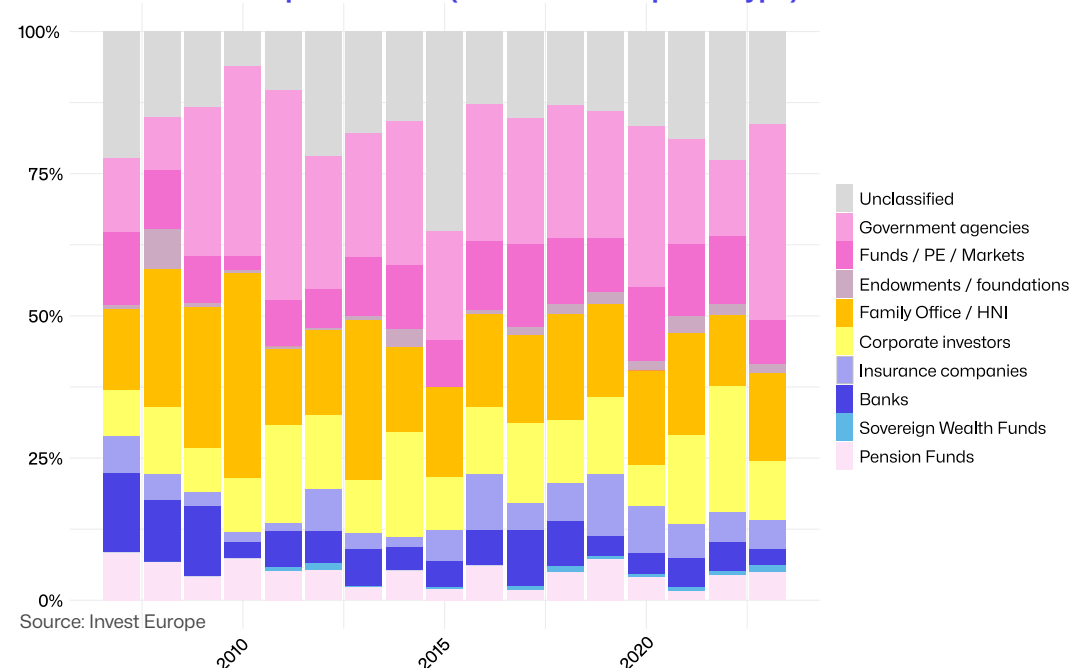
As the chart illustrates, EU VC funds could rely more on the large pension and insurance allocations that characterize the US venture market.

This structural imbalance limits the scale and staying power of European VC funds, restricting their ability to back later-stage companies requiring investments from millions to hundreds of millions of euros. Further, the types of LPs that invest in VC funds can influence the fund performance.¹

Addressing this disparity is crucial for strengthening Europe's innovation economy. By incentivizing greater participation from the region's institutional investors, policymakers can help unlock the growth potential of European startups and scale-ups, bridging the transatlantic funding gap.

¹ Mayer, C., Schoors, K., & Yafeh, Y. 2005. Sources of funds and investment activities of venture capital funds: evidence from Germany, Israel, Japan and the United Kingdom, Journal of Corporate Finance 11 (3), 586-608.

Evolution of EU VC capital sources (% commitment per LP type)



2

Venture Capital development and regulatory challenges in the EU

The EU has developed its VC industry over the last decade, showing increasing levels of investment and fundraising



EU VC has shown strong growth in deals activity over the past decade

Sustained growth of VC activity in the EU

Over the last decade, VC activity in the EU has experienced substantial growth in terms of capital invested, peaking in 2021 with deal values reaching 64.5 billion Euro.

Capital invested in this period, has shown a CAGR of 22,9%, while the number of deals has grown by CAGR 9%.

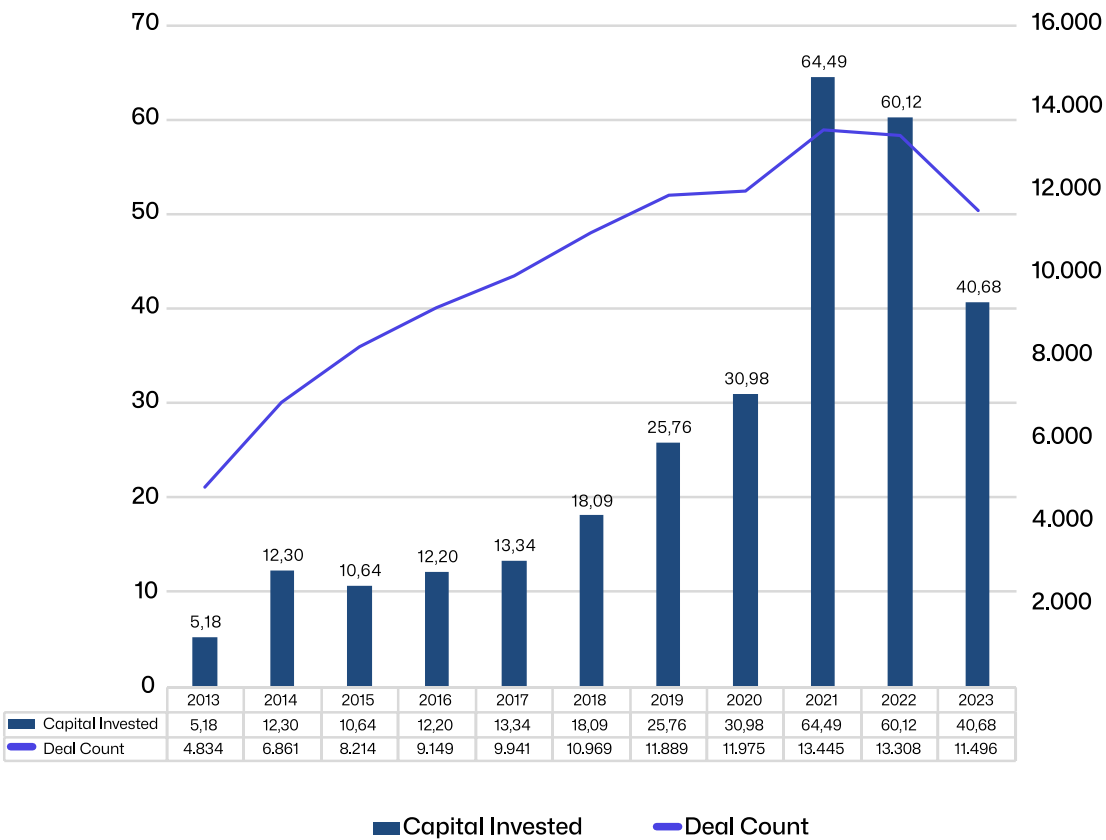
A return to stability after record-breaking years

By 2023, the EU VC market experienced a correction, with deal values declining 32% YoY. This drop reflected a normalisation after the record-breaking surge of 2021-2022, as well as broader economic and regulatory challenges.

2023's figures (€40.68bn) remained well above the 10-year average (€26.7bn), highlighting the structural growth and long-term upward trend of the EU's venture ecosystem.

The 2023 slowdown was driven more by subdued valuations than by a significant drop in activity, as deal count only declined by 13.6% compared to the sharper 32% fall in value.

EU VC capital invested (€bn) and deal count 2013-2023



Source: PitchBook

Investments are concentrated in Germany and France, but other member states are catching up

Investments are still highly focused on Germany and France...

In VC investments by country, Germany and France accounted for almost 48% in 2023, in line with what has been the traditional regional focus of investments in EU startups.

...but higher growth in other countries means that the market is being progressively shared out

The growth of investments over the last 10 years has varied from country to country, with high growth (>20%) in relatively small markets such as the Czech Republic and Bulgaria, along with more developed markets such as Denmark, Italy and the Netherlands, all of them growing by more than 18% annually (CAGR).

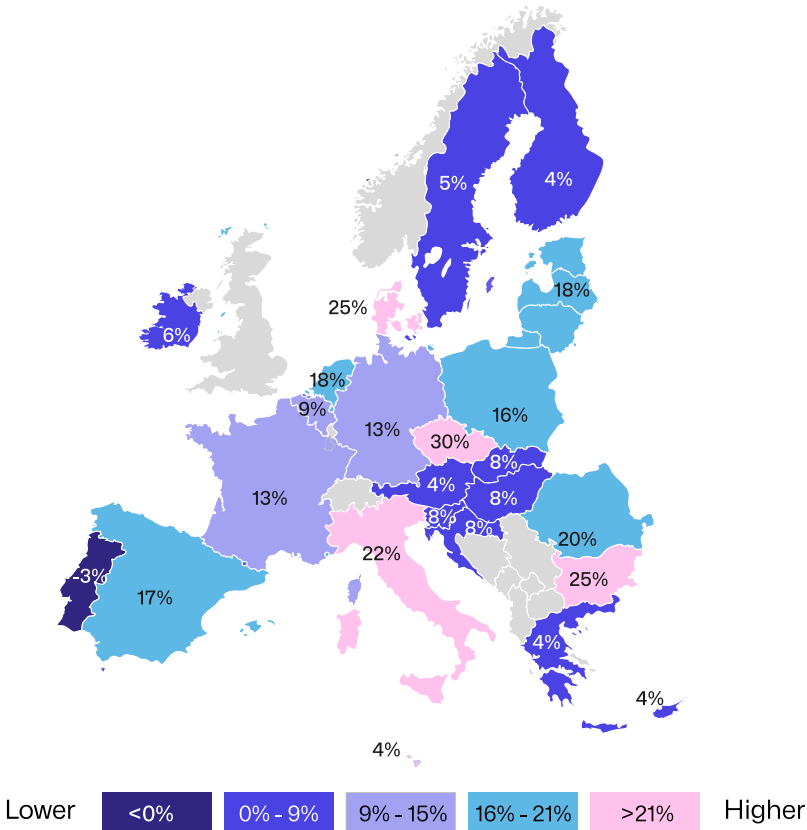
Other groups of countries, including France and Germany as well as member states in both the Nordic and Southern European regions, have shown more modest growth.

EU % of VC investment by country of portfolio company (2023)



Source: PitchBook

EU VC investment growth CAGR% 2013-2023*



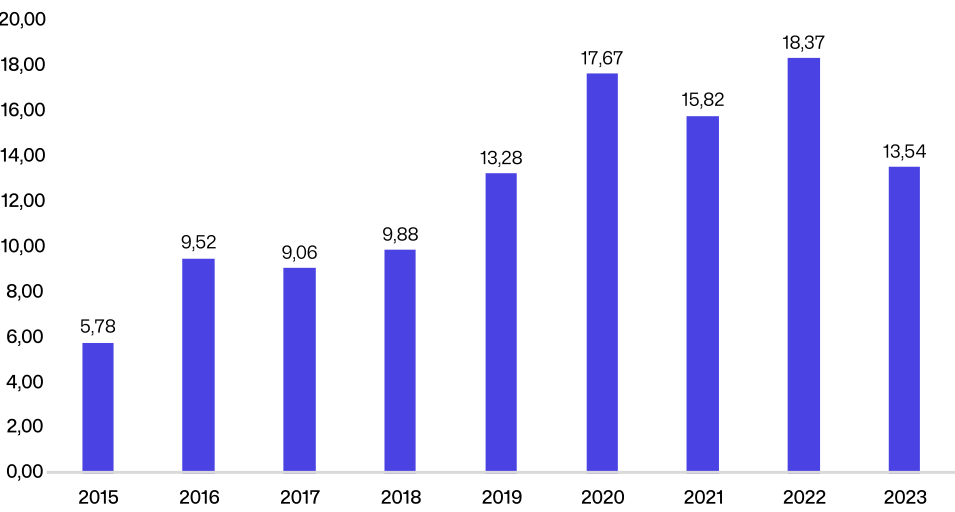
Source: Invest Europe
*VC investment in country of portfolio company

EU fundraising and fund number concentration in key countries

Robust fundraising and concentration in key markets

- The EU has also shown strong growth in fundraising (securing capital from investors to create or expand VC funds) since 2015, achieving a CAGR of 11.2%.
- Regarding the number of funds, four countries—France, Germany, Spain, and the Netherlands—represent over 55% of the total.

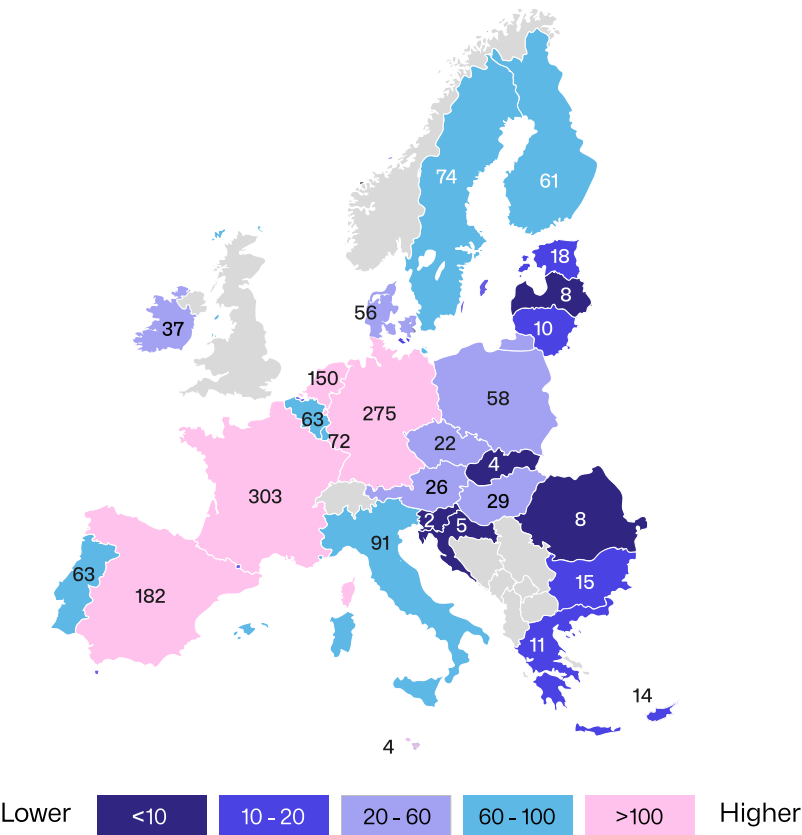
EU capital raised (€bn) 2015-2023



Source: PitchBook.

Untapped Opportunities for European Venture Capital:
Pension funds and Sovereign Wealth funds

EU number of VC Funds (total 2015 – 2023)



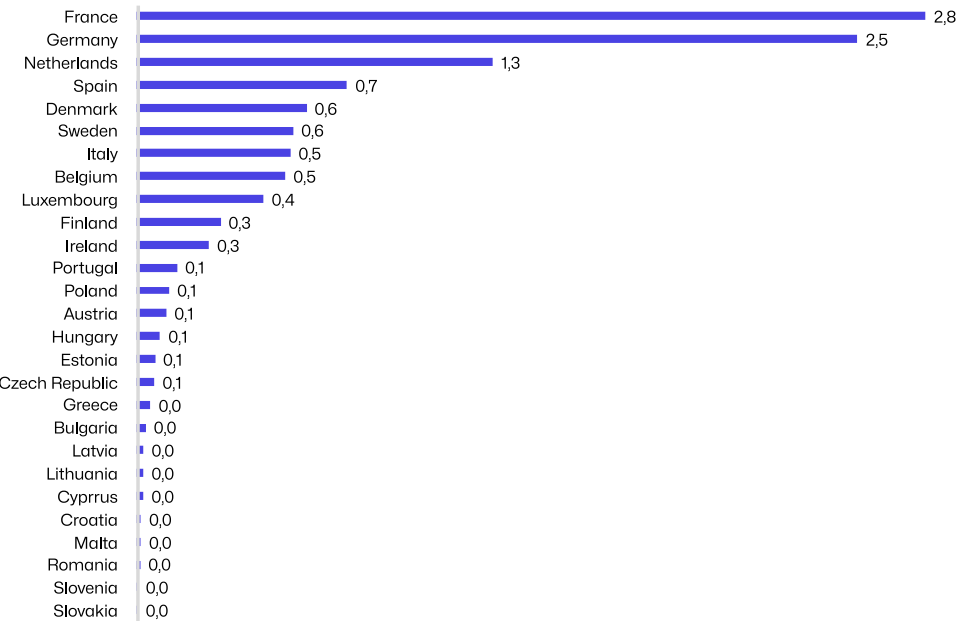
Source: PitchBook.

Fundraising has grown across the EU with some countries excelling in capital raised as % of GDP

Some EU countries stand out in fundraising relative to GDP

- While Germany and France lead in absolute fundraising volumes, countries like Luxembourg, Estonia, Denmark, the Netherlands and Finland excel when considering fundraising as a percentage of GDP.
- They stand out driven by focused policies, emerging innovation hubs, and supportive regulatory environments.

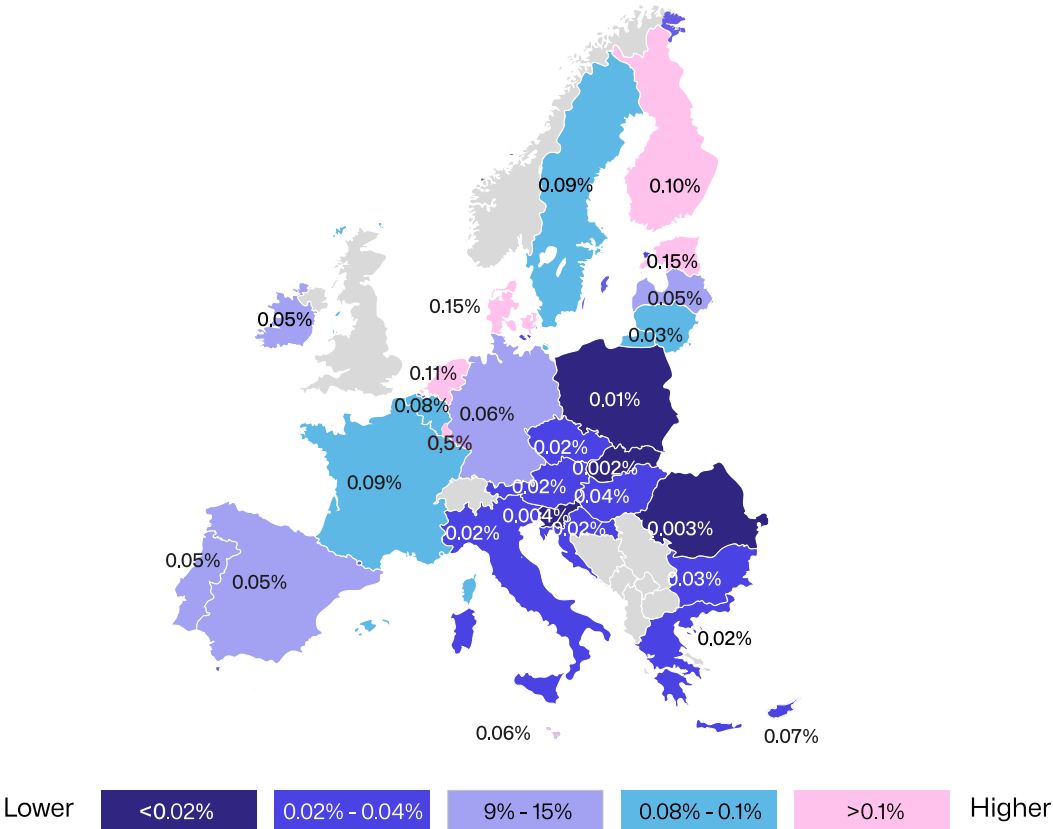
Average capital raised (€bn) 2015-2023



Source: PitchBook.

Untapped Opportunities for European Venture Capital:
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EU Capital raised (avg. 2015 – 2023) as % of GDP

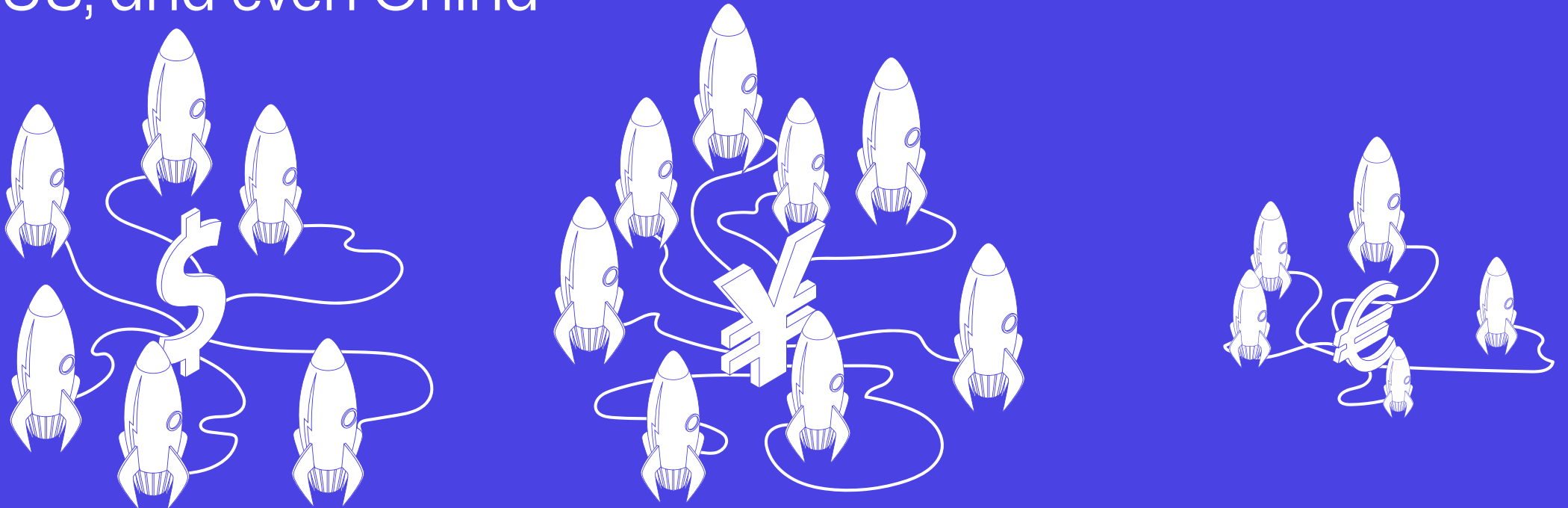


Source: PitchBook and International Monetary Fund:

2

Venture Capital development and regulatory challenges in the EU

But there remains a significant gap to close before EU can compete on the same level as the US, and even China

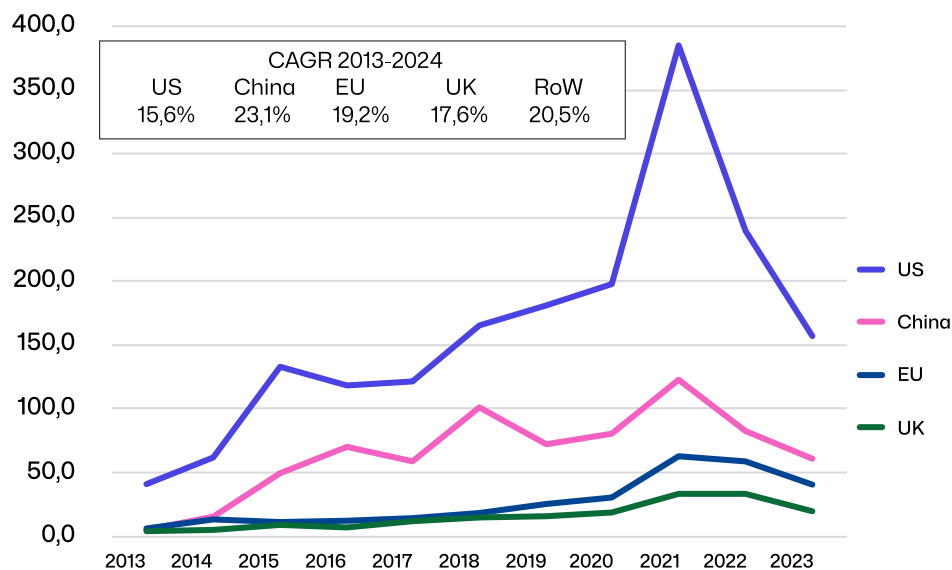


There remains a significant gap to close before EU can compete on the same level as the United States

Progress made, but still trailing behind the US

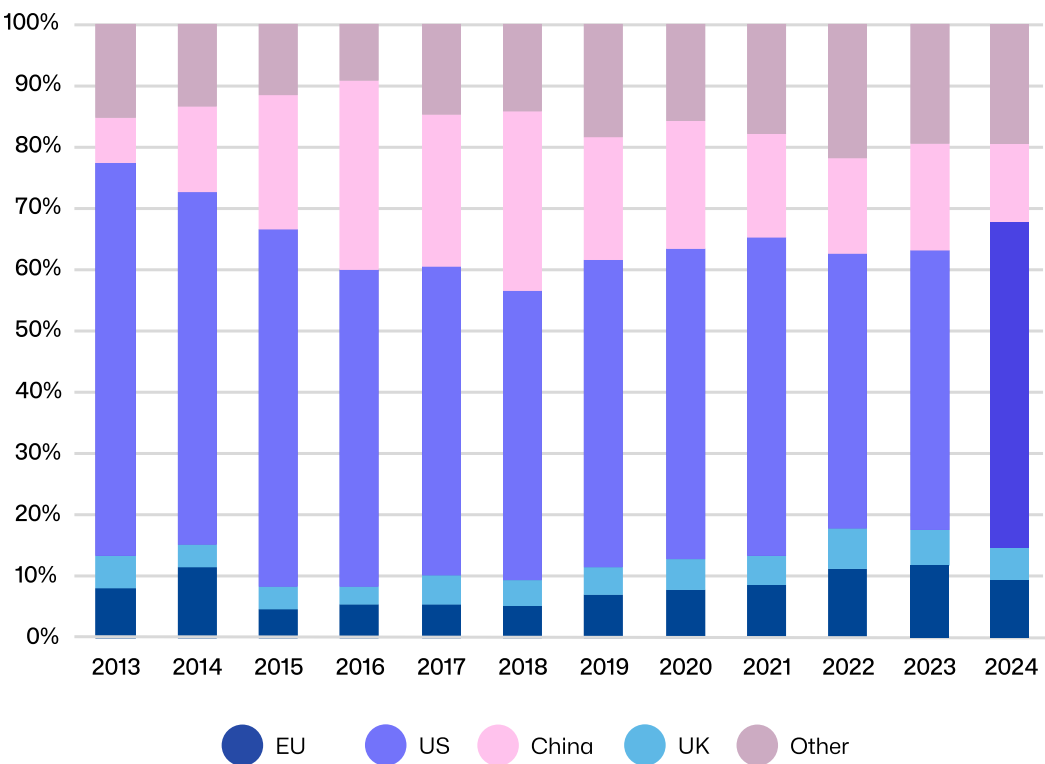
- Despite its growth, the EU's VC market holds only 12% (2023) of the global market share and remains nearly four times smaller than that of the US (2023). Provisional data for 2024 shows a reduction of EU share, reaching 10%, while US has increased it until 53%.
- Meanwhile, China has rapidly expanded, surpassing the EU with an 18% share in total investment volume

VC investment evolution 2013-2023 (€bn)



Source: PitchBook.

VC investment global market share evolution 2013-2024



Source: PitchBook.

Relative to GDP, VC investment in the EU lags behind the US and varies widely across member states

VC investment as % of GDP is 3 times higher in the US Vs the EU

In 2023, investment in the EU was 0.21% of GDP, compared to 0.58% in the US and 0.69% in the UK.

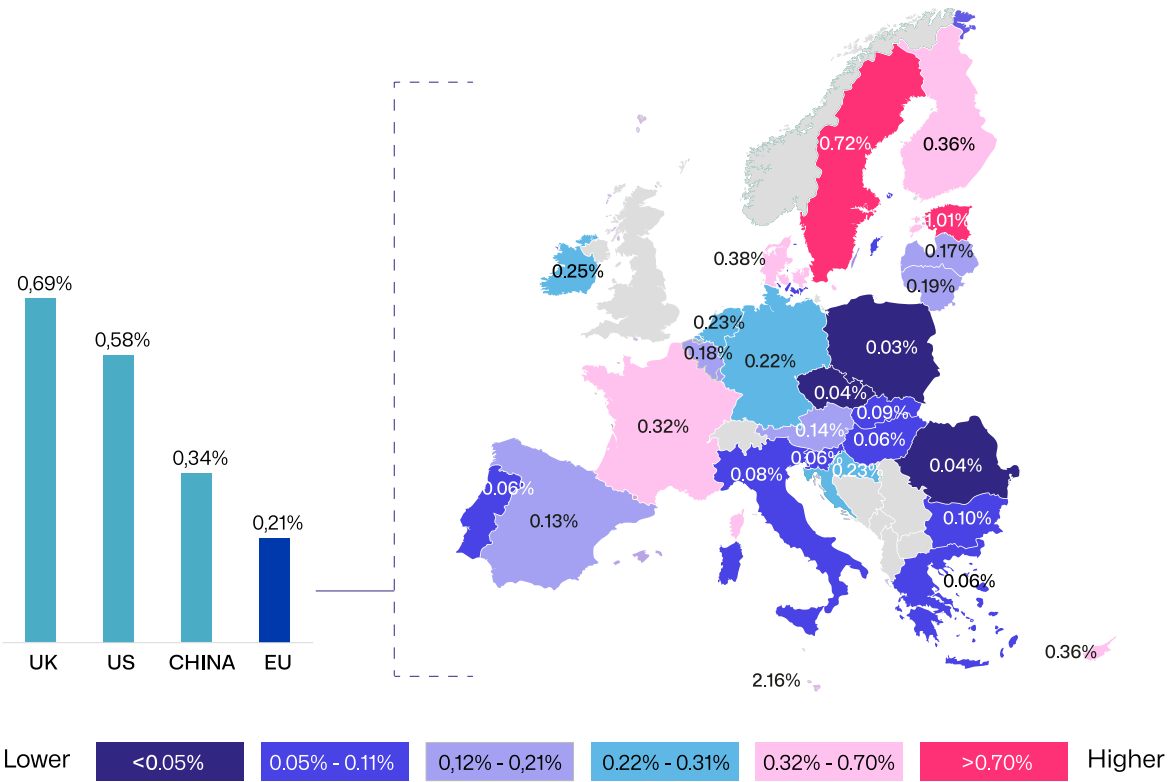
Relative to GDP, VC investment levels vary greatly across the EU

There is a large variation of this % within the EU. Countries such as Estonia (1% of GDP) or Sweden (0.7%) even exceeded US investment levels in 2023.

The relative level of VC investment in the major European economies, France and Germany, is half that of the US.

Southern European countries such as Italy, Portugal or Greece do not reach 0.1%, as well as some Eastern countries such as Poland, Romania or Hungary.

VC investment as % of GDP* (2023)



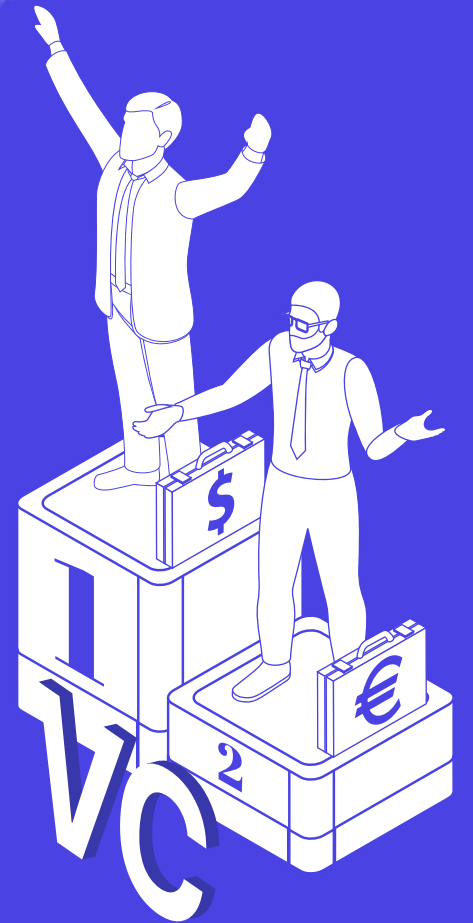
Source: PitchBook data / IMF

* This represents the investment received by a startup in a country, independently of the origin of the sources.

2

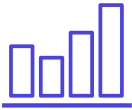
Venture Capital development and regulatory challenges in the EU

Differences between the US and EU VC market reveal key aspects that drive the US's leadership



Size, capital sources, exit market and regulatory environment are key factors driving the US's advantage over EU in venture capital

4 key differences that characterize the US Vs the EU VC market



VC market size and investment focus in the US

- Higher number of VC funds, especially in the large funds segment
- Greater investment as % of GDP
- Larger funding rounds and faster deployment
- More specialised funds with deep sector expertise



Exit Opportunities and Liquidity in the US

- Mature and liquid exit markets (IPOs, acquisitions, and secondary markets) provide easier paths to exit and faster returns for VCs



Capital Sources in the US

- Predominantly private capital (pension funds, endowments)
- Greater availability of long-term capital, fund larger rounds
- Greater flexibility in investment strategies (high growth/risk) Vs more constrained EU funds (backed by public institutions)



Regulatory and Tax Environment

- Unified regulations across states
- Tax incentives like the QSBS (Qualified Small Business Stock)
- Streamlined IPO processes and fewer compliance hurdles

"Comparing to the US, we need to highlight EU values in order to attract foreign investors [...]:"

- Environmental and social sustainability
- Social cohesion, inclusion and equitable economic growth
- Long term value creation and sustainable growth
- Exceptional deep tech sector thanks to universities and research centres
- Ethical and transparent technology with emphasis in privacy
- Work-life balances, social welfare and employee well-being
- Collaboration culture with cross-borders partnerships

A great summary could be "by investing in Europe, you align with a future-focused ecosystem where responsibility and profitability go hand in hand".



Stephane Pesch

CEO of Luxembourg Private Equity and venture capital association Luxembourg



US dominance in large-scale VC funds highlights EU's funding challenges

The significantly higher number of funds - especially in larger segments - compared to the EU reflects the US's unmatched capacity to support high-growth ventures

The aggregated data from 2015-2023 shows a much higher total number of VC funds in the US (6,168) versus the EU (1,335). What is most notable is that while in the segment between 100 and 249M €, the number of funds in the EU is higher, in all segments above that, the US has nearly 8 times more funds.

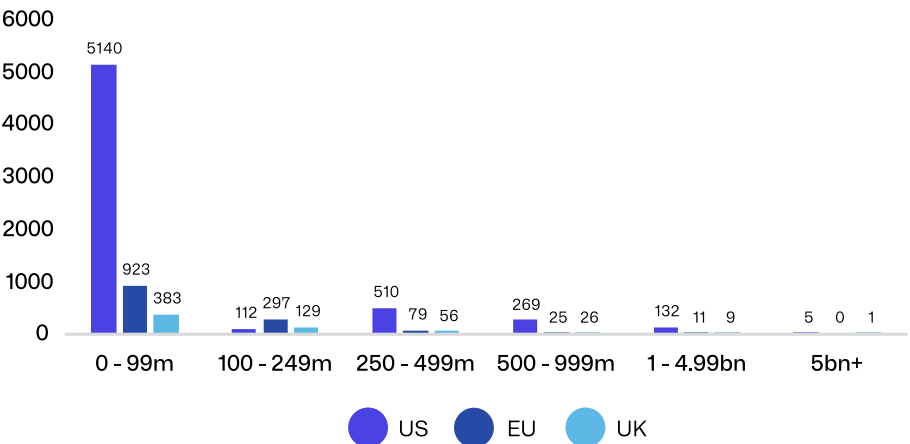
Hence, EU-based companies struggle to find investors within the EU with the ability to write big tickets in large capital funding rounds.

The capital raised between 2015 and 2023 by fund size highlights the challenges for EU startups to secure funding when scaling up. Funds in the 1-5bn € bracket raised 228,4bn € in the US, compared to just 13bn € in the EU.

The October 2025 announcement by the Commission of the Scaleup Europe Fund responds to the urgent need for Europe to boost investments in scaleups and close the gap with global leaders. The Scaleup Europe Fund will operate as a market-based, privately managed and privately co-financed growth fund investing in major European-led investment rounds.

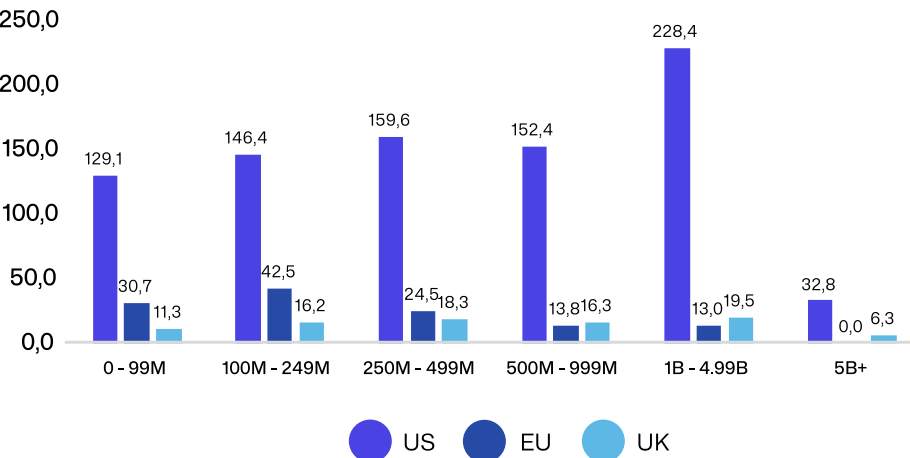
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Number of VC funds by fund size segment (2015-2023)



Source: PitchBook

Venture Capital raised by fund size segment (2015-2023) (€bn)



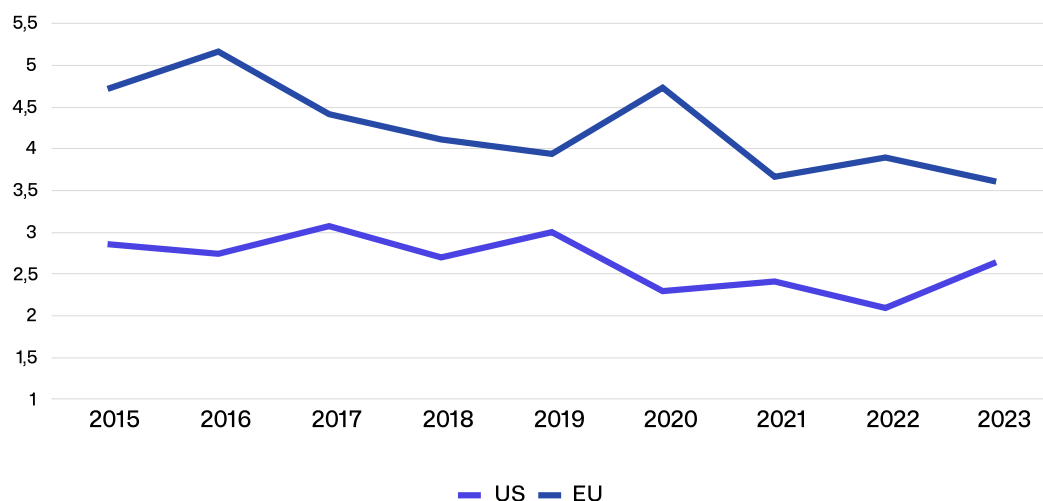
Source: PitchBook

US VCs launch and deploy funds faster than in the EU, but evolution is in the path of convergence with the US

EU is slower in deploying capital but is narrowing the gap with the US in fund launch timelines

- In the last 10 years, the speed to launch new funds is slower in the EU compared to the US. In the US, funds not only raise more capital, but they also deploy it much faster: the average time between fund launches (2015–2023) is 4,25 years in the EU, compared to just 2,65 years in the US.
- Over the years, both the EU and the US have reduced the time between VC fund launches, with the EU narrowing the gap versus the US – 3.6 years in the EU compared to 2.6 years in the US in 2023.

Time between funds, years (2015-2023)



Source: PitchBook

"For us, these are some of the biggest challenges we have to face to get money to create a fund.

- *Long decision times: It can take between 12 and 24 months to get enough funds.*
- *Low trust in new small funds: Is difficult to compete with bigger funds with established and proven records and returns.*
- *Macroeconomics conditions: With difficult times, investors usually limit the amount of fund they dedicate to liquid actives like startups."*



Alberto Andújar
Director of BigBan Inversores privados
Spain

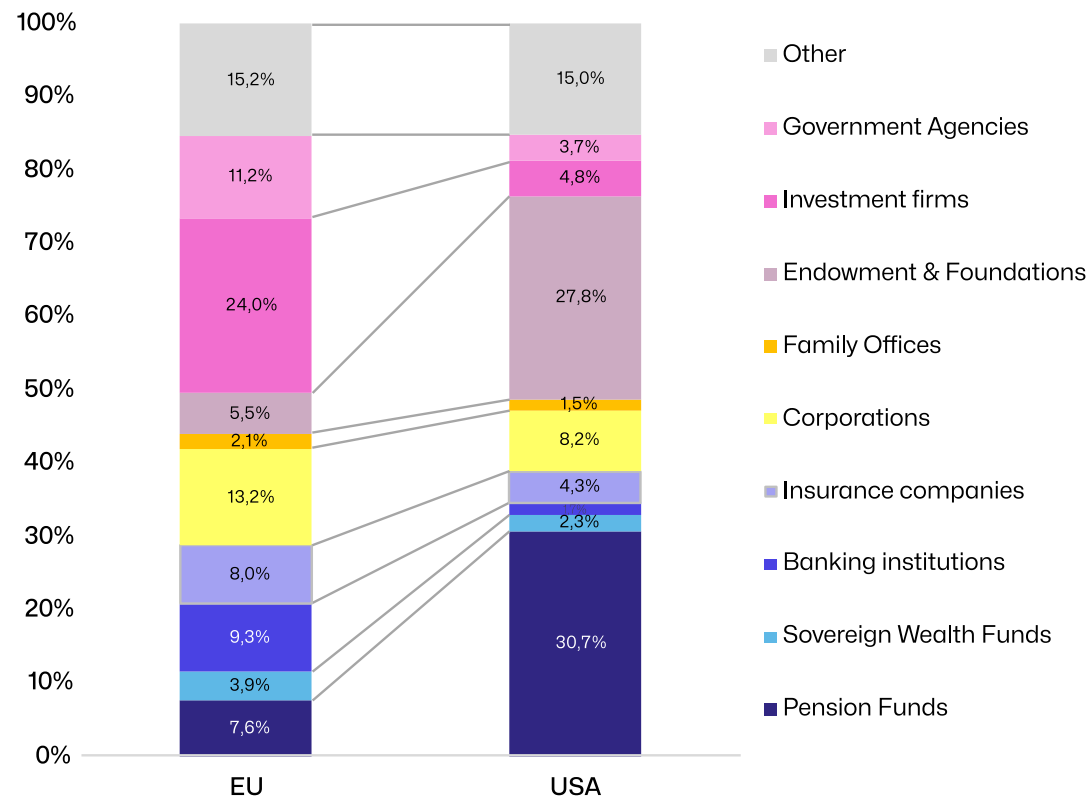
BIGBAN
INVERSOIRES PRIVADOS

Beyond the scale, there are structural differences in the composition of Limited Partners between EU and the US: Pension funds, Endowment & Foundations and Investment firms

While the US relies heavily on Pension funds and Endowments & Foundations, the EU receives greater contributions from Investment Firms, Banks, and Government Agencies

- The share of Pension Funds in the US averaged 30.7% over the last five years, more than four times their weight in the EU.
- Another notable difference is the prominence of Endowments & Foundations in the US: 27.8% compared to just 5.5% in the EU.
- In the EU, the weight of “Investment Firms” stands out, accounting for nearly 25%, compared to barely 5% in the US. This category is almost exclusively composed of Fund of Funds (primarily supported by the European Investment Fund).
- The share of Sovereign Wealth Funds is approximately double in the EU compared to the US during this period, but their overall weight remains limited (3.9%).

Investment in VC by type of Limited Partner (%) Average mix 2019-2023



Source: PitchBook

Notes:

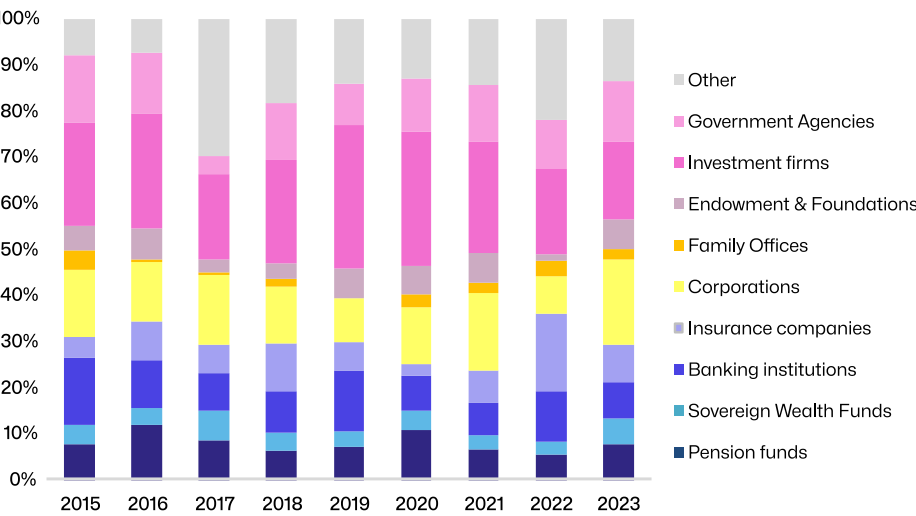
“Other” includes the following : Direct Investment, High-net-worth investor, Investment advisor, Money Management Firm, Other Limited Partner, Wealth Management Firm.

“Investment Firms” includes Fund of Funds, Mutual Fund Company, Private Investment Company, Real Estate Investment Company, Secondary LP

EU Pension Funds remain small in last years and are hardly growing

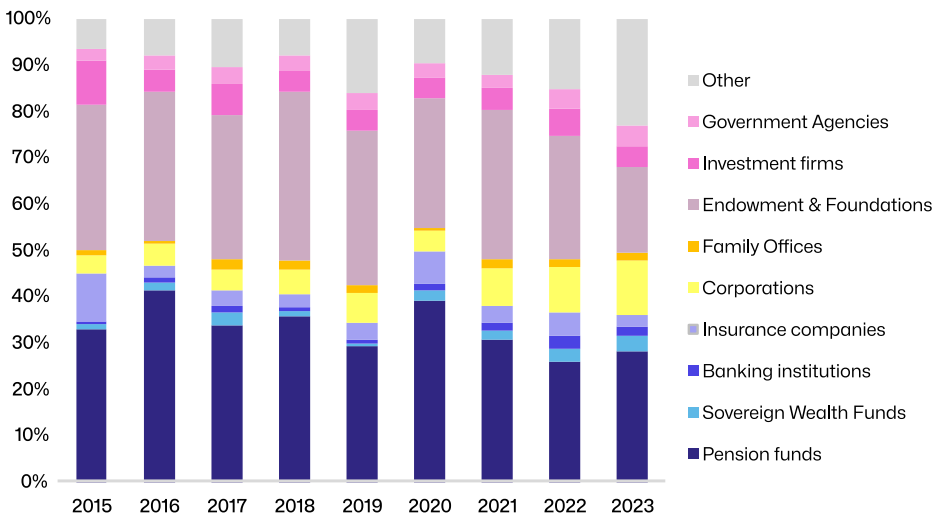
- Pension funds in the EU not only carry little weight, but their contribution to the mix has shown a stagnation (+0.1% 2023 Vs 2015).
- In recent years, banks in the EU have lost market share to other types of investors, such as Corporations and Insurance companies.
- In the US, despite a decline in corporate and union pension funds, public pension funds maintain the strong base of Pension Funds as a whole.
- Capital sources experiencing growth in the US are primarily “Corporations” and “Other” (mainly Direct Investments and High-net-worth Individuals).
- Investment firms show stronger presence in EU due to the higher presence of Fund of Funds.

EU businesses - perceived costs of regulation



Source: PitchBook

Investment in US VC 2015-2023 by type of Limited Partner (%)



Source: PitchBook

The differences in terms of Investment firms between EU and US can be explained by the relevance that the Fund of Funds has in Europe, due to the involvement of the European Investment Fund

The European Investment Fund plays a significant role in dynamizing the VC industry in the EU, especially through its active participation in Fund of Funds

Systematically, the participation of Fund of Funds as Limited Partners (LPs) in VC Funds has been much higher in the EU than in the US.

Between 2015 and 2023, the average in the EU was 21.7%, compared to 4.4% in the US. The difference can be attributed to the involvement of the European Investment Fund (EIF) and its Fund of Funds approach.

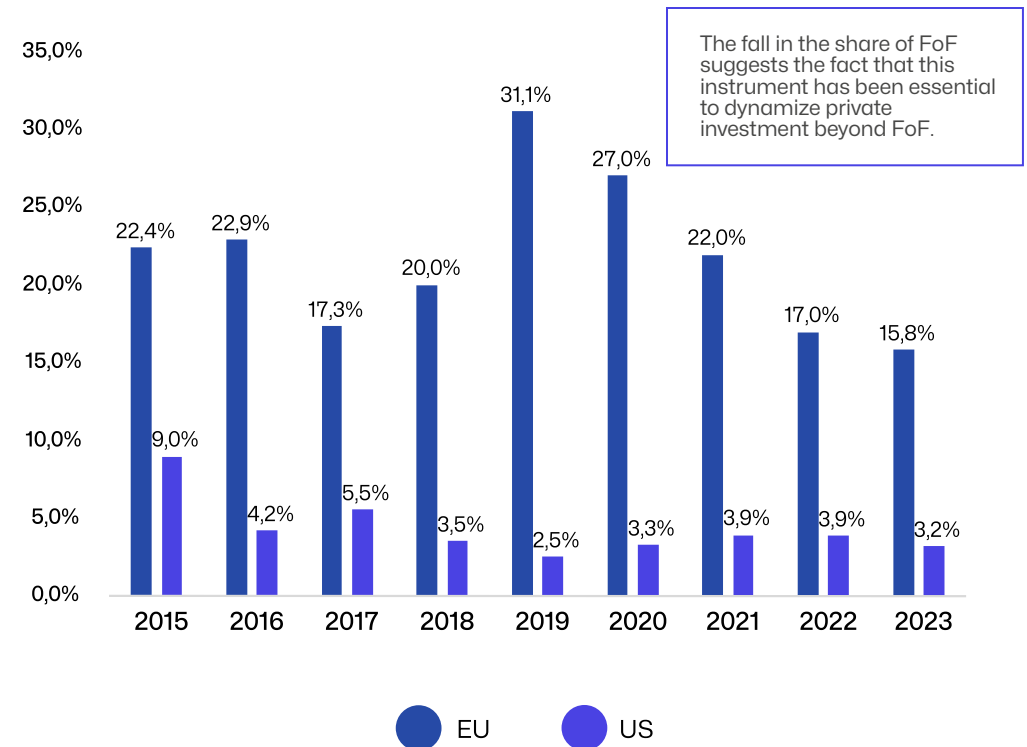
EU's public funding is a key player in the VC landscape.



A Fund-of-Fund (FoF) is an investment company which holds a portfolio of other investment funds rather than a portfolio of companies. They are also known as multi-manager investment funds.

The Definitive Guide to Venture Capital Fund-of-Funds 2023, Mountside Ventures

Fund of Funds participation on VC as Limited Partner (%), EU vs US

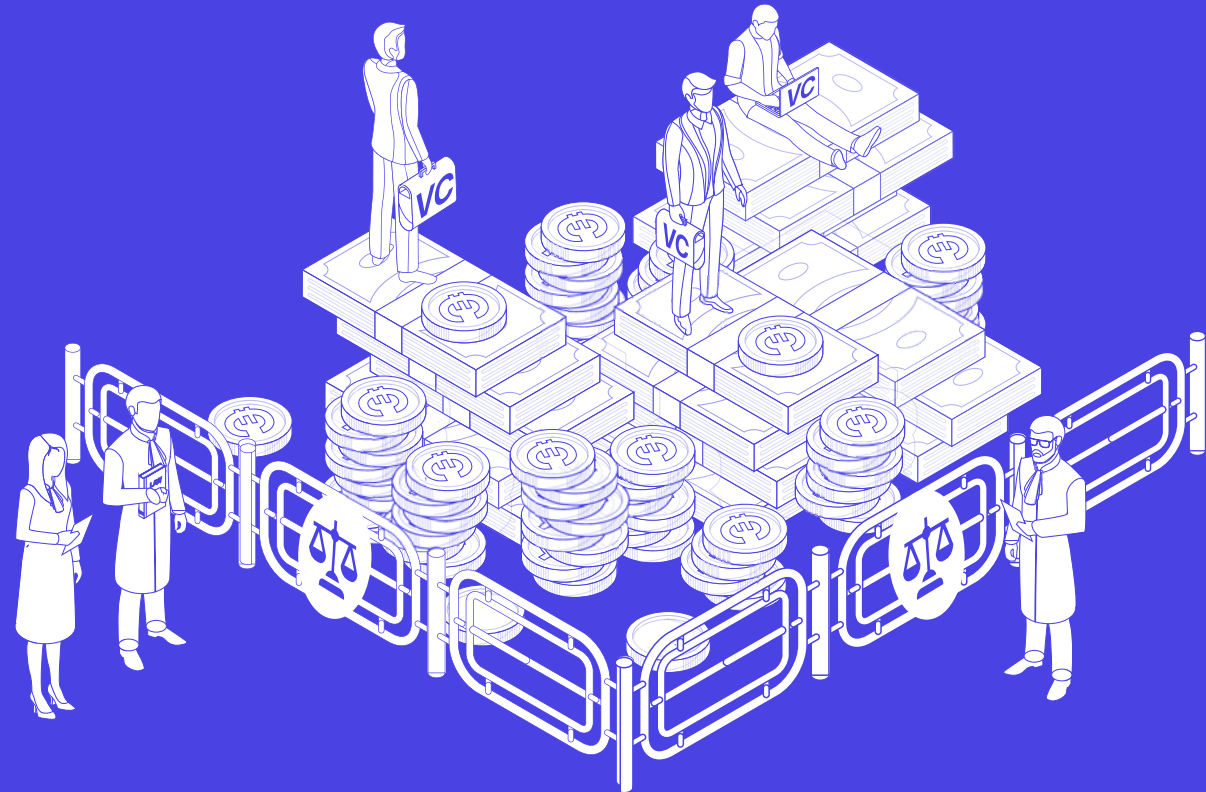


Source: PitchBook

2

Venture Capital development and regulatory challenges in the EU

The EU regulatory fragmentation limits VC growth, despite moves towards common framework



Despite the steps towards a common regulatory framework for the EU VC industry, there are several challenges that need to be addressed to avoid hindering cross border VC

1

Uneven national interpretations and requirements increase costs and adaptation times

Despite common frameworks, EU countries interpret and apply these regulations differently. This means that VC funds wishing to operate in multiple countries must comply with unique regulatory requirements in each jurisdiction.

2

Heterogeneous tax incentives reduce fund mobility

The EU exhibits wide variability in tax incentives for VC. Some countries, such as France and Spain, offer attractive deductions and exemptions for VC investors, while others take a more conservative approach. This disparity reduces fund mobility and may cause investors to concentrate in countries with favourable tax conditions, limiting the flow of investment to the European market as a whole.

3

Fragmentation of national regulations on Pension Funds' ability to participate in Venture Capital Funds

Regulation of pension funds happens mainly at national level, which creates a wide variety of regulations with different criteria depending on the type of pension fund considered and with particular and very different limits for pension funds to invest in private equity.

EuVECA Regulation (Regulation (EU) No 345/2013)

Introduced in 2013, the EuVECA Regulation seeks to provide a harmonised framework for venture capital funds. It allows registered funds to be marketed across the EU under a single label, encouraging investment in small and medium-sized enterprises (SMEs).

AIFM Directive (Alternative Investment Fund Managers Directive)

The AIFM Directive regulates alternative investment funds, including VC funds, with the aim of improving transparency and establishing supervisory standards. It was updated to the AIFMD 2.0 in 2024, with minor changes.

"The 28th regime presents an important opportunity to address the challenges startups face in scaling across Europe. At the heart of the discussions will likely be the need for a common European startup definition—a foundation that ensures clarity and alignment across Member States. Equally important is exploring how a simplified framework could ease the administrative and regulatory burden for startups operating in multiple countries."



Panagiotis Alexandros Sevdalis
Policy officer at the European
Commission
Belgium



EuVECA supports cross-border investment but faces adoption challenges

EuVECA Regulation (2013) facilitates cross-border SME Investment

The EuVECA regulation allows registered funds to be marketed across the EU under a single label ("passport"), encouraging investment in EU innovative SMEs.

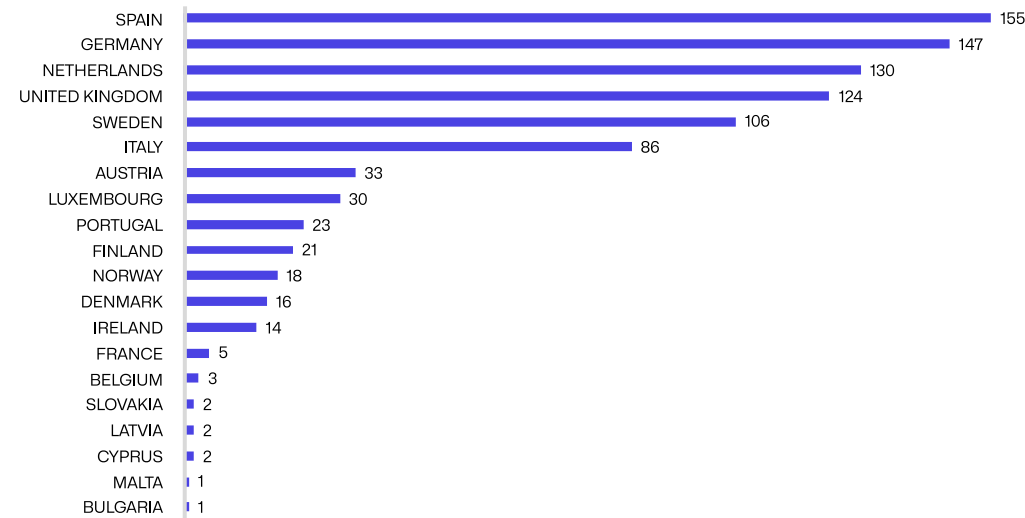
Challenges in EuVECA adoption and limited market appeal

Variations in implementation and supervision by Member States, driven by national preferences, administrative procedures, and tax regimes, may hinder the consistent adoption and operation of the funds across the EU.

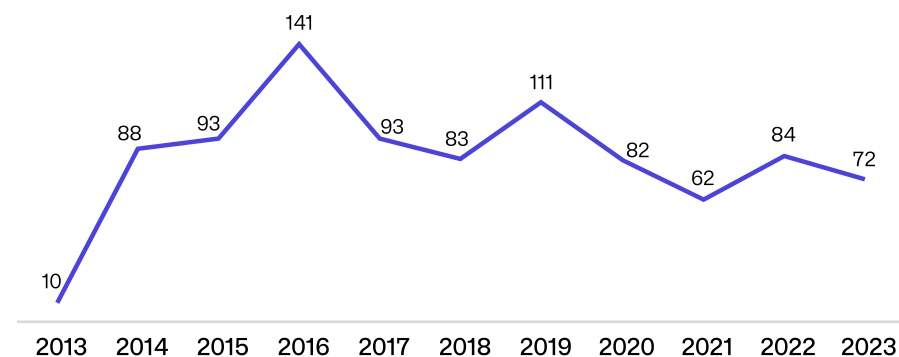
EuVECA funds are designed to channel at least 70% of capital to innovative SMEs, aligning with EU policy priorities. This targeted investment scope, while beneficial for SMEs, may limit the appeal of EuVECA funds to a broader range of investors, potentially affecting their popularity.

Since 2013, Spain, Germany, the Netherlands, and the UK (until 2020) have accounted for 60% of registered EuVECA funds, while key VC markets such as France and Belgium have seen limited development.

Number of EuVECA funds registered by country *2013-2023



Evolution of Nr of EuVECA funds registered* 2013-2023



Source: ESMA

* Member state home of the fund manager / parent organisation

CASE STUDY:

Venture Capital investment in Estonia represent 1% of GDP, leading Europe in this ratio.)

Estonia

**Digital infrastructure**

The advanced digital infrastructure, including a secure digital ID system and widespread internet access, set a powerful foundation for tech startups.

**Access to funding**

Access to EU funds and developing a supportive regulatory framework made possible to attract VC and angel investors locally and internationally.

The AIFM Directive was implemented in Estonia in 2017 through the Investment Funds Act (IFA), which introduced licensing exemptions for small fund managers with assets under EUR 100 million. Estonia has also implemented the EU directive by creating its limited partner fund structure.

This regulatory approach has attracted both local and foreign limited partners by treating them as taxpayers with no tax obligations on retained or reinvested profits. Combined with other supporting pillars, this has enabled the country to achieve extraordinary results.

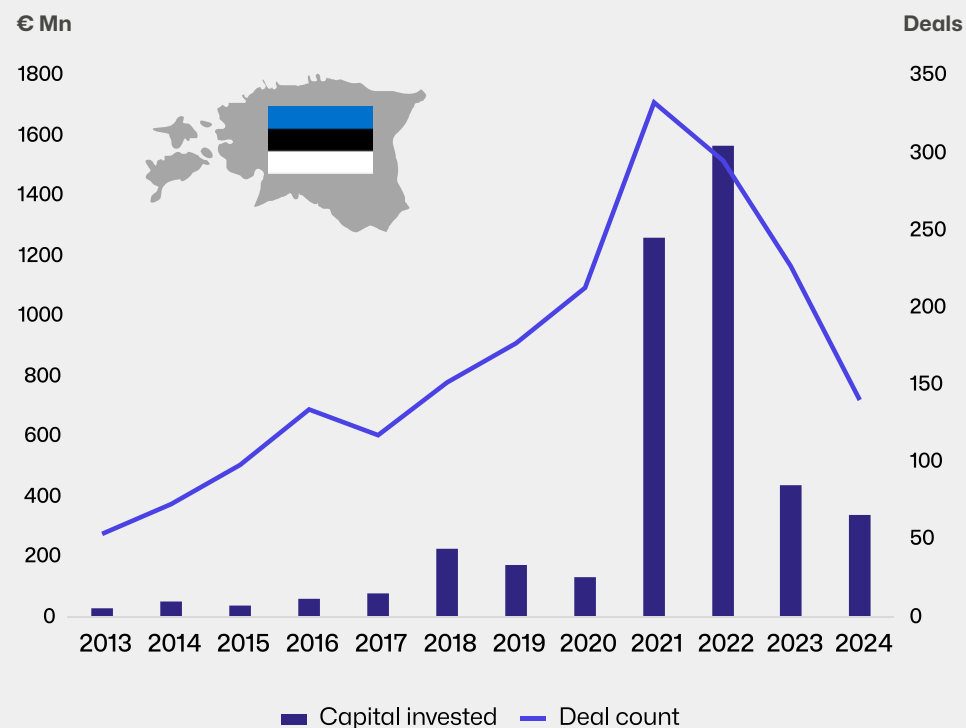
**Supportive policies**

Business favourable policies such as e-residency programs and tax incentives for startups, made easier to startup and scale companies.

**Innovation culture**

Set the foundations of innovation and entrepreneurship and fostering young talent has been a key pillar of the education system.

Estonia capital invested in VC and deal count (€ Mn and Nr of deals) 2013-2024



Source: PitchBook

3

Unlocking pension fund potential

European pension funds represent a significant, yet largely untapped, source of long-term capital for the VC market



European pension funds hold significant assets, a portion of which is invested in venture capital funds

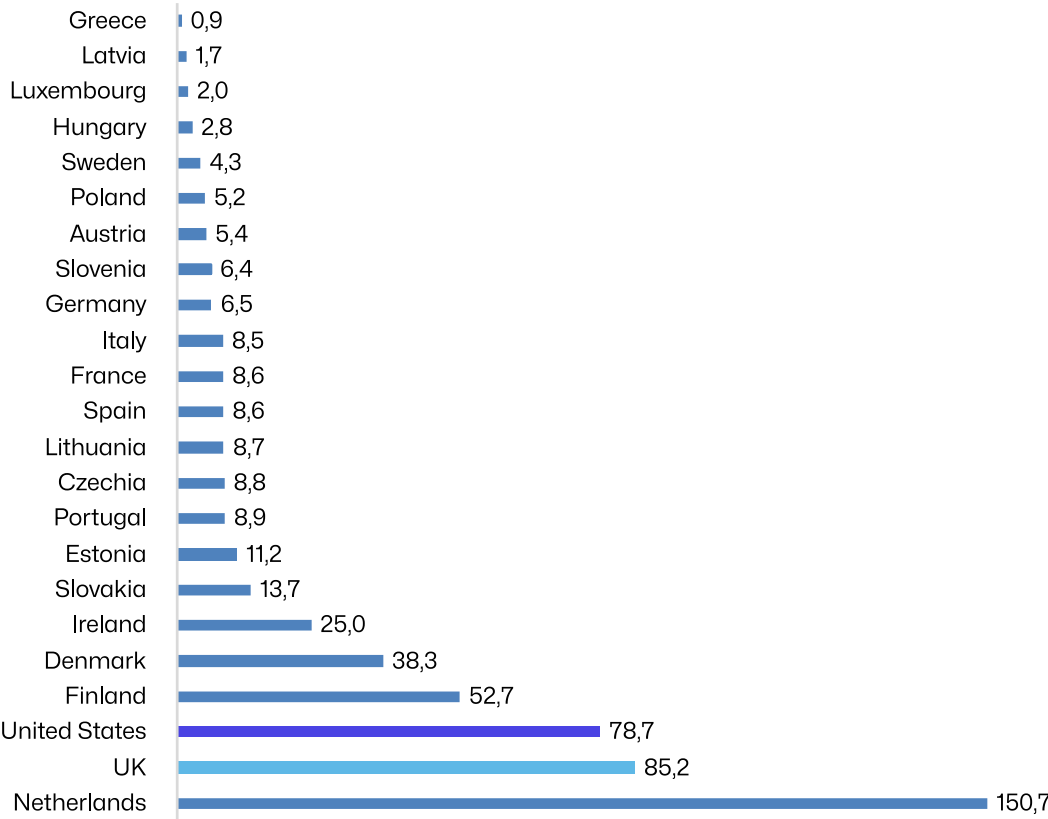
An overview of European Pension Fund investments in 2023

At the end of 2023, based on EIOPA data, European pension funds had about 2.7 trillion euros in assets, which is about a quarter of the total value of all goods and services produced in the EU.

They invest most of this money in investment funds (38%), government bonds (22%), stocks (18%), and corporate bonds (12%).

Within investment funds, the biggest investments are in stock funds (33%), debt funds (26%), real estate funds (14%), and other funds (13%). Many private equity (PE) funds, including venture capital (VC) funds, are categorized as "other funds" if they mainly invest in companies that aren't publicly traded.

Pension funds' assets - Total % of GDP (2022)



Source: OECD

CASE STUDY:

Dutch pension funds are among the largest in the world as a percentage of GDP, however they invest relatively little in VC funds compared to other European countries

Netherlands

Limited VC allocation by Dutch pension funds until 2021

The Netherlands has a first-class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity (Mercer CFA Institute Global Pension Index).

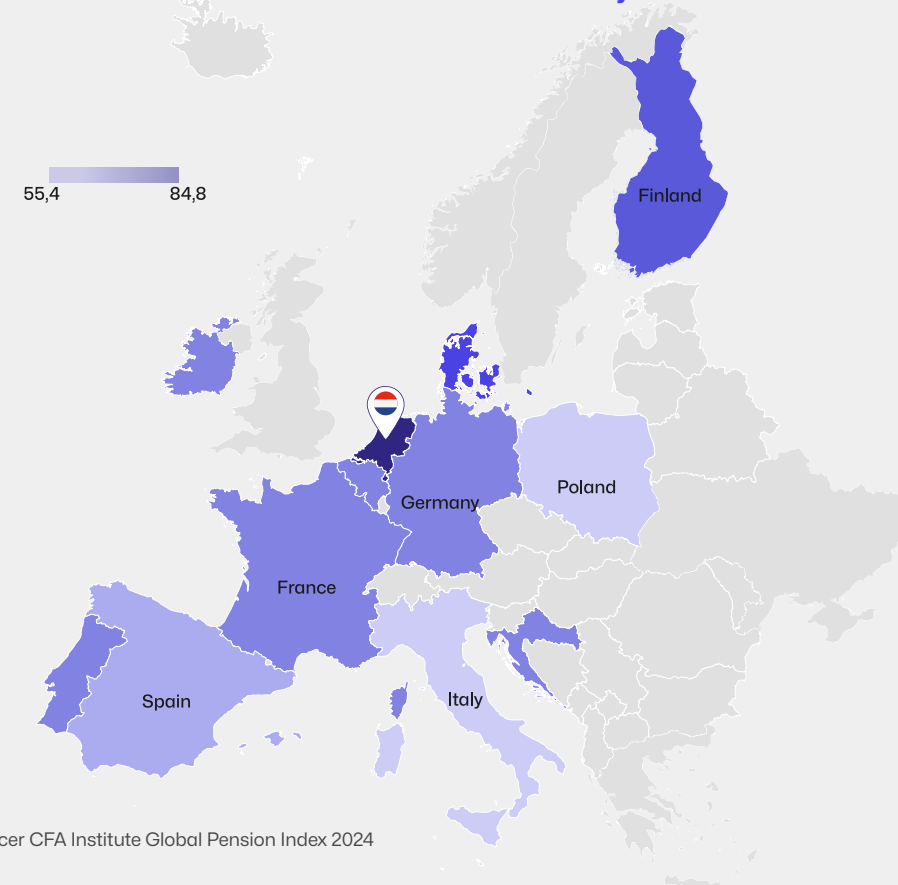
While a few Dutch pension funds have successfully dipped their toes into the VC pool, their overall allocation to VC remains minimal. From 2016 to 2021, Dutch VCs raised a mere €220 million from Dutch pension funds, accounting for only 0.012% of their total assets. By dedicating 20% of their private equity allocation to venture capital, Dutch and European pension funds could potentially mobilize an annual investment of €4 billion (techleap.nl & NVP).

A promising shift towards Venture Capital

Recently, the five largest Dutch pension funds - ABP, PFZW, PMT, BpfBouw, and PME - announced their intention to invest billions of euros in the Dutch energy transition. They aim to achieve this through government partnerships, such as the state-backed investment fund Invest-NL.

This increased engagement from pension funds in venture capital could revitalize the Dutch VC industry. Data from the NVP, released in April 2024, supports this trend, indicating growing VC activity by Dutch pension funds.

Mercer CFA Institute Global Pension Index value for each system



Source: Mercer CFA Institute Global Pension Index 2024

While European pension funds possess significant assets, their direct involvement in venture capital remains limited, particularly when compared to the substantial contributions made by US pension funds.

The limited role of European Pension Funds in VC

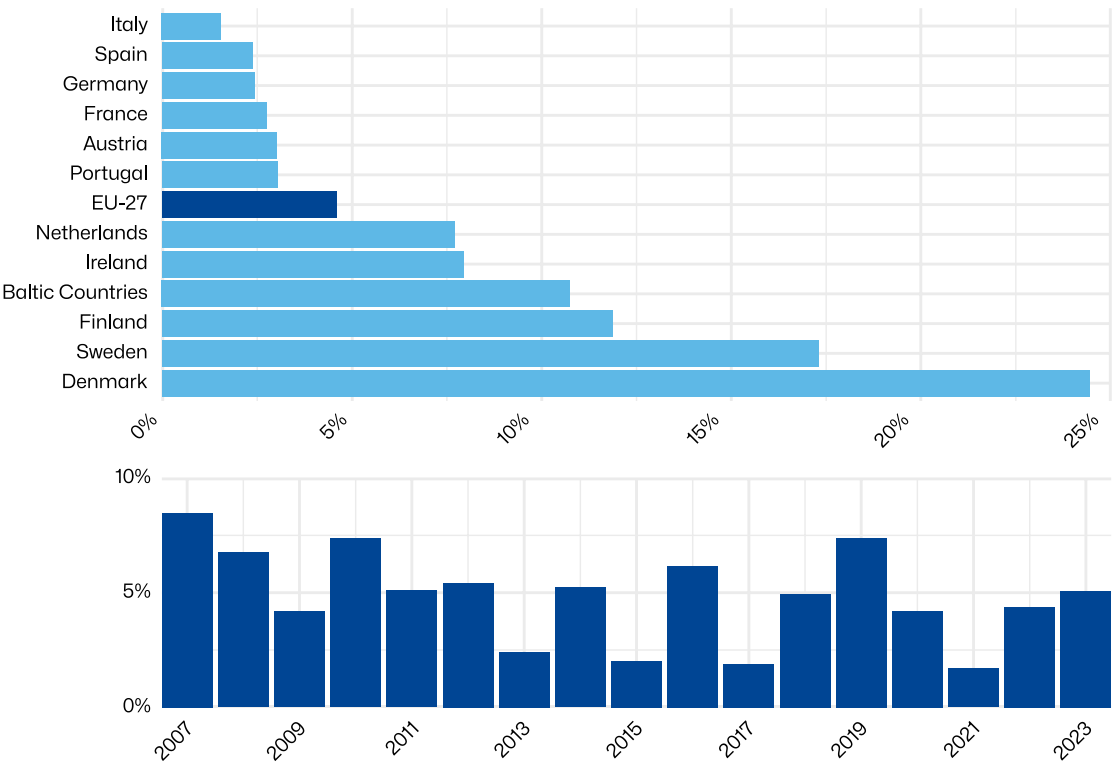
Despite their substantial assets, EU pension funds have a limited presence in the startup ecosystem. **In 2023, EU pension funds contributed a mere 5% of the capital raised by VC funds. This equates to 0.01% of their total assets, respectively.** Even in EU countries with the highest pension fund investment in VC and PE, the comparison to the US is stark, with US pension funds contributing over 50% to PE/VC investments.

Barriers to scaling pension fund investments

This gap is largely due to the enduring reliance of many EU countries on public pay-as-you-go social security systems instead of private pension funds that invest labour capital in the financial market. Besides, most European occupational pension systems are limited to national borders due to varying social benefits, labour laws, and operational complexities.

While Sweden, Denmark, and the Netherlands have more market-oriented systems, their pension funds lack the scale of US counterparts. The smaller size of EU countries and regulatory hurdles hinder cross-border investment, limiting institutional capital for VC funds compared to the US.

Pension funds' commitments on raised VC funds (average 2007-2023)*



*The figure depicts pension funds' share of raised VC funds (i.e. commitments). 'Baltic Countries' include Estonia, Latvia and Lithuania. All other EU states below 1%.

Source: Invest Europe

CASE STUDY:

Sweden holds a strong position as second when it comes to the proportion of pension funds invested in VC.

Sweden

Progressive reforms supporting VC investment

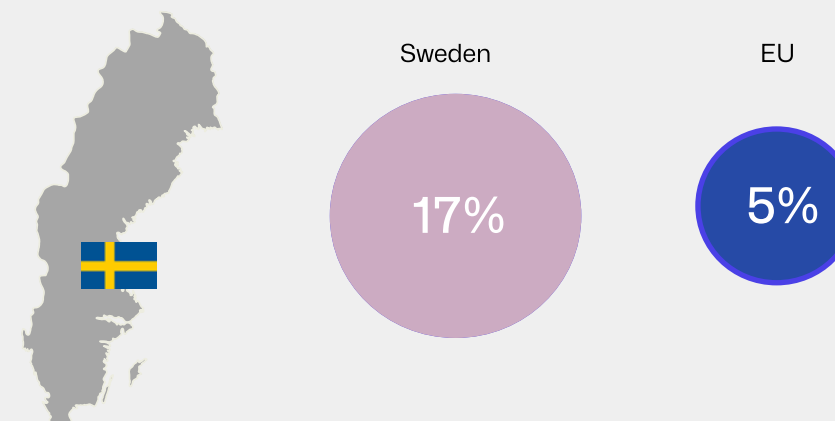
Sweden's pension funds have emerged as one of the leaders in VC investments, driven by progressive reforms and a focus on sustainability. Legislative changes in 2019 modernized the Public Pension Funds' (AP funds) mandates, enabling broader asset diversification, including illiquid investments like private equity and infrastructure. These reforms enhanced returns and ensured alignment with environmental, social, and governance (ESG) goals, reflecting Sweden's commitment to long-term, impactful growth.

The specialized AP6 fund stands out, directly investing in non-listed companies, bypassing VC intermediaries—a rare advantage among European pension systems. In 2018, a new directive expanded private pension schemes' allocation to alternatives from 5% to 40%, further accelerating investment.

A strong foundation for VC growth

This robust ecosystem has fuelled Swedish VC firms, making them competitive and well-capitalized. By integrating sustainability with innovation and offering strategic legislative support, Sweden has created an "all-year happy hour" for VCs, setting a benchmark for European pension funds in venture capital investment.

Pension funds' commitments on raised Venture Capital in Sweden (average 2007-2023)



Source: Invest Europe

"For the last six or seven years, we have seen a big shift in how the Swedish pension funds invest in VC. Since the early 1990s investments in private equity, or alternative investments as they are called, have increased; as PE has grown and become more fragmented, investments in VC have gradually grown." (Sifted)



Pär-Jörgen Pärson
Partner at Northzone,
Sweden

NORTHZONE

EU pension funds lack familiarity with VC investments

Challenges limiting EU pension funds' investments in VC

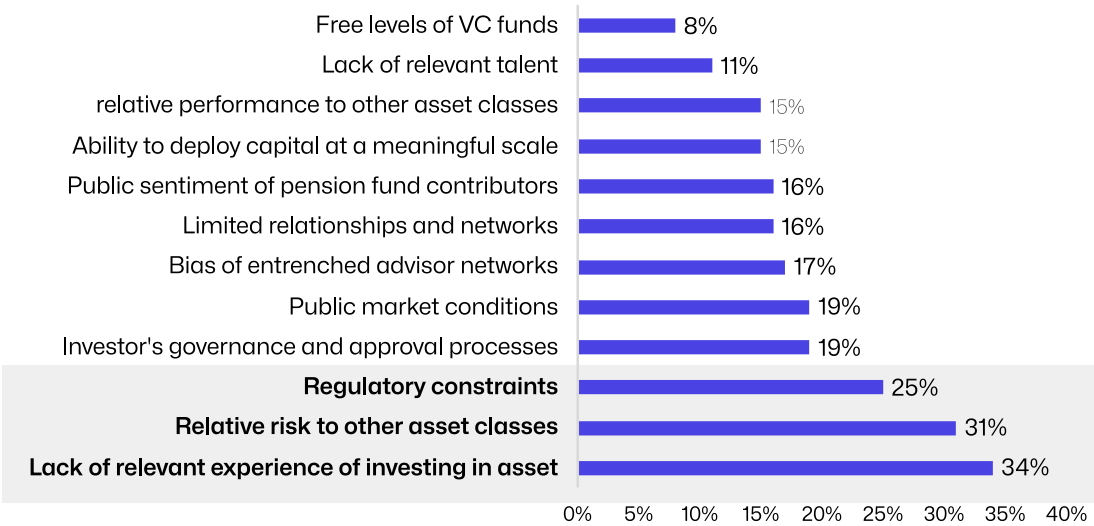
EU regulations do not explicitly prohibit pension funds from investing in VC funds. Underinvestment is in large part caused by allocation challenges and quantitative limits on how much they can invest in private investment funds.

European pension funds often prioritize fee structures and struggle with the small size of VC funds, requiring numerous small allocations. This demands significant expertise in selecting managers and overseeing complex portfolios. As a result, many European pension funds often favour US-based VC funds with proven track records and larger ticket sizes that are easier to manage.

The State of European Tech Survey 2023 confirms that pension funds' reluctance to invest in alternative assets is primarily due to a lack of experience (34%), perceived risk (31%), and regulatory constraints (25%). Other barriers include institutional hurdles, limited networks, and entrenched advisor biases.

To scale VC investments, EU pension funds should enhance their VC knowledge, improve manager selection capabilities, and explore efficient pooling mechanisms like funds-of-funds.

Reasons limiting the amount of European institutional investors to allocate funds to the Venture Capital



Source: Atomico, 2023.

Some incentive for pension funds to get higher engagement into VC could be:

- Continued engagement with fund managers and their oversight bodies, in conjunction with peers that are already investing.
- Super simple structures to invest into balanced FoF vehicles from GP with track record, to reduce admin and regulatory effort in resource constraint fund managers, this may include liquidity enhancement, secondary markets or using the FoF LP share as a collateral for a bridging loan if facing liquidity constraints.
- Support CMU action at / around IPO stage to provide exit opportunities for later Stage investors

Pär-Jörgen Pärson
Partner at Northzone, Sweden

NORTHZONE

VC investment limits for pension funds: from prohibitions to no restrictions, with investment strongly correlated to permissive regulations

Highly heterogeneous VC investment limits for pension funds across the EU: from prohibitions to no restrictions

Although there is no EU-wide directive prohibiting pension fund investments in VC, local bodies in each country do set limits, usually expressed as the maximum percentage of assets allowed in private investment funds (including VC).

The EU landscape is highly diverse: at one end of the spectrum are countries like Poland and Bulgaria, where investment is completely restricted. At the other, permissive countries like Denmark, Estonia and the Netherlands, as in the US, impose no specific limits.

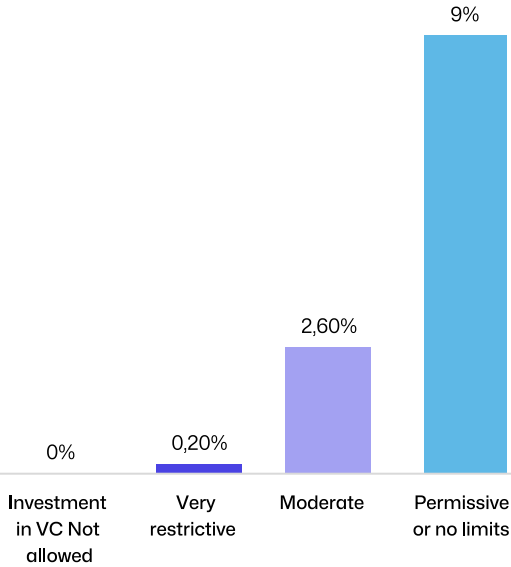
Limits can differ even within a country, depending on the type of pension fund. For instance, Portugal has five fund categories with caps ranging from 5% to 30%.

Strong correlation: VC investment in permissive countries clearly outpaces restrictive ones

If we analyse the capital sources of VC funds between 2013-2023, we see a clear correlation: the % of VC investment in permissive countries (9%) is significantly larger than in restrictive ones (0,2%).

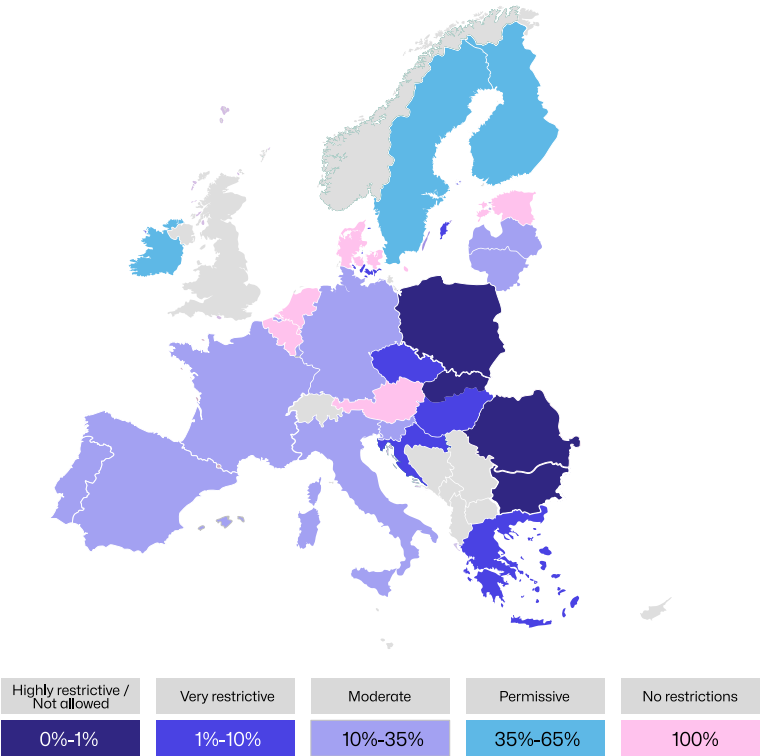
Untapped Opportunities for European Venture Capital:
Pension funds and Sovereign Wealth funds

Pension Fund Share in VC* capital (2013-2023), by level of investment restrictiveness (average 2007-2023)*



Source: based on Invest Europe data
*Strictly Venture Capital, does not include other Private Equity categories

EU countries - caps imposed to pension funds investment in VC as a % of their assets*



Source: based on OECD, Annual Survey of Investment Regulation of Pension Providers, 2024 edition.

Pension funds are increasingly turning to alternative investments like PE and VC, though regulatory hurdles and prudent investment practices often constrain their options

Regulatory limits on EU pension fund investments in alternatives

While EU regulations allow investment in alternatives, [prudential rules](#) often limit these to fixed-income assets. Member States can impose further restrictions, but these must be justified on prudential grounds. As long-term investors, pension funds can invest in non-liquid assets like shares and other long-term instruments within prudent limits. However, [Institutions for Occupational Retirement Provision](#) (IORPs II) Directive requires a significant portion to be invested on regulated markets.

Cross-border investments by EU pension funds face barriers like Poland's requirement for its Demographic Reserve Fund to invest 100% in Polish securities, despite the IORP II Directive aiming to facilitate cross-border pension fund activity.

US pension funds: a diversified approach driving VC growth

The "prudent man" principle, coupled with regulatory changes like [Employee Retirement Income Security Act](#) (ERISA) adjustments and reduced capital gains taxes, has empowered US pension funds to diversify their portfolios, including into venture capital. This shift, particularly accelerated by a 1979 reform, has fostered a robust **risk-taking culture within the US pension system**.

As a result, VC investment from US pension funds skyrocketed from 15% to over 50% of total assets in just 8 years. To manage these complex investments, pension funds often **outsourced to specialized asset managers**. In contrast, EU pension funds remain more risk-averse, investing a mere 0.018% of their assets in VC, compared to 1.9% in the US. This significant gap hinders the funding of European innovation.

Cross-border investment limits - sample of relevant pension schemes

Reserve funds*	Cross-border investment limits
Sweden (AP1-4)	The currency risk is limited by regulations to a maximum of 40% of the investment assets and for AP6 to 10%.
Finland (TEL)	Maximum 10% outside the EEA. Maximum 20% currency risk exposure.
Portugal (FEFSS)	25% must be invested in Portuguese government debt. Maximum 15% currency risk exposure. Only investment within OECD area.
Spain (Social Security Reserve Fund)	Total value of foreign debt in the portfolio does not exceed 55% of the total nominal value of the portfolio.
Belgium (Ageing Population Fund)	100% must be invested in Belgian government bonds
Poland (Demographic Reserve Fund)	100% must be invested in Polish securities

Statutory private pension schemes	Cross-border investment limits
Estonia (Mandatory Pension Funds)	Maximum 30% in non-EU and non-OECD countries
Latvia (State-funded Pension Schemes)	30% currency exposure limit (euro is additional matching currency since 2005). Government bonds must be issued by EEA or OECD states. Equities and corporate bonds must be listed on an exchange in the EEA or OECD
Slovakia (Old Age Pension Savings)	30% of portfolio must be invested in Slovakia. Initially a 50% limit was approved, but it was reduced in 2004.
Bulgaria (Universal Pension Funds, Professional Pension Funds)	Maximum 20% in assets denominated in currencies other than Bulgarian lev or euros. Until 2006, foreign investment restricted to 10% and requirement to hold 50% in domestic government bonds
Poland (OPFs)	Maximum 5% in foreign assets

* Given the unpredictable nature of expenses, reserve funds are typically kept in highly liquid accounts, such as savings accounts. In pension funds, reserve funds play a critical role. Working employees contribute to a reserve fund, which is then invested to secure future payouts during retirement.

Source: Oxera, Pension Funds Online, ETK

North America spearheading the move into alternative assets, while European pension funds primarily focus on sustainability and regulatory compliance

North American pension funds: driving growth through alternatives

Major players like the California Public Employees’ Retirement System (CalPERS) and the Canada Pension Plan Investment Board (CPP Investments) are increasing their allocations to alternative assets like private equity, infrastructure, and real estate to enhance returns and diversify risk. By 2023, US pension funds have been particularly aggressive, with 40% of their assets now invested in alternatives.

European pension funds: sustainability and cautious diversification

European pension funds are generally more conservative compared to their North American counterparts, although some countries, like the UK and the Netherlands, are leading in integrating VC into their portfolios.

Sustainability is a growing focus for European pension funds. Nearly two-thirds allocate over 10% of their portfolios to sustainable investments, driven by regulatory requirements like the Sustainable Finance Disclosure Regulation (SFDR), and a desire to balance financial returns with environmental and social impact.

Pension fund assets under management with highest investments, 2022

Country	Name of the fund or institutions	Total Investments in 2022 (USD bn)
Large pension funds (LPFs)		
Netherlands	Stichting Pensioenfond ABP	524.6
United States	CalSTRS	302.1
Netherlands	PFZW	232.1
South Africa	GEPF	135.0
Hong Kong	MPFA	134.6
United Kingdom	USS	109.6
Public pension reserve funds (PPRFs)		
United States	Social Security Trust Fund	2,829.9
Japan	Government Pension Investment Fund	1,489.8
Norway	Government Pension Fund - Global	1,351.9
Canada	Canada Pension Plan Investment Board	393.9
Australia	Future Fund	132.9

Source: OECD report on long-term investing of large pension funds and public pension reserve funds 2023

Fragmentation in the regulation regarding pension funds involvement in risk investments in the EU plays a key role in explaining the differences between the EU, US and UK

Between 2015 and 2023, the average involvement of pension funds as LP in VC Funds in the EU has been 8.1%, while in the US reached 33.1% and 19.3% in the UK

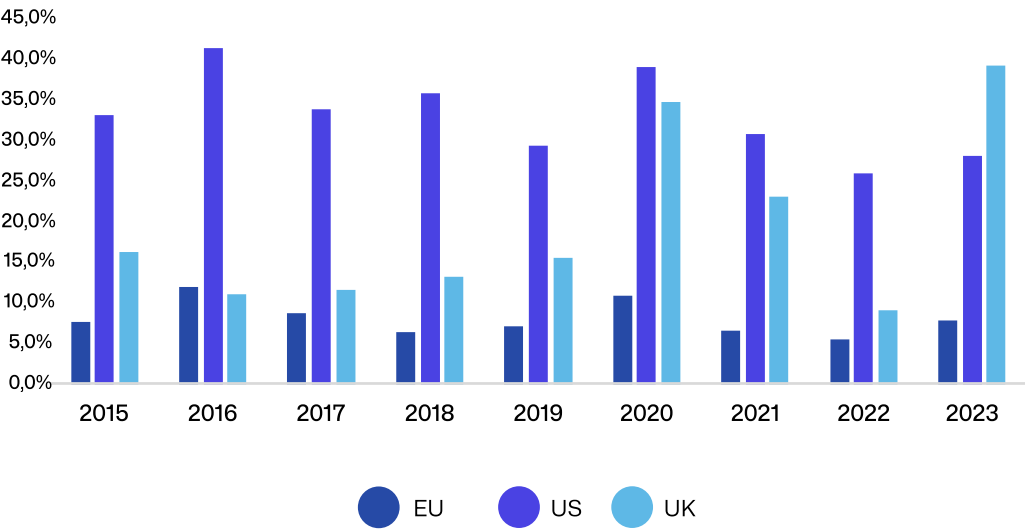
Country / region	Type of pension fund	Allowed quota in private equity funds
United States	Private pension plans, State and local government employee retirement funds, Federal government retirement funds	100% direct
UK	Occupational pension plans	100% direct
EU	Mandatory / voluntary pension funds, Occupational pension funds, State-funded systems, Personal pension schemes.	0% to 100% depending on country / pension fund type

Within the EU, there are 60 different regulations, depending on the country and the type of pension fund, that determine the extent of their exposure to private equity funds.

This heterogeneity and fragmentation impact the participation of pension funds in VC funds within the EU, limiting the growth potential of the European VC industry.

Source: OECD, Annual Survey of Investment Regulation of Pension Providers, 2024 edition

Pension Funds participation on VC as Limited Partner (%), EU vs US vs UK



Source: PitchBook

Common and connected liquidity pools are crucial for incentivising pension fund participation in the EU's VC industry. By aggregating investments across borders, they mitigate single-market risks and provide access to diversified opportunities, which is vital for risk-averse institutional investors like pension funds.

Apostolos Thomadakis
Head of Research in ECMI
Belgium

ECMI
EUROPEAN
CAPITAL
MARKETS
INSTITUTE

Policy Changes and Initiatives Driving Pension Fund Investment in Europe

National initiatives to mobilise pension fund investments in VC

A number of **UK's** leading and European venture firms signed the Venture Capital Investment Compact, pledging to collaborate with pension funds and insurers to allocate more capital to VC and stimulate economic growth.

The **German** Finance Ministry has proposed a second Future Financing Act (ZuFinG II) to allow investment funds and Spezialfonds – opened only to qualified investors, including pension funds – to invest in venture capital funds to a “fundamentally unlimited extent”.

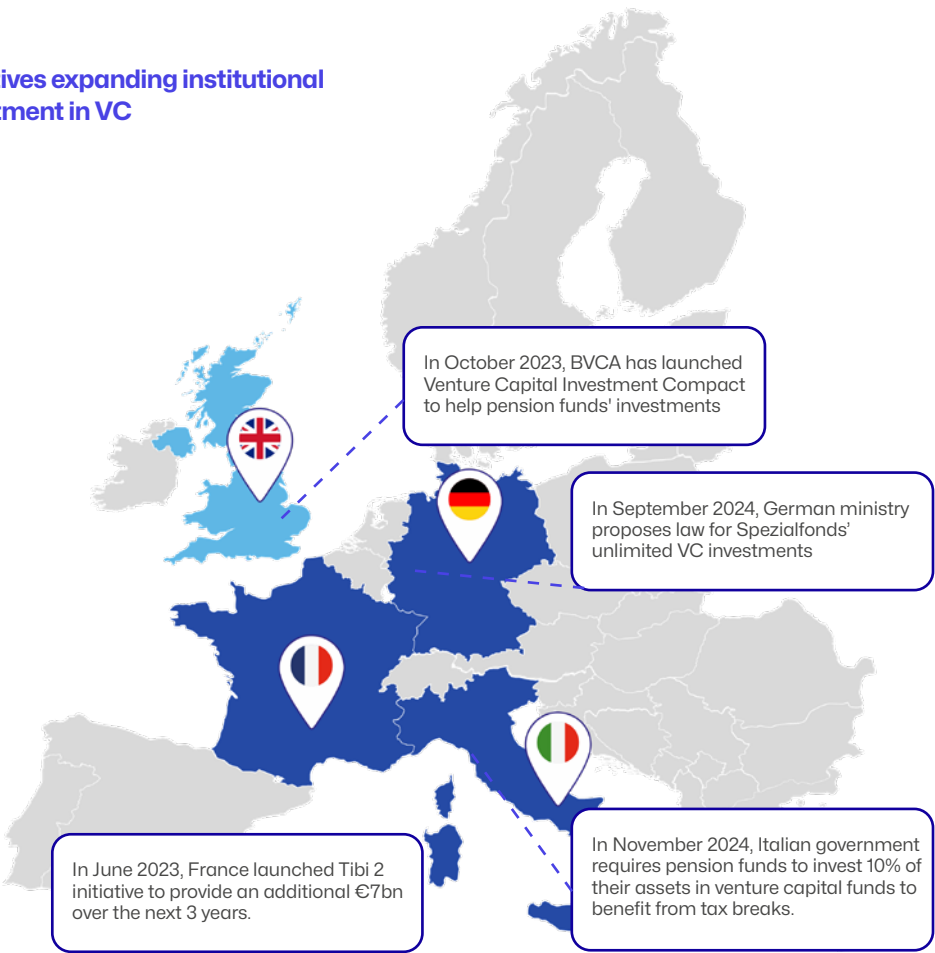
France has launched Tibi 2, a new initiative aiming to attract €7 billion of institutional capital to early-stage, deep tech, and cleantech investments. Under this scheme, the Government asked institutional investors to pledge a portion of their capital to be invested in French venture capital and buyout funds (both listed and unlisted).

Pension funds in **Italy** are being urged to invest more in the country's innovation ecosystem. A recent amendment to the Decreto Concorrenza requires funds to invest 10% of their assets in the real economy, including productive companies, infrastructure and, above all, venture capital funds investing in tech start-ups - to benefit from a capital gains tax exemption.

ESNA as a mobilizer of Member State action and best practices sharing
ESNA substandards 6.2 Indirect access to finance and 6.3 Tax relief measures highlight the importance of mobilising private investment in startups and tax measures that incentivize investors. ESNA must reinforce its remarkable action as a dynamizer of action by sharing best practices in this fields in the EU.

Source: OECD, Annual Survey of Investment Regulation of Pension Providers, 2024 edition

Initiatives expanding institutional investment in VC



Source: PitchBook

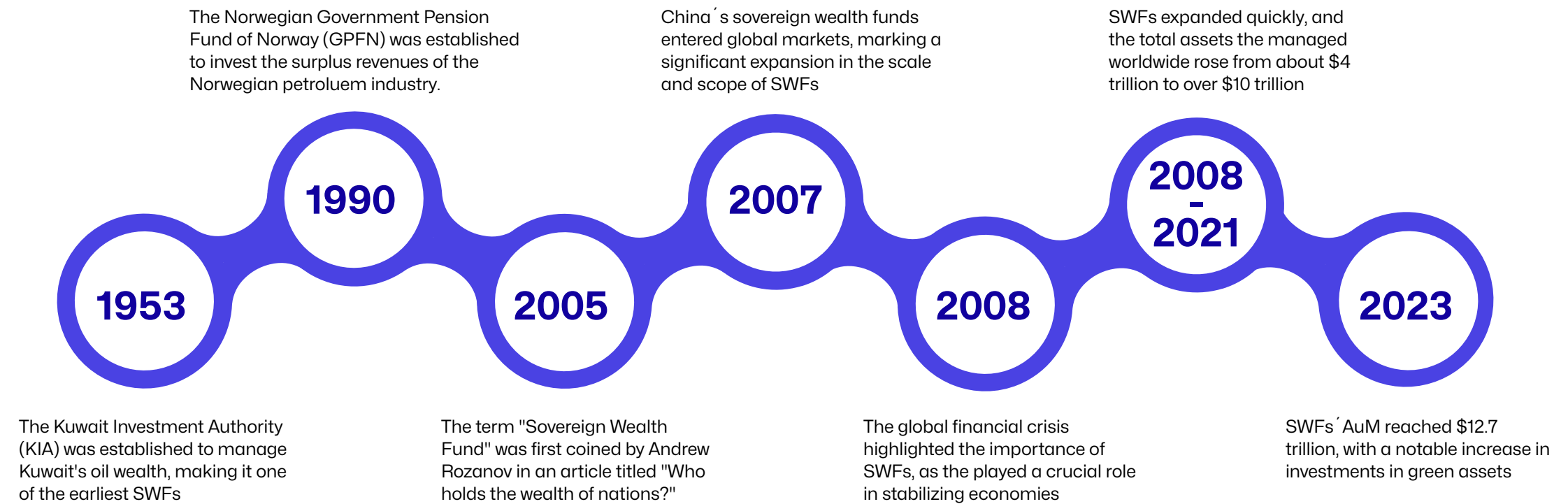
4

Sovereign Wealth funds as an opportunity

Sovereign Wealth Funds (SWFs) resources are an upcoming opportunity for funding for European VC



SWFs are not a new development



"Modern sovereign wealth funds are not new. The first, the Kuwait Investment Office, was set up in 1953 just as Edmund Hillary and Tenzing Norgay were setting out to climb Mount Everest. The number of funds has been increasing since then like the traffic on the slopes of Everest"



John Gieve, former deputy Governor of Bank of England in a speech in London, 2008.

The expanding role and evolving priorities of Sovereign wealth funds

Sovereign wealth funds: growing global influence

Sovereign Wealth Funds (SWFs) are state-owned investment vehicles funded by government reserves, typically accumulated from budget surpluses. These reserves are strategically invested in diverse assets, including stocks, bonds, real estate, and alternative investments.

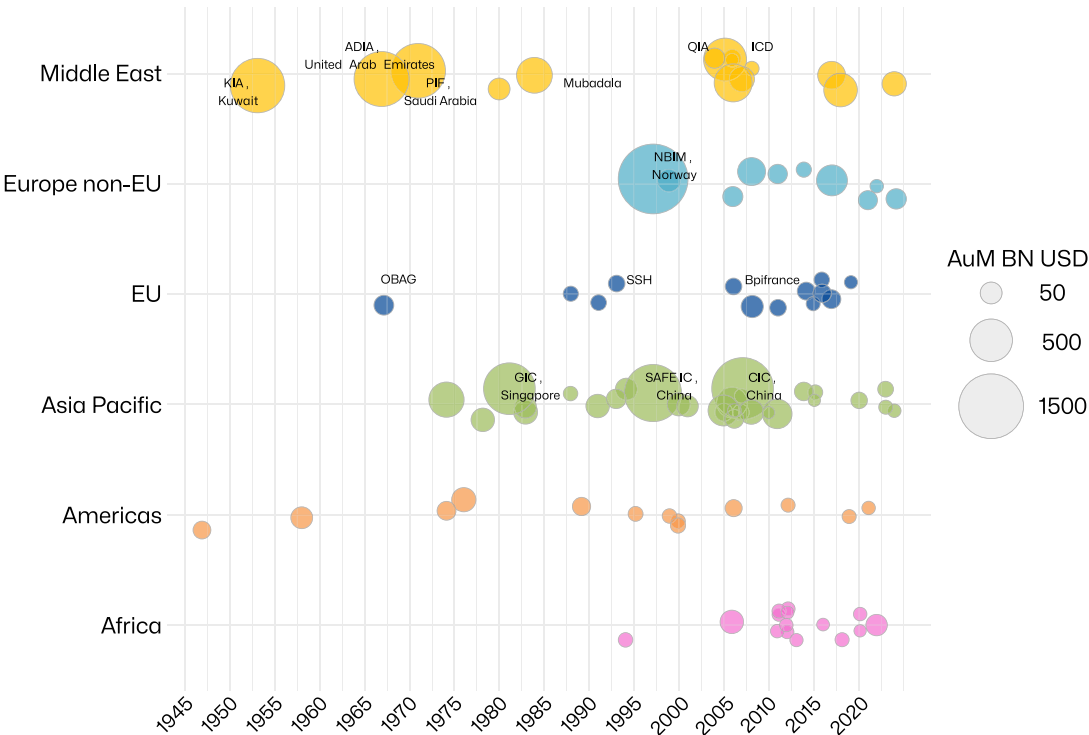
Over the past decade, SWF assets under management have grown substantially, reaching over twelve trillion USD as of 2023 according to the SWF Institute. The emergence of SWFs is considered one of the most significant shifts in the global financial ecosystems in recent times.¹ This growth has been driven by strong market performance as well as new capital inflows, particularly from emerging and middle-income economies.

Sustainability: a rising priority for SWFs

There is also a notable trend among SWFs towards incorporating environmental, social, and governance (ESG) criteria into their investment decisions. SWFs are increasingly prioritizing sustainable investments, such as those in green technologies and renewable energy projects, reflecting the global shift towards greater focus on sustainability.

¹ Megginson, W. L., Malik, A. I., & Zhou, X. Y. (2023). Sovereign wealth funds in the post-pandemic era. Journal of International Business Policy, 6(3), 253-275.

Sovereign wealth funds by year of establishment and AuM in 2024



Source: SWF Institute, two US-based SWFs were already established in the 19th century

The global scale and regional concentration of Sovereign wealth funds

The scale of sovereign wealth funds in 2023

As of 2023, Sovereign Wealth Funds (SWFs) collectively manage assets valued at approximately \$12.7 trillion. The most prominent SWFs by assets under management include Norway's Government Pension Fund Global (\$1.34T), China Investment Corporation (\$1.22T), Abu Dhabi Investment Authority (\$708.75B), and Singapore's GIC (\$690B).

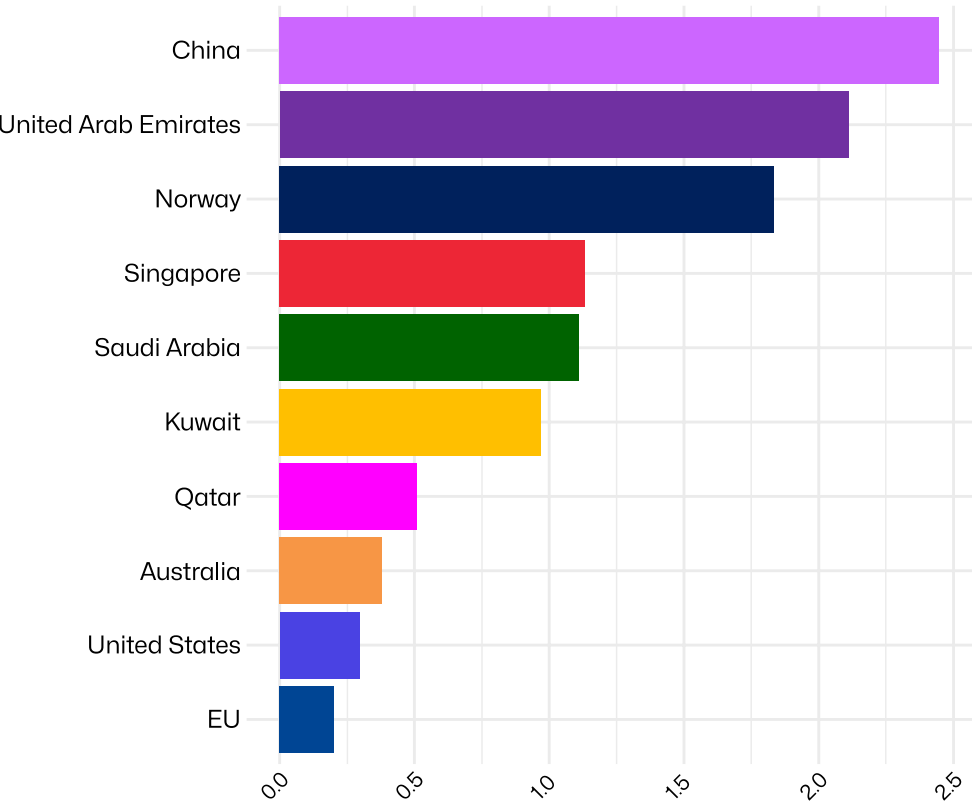
SWF growth concentrated outside the EU

Between 2010 and 2022, 73 new sovereign wealth funds were established worldwide. Most SWFs are funded either through national trade surplus, or through the sale of natural resources¹. However, no country within the EU matches the scale of those in Asia, the Middle East, or other parts of Europe like Norway and the UK.

The Asia, Middle East, and North Africa regions hold the largest SWF assets globally. China and the UAE manage trillions in SWF holdings, while with Norway only one European nation ranks among the top ten SWFs by AUM.

¹ Baker, H. K. (2024). Sovereign Wealth Funds: An Overview. The Palgrave Handbook of Sovereign Wealth Funds, 3-18.

Sovereign wealth funds AuM by country in 2024 in trillion USD



Source: Omnipresent, global employment cost calculator

SWFs invest more in VC funds globally but less in EU

SWFs in venture capital: an untapped opportunity for Europe

The commitments of sovereign wealth funds (SWFs) in venture capital has grown substantially over the past decade, yet EU-based VC funds have struggled to attract these deep-pocketed investors compared to their US competitors.

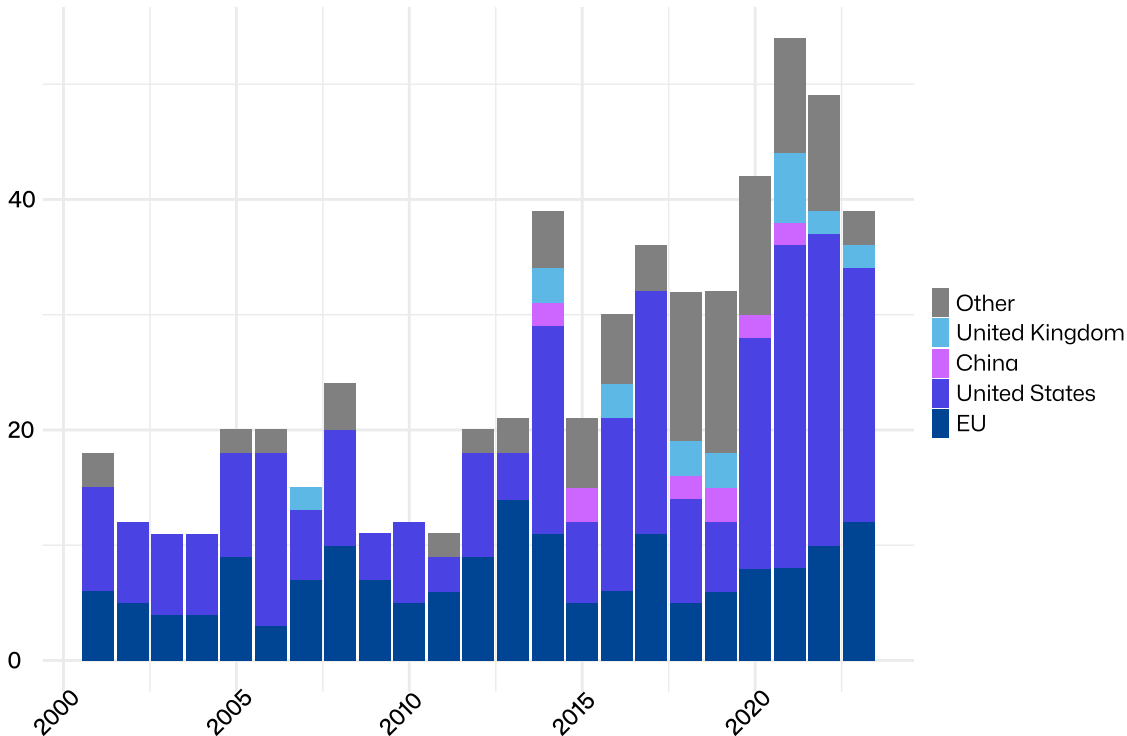
While SWF commitments to EU venture funds have remained relatively stable, US-based funds have seen substantial growth in SWF allocations, particularly since 2015.

Balancing SWF capital with EU strategic interests

Attracting more SWF capital could serve a dual purpose: strengthening the EU's venture capital ecosystem while also deepening strategic economic ties with key global partners.

However, this opportunity must be balanced against the need to maintain European strategic autonomy and technological sovereignty. A well-calibrated approach to SWF investments could help European VCs compete more effectively with US funds while ensuring alignment with EU strategic interests.

Number of commitments of SWFs in VC funds by fund HQ



As geopolitical tensions continue to rise, SWFs are likely to become even more selective in their technology investments, prioritizing deals that offer strategic value and align with national interests.



Sovereign Wealth Funds 2024: Resilience and Growth in a New Global Landscape
IE (Instituto de Empresa) University – Center for the Governance of Change

SWFs participation in EU VC investment and evolution

SWFs as key investors in European venture capital

Poland, Sweden, and France have already been successful in attracting SWFs as LPs in recent years. Notably, overall SWF participation in EU VC funds has tripled between 2019 and 2023. However, in 2023, SWFs still contributed a mere 1% of the capital raised by VC funds.

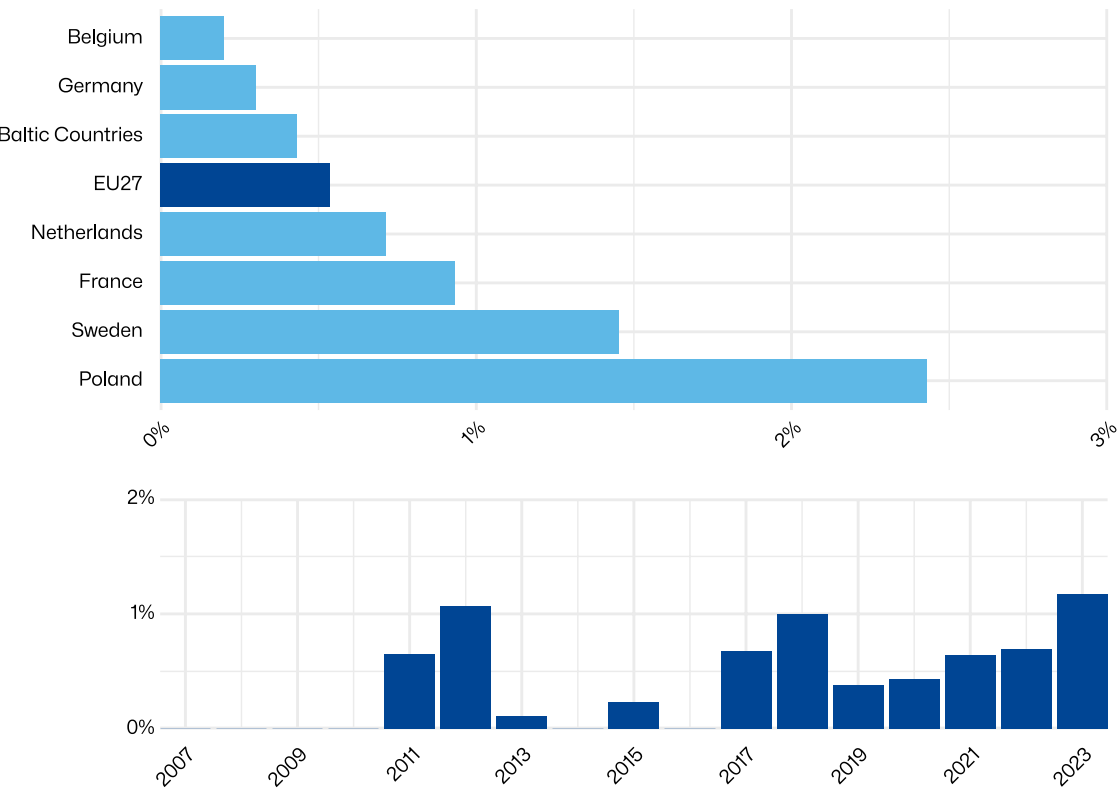
This suggests that SWFs see value in backing innovative European startups and scale-ups, but European VC needs to grow more attractive.

Strengthening the EU VC ecosystem through SWFs

Maintaining and building upon this trend could be an important lever for strengthening the competitiveness of the EU's venture capital ecosystem.

Policymakers should explore ways to further incentivize and channel SWF capital towards high-potential European companies.

SWFs' commitments on raised VC in per cent of total fundraising (average 2007-2023)*



*The figure depicts SWFs' share of raised VC funds (i.e. commitments). 'Baltic Countries' include Estonia, Latvia and Lithuania. During years without values, no commitment were made.

Source: InvestEurope

CASE STUDY:
EU VC funds need to be attractive for external SWPs

Singapore

GIC and Temasek: key contributors to the global SWF ecosystem

The republic of Singapore operates two Sovereign wealth funds, GIC and Temasek Holdings. Both are among the ten largest SWFs in the world.

GIC, founded in 1981, manages over \$847 billion in assets with a focus on long-term, risk-adjusted returns. It has investments spanning public and private markets worldwide.

Temasek, established in 1974, oversees a \$287 billion portfolio centred on Asia, with a mix of listed and unlisted assets. It has played a key role in nurturing Singapore's strategic industries.

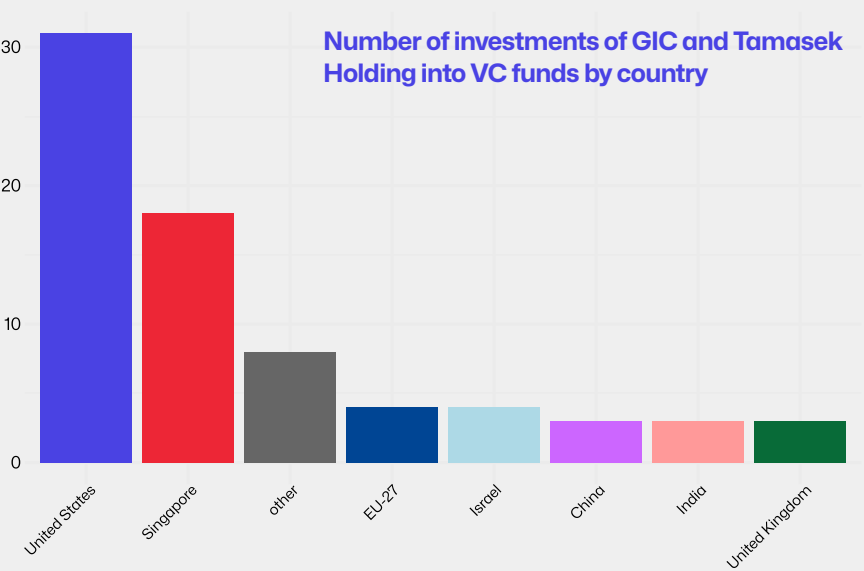
Both funds have a strategic mandate to invest in innovations and disruptive sectors, while also contributing to the city-state's economic development. They have previously invested directly in companies like Airbnb and Uber, as well as in venture capital funds in Singapore and abroad.

Source: PitchBook

Limited engagement with EU VC

Singapore's SWFs have made a significantly number of investments into venture capital funds outside of Singapore.

These investments are located predominantly in the US, but only rarely in the EU. Incentivizing greater participation from institutional investors from outside the EU could help unlock additional funding for European startups and scale-ups.



5

Recommendations

Key findings and recommendations to unlock
the potential of pension funds and SWFs in EU
Venture Capital



Key findings

EU venture capital industry has grown significantly in recent years, but there is much room for improvement. There are relevant opportunities and challenges that need to be addressed both at national and EU level. Increase the scale of EU VC industry, create the proper regulatory context and dynamize private engagement in VC industry are three paramount aspects for the future competitiveness of the EU in an increasing and uncertain environment.

The future of EU competitiveness depends on its ability to nurture new champions aimed to compete globally and increase productivity and, in the end, drive employment and value creation. The goal is to improve people's life by addressing global challenges but in our own way, respecting our own values.

Taking this as the spirit of this report, it is possible to highlight three key findings that the recommendations ahead will try to address:



Finding 1

Moving forward with financial and market integration, creating shared liquidity pools and delivery of a common regulatory framework will help to address the lack of depth and size of European financial markets allowing companies to grow.



Finding 2

With strategic diversification, experienced management, and regulatory adjustments, pension funds could play a key role in strengthening Europe's capital market for startups and scale-ups.



Finding 3

Through streamlined investment frameworks, coordinated engagement strategies, and pan-European access vehicles, sovereign wealth funds could become a transformative force in scaling Europe's venture capital ecosystem.

Finding 1:

Moving forward with financial and market integration, creating shared liquidity pools and delivery of a common regulatory framework will help to address the lack of depth and size of European financial markets allowing companies to grow.



VC industry in EU suffers not only from the fragmentation of financial markets, national level implementation of EU directives and different national regulations, but also from the lack of harmonization on fiscal policy, hurting the ability to grow and scale businesses.

Moving forward with EU's financial integration, the implementation of a common fiscal policy or at least a harmonized regulatory framework for taxation on investments would have a relevant impact on scaling the VC industry along with the creation of an incentives architecture oriented to foster the participation of investors in VC funds. In this sense, the announcement by the European Commission of the Savings and Investment Union is a movement towards a real single market and increasing the integration of capital markets.

Key actions

1. Integration of EU equity markets
2. Complement financial integration with further harmonisation of tax systems, corporate governance rules
3. Creation of a Pan - European secondary market
4. European Investment Fund (EIF) should create a new instrument to address VC scale
5. Reinforce the EIF and EIB "patient money" approach
6. Financial literacy programs

Key actions**1. Integration of EU equity markets**

European Commission and National Governments should work to put in place a regulatory framework to harmonise the rules and standards of the EU's equity markets, by creating a common supervisory body and also working to integrate different stock markets across the EU. A less fragmented stock market could, thanks to the increased scale, help improve visibility and attractiveness to investors.

2. Complement financial integration with further harmonisation of tax systems, corporate governance rules

European Commission should work along with National Governments to promote coordination or convergence on tax regimes and corporate governance rules oriented towards fostering investments. Tax systems and corporate governance rules remain mainly under national responsibility, contributing to the fragmentation of financial markets.

3. Creation of a Pan - European secondary market

European Commission should facilitate the development of a secondary market for startup equity so the liquidity of these investments could be increased, creating more incentives for institutional investors to get involved in VC funds.

4. European Investment Fund (EIF) should create a new instrument to address VC scale

EIF should work on the design of a Fund of Funds aimed to limited partners and specifically designed to invest in transnational large VC funds (over 500 millions of euros). This would not only help to work on scale, but also to improve integration among the different countries and cross-border investment flows. It is not excluded that the 'Scaleup Europe Fund' could be the vehicle to deliver this recommendation.

5. Reinforce the EIF and EIB "patient money" approach

Opposed to the short-term vision from private sector, EIF and EIB should strengthen their strategy on long-term investment as a way to de-risk private investment by guaranteeing and covering technology, adoption and regulatory risk.

6. Financial literacy programs

National governments should develop programs to increase the financial literacy of its citizens, helping them to understand that a mixed personal investment portfolio that includes some high-risk high return investments can be appropriate. This would help to balance the fact that Europeans invest a bigger share of their savings in low-risk instruments than US or Chinese citizens do.

Finding 2:

With strategic diversification, experienced management, and regulatory adjustments, pension funds could play a key role in strengthening Europe's capital market for startups and scale-ups.



While EU pension funds are well-suited to venture capital, their broader participation is limited due to their long-term liabilities, regulatory hurdles, lack of expertise in VC investments and risk aversion.

Bringing European pension fund allocation up to 10% would increase investment into the economy, and thus asset exposure into European companies. To unlock this potential, policymakers should consider regulatory reforms and encourage increased expertise in direct startup investments.

Key actions

1. Enhance Regulatory Support and Reduce Investment Restrictions
2. Public-Private Partnerships to Mitigate Risk
3. Develop Expertise and Strengthen Management in Pension Fund VC Portfolios
4. Promote Diversified Allocation Strategies
5. Encourage Local and Regional Investment Initiatives

Key actions**1. Enhance Regulatory Support and Reduce Investment Restrictions**

EU policymakers should amend regulations to reduce cross-border investment restrictions and create incentives for pension funds to invest in venture capital. This includes revisiting geographical limitations that currently restrict pension funds from diversifying across the EU.

National governments and EU financial regulatory bodies (e.g., ESMA) should consider regulatory adjustments to encourage a more fluid capital movement across Member States. For example, Poland has a number of restrictions not only on asset allocation shares, but also fees charged by alternative investment funds that effectively discourage investing in VC.

2. Public-Private Partnerships to Mitigate Risk

Governments should initiate public-private partnerships that offer partial guarantees or shared-risk models to pension funds investing in startups and scale-ups. This support would reduce the perceived risk for pension funds and encourage broader investment.

3. Develop Expertise and Strengthen Management in Pension Fund VC Portfolios

Pension funds should engage or partner with VC firms and experienced fund managers to handle the complexities of VC investments, ensuring professionally managed, long-term venture portfolios. Additionally, hiring internal expertise or creating joint venture initiatives with established VC firms will help pension funds optimize their VC strategies.

4. Promote Diversified Allocation Strategies

Pension funds should diversify their VC investments across different stages of venture capital (seed, early-stage, growth, and later-stage) and alternative private equity assets. This diversification would help mitigate risks associated with specific stages of startup growth and better align with the long-term liabilities of pension funds.

5. Encourage Local and Regional Investment Initiatives

Pension funds should adopt “best effort” policies to prioritize local or regional investment, following models such as the Massachusetts Technology Development Corporation (MTDC), now known as MassVentures, which shows how regionally focused VC can yield strong returns and local economic benefits. EU countries could establish similar programs to foster a robust VC ecosystem within the EU.

Finding 3:

Through streamlined investment frameworks, coordinated engagement strategies, and pan-European access vehicles, sovereign wealth funds could become a transformative force in scaling Europe's venture capital ecosystem.



Over the recent years, the assets of global SWFs have increased substantially, as has their willingness to invest in VC as an asset class. EU-based VC funds have the opportunity to capture a larger share of this capital by leveraging the strengths of European ecosystems.

Increasing the share of European VC assets in SWF portfolios to match their growing global VC allocations would inject substantial capital into Europe's innovation ecosystem. To capture this opportunity, policymakers should streamline investment frameworks, establish coordinated engagement channels, and develop targeted fund structures that make European VC more accessible and attractive to SWFs.

Key actions

1. **Advertise the strengths of European Ecosystems specifically to global SWFs**
2. **Coordinate strategic bilateral cooperations**
3. **Create a "Pan-European Scaling Fund of Funds"**
4. **Harmonize standards**

Key actions**1. Advertise the strengths of European Ecosystems specifically to global SWFs**

European Commission and National Governments should launch a coordinated "European Innovation Investment" campaign targeting SWFs, showcasing the EU's strengths and leadership in trustworthy AI, ESG, deep tech, and sustainable innovation. This should include high-level investment roadshows and dedicated matchmaking events between European VCs and SWFs. The low number of global SWFs brings the advantage that a relevant share can be reached through direct communication.

2. Coordinate strategic bilateral cooperations

National governments should develop strategic bilateral investment frameworks through a multi-level governance approach: coordinate national investment promotion agencies, regional development bodies, and EU institutions to create streamlined access points for SWFs. These frameworks should include clear protocols for deal flow sharing and investment facilitation.

3. Create a "Pan-European Mega Round Fund"

Building on top of the recently announced Scaleup Europe Fund, the Commission should ensure that within that initiative there is a vehicle oriented to satisfy the needs of EU companies in search of mega rounds. This report has shown that the EU has almost a total absence of funds for rounds over €5 billion and only 11 funds for rounds ranging between 1 and 5 billion euros. This special vehicle within the Scaleup Europe Fund should aim to address this situation that creates difficulties to companies seeking to scale.

4. Harmonize standards

European Commission and National Governments should create harmonized co-investment frameworks at the EU level with standardized governance structures, reporting requirements, and investor rights to reduce complexity for SWFs investing across multiple European jurisdictions.



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A1

Annex

Recommendations cross analysis

Recommendations Vs Draghi report and other selected sources

PROPOSED vACTIONS	DRAGHI REPORT / OTHER REPORTS OR ORGANISATIONS
1 Integration of EU equity markets	Draghi, ESMA, ESNA, Letta
2 Complement financial integration with further harmonisation of tax systems, corporate governance rules	Draghi, Letta
3 Creation of a Pan - European secondary market	ESMA, ESNA
4 European Investment Fund (EIF) should create a new instrument to address VC scale	No related actions identified in Draghi / other reports
5 Reinforce the EIF and EIB "patient money" approach	Draghi
6 Financial literacy programs	ESMA
7 Enhance Regulatory Support and Reduce Investment Restrictions for pension funds	Draghi, Letta, Invest Europe
8 Public-Private Partnerships to Mitigate Risk for pension funds	Draghi, ESNA
9 Develop Expertise and Strengthen Management in Pension Fund VC Portfolios	No related actions identified in Draghi / other reports.
10 Promote Diversified Allocation Strategies of pension funds VC Investments	No related actions identified in Draghi / other reports.
11 Encourage Local and Regional Investment Initiatives (pension funds should adopt "best efforts" policies to prioritize local or regional investment	No related actions identified in Draghi / other reports.
12 Advertise the strengths of European Ecosystems specifically to global SWFs	Invest Europe
13 Coordinate strategic bilateral cooperations to make European VC more accessible to SWFs	ESMA, Invest Europe
14 Create a "Pan-European Scaling Fund of Funds"	No related actions identified in Draghi / other reports.
15 Harmonize standards (standardized governance structures, reporting requirements, and investor rights) to reduce complexity for SWFs investing across multiple European jurisdictions	Draghi, Invest Europe

REPORTS:
Mario Draghi: "The Future of European Competitiveness"
Enrico Letta: "Much More Than a Market"
Invest Europe Policy Agenda: "Forward 2024-2029: Unlocking the Capital to Fund European Change"
ESMA Position Paper: "Building More Effective and Attractive Capital Markets in the EU"
ESNA: "EU Startup Ecosystem: Driving Change – Past, Present and Future"

- Actions not proposed by Draghi / other reviewed reports or sources.
- Actions addressed in part by Draghi or partially aligned with proposals in some reports
- Actions addressed by Draghi / across multiple reports and sources, reflecting broad agreement

Finding 1: While an EU startup grows, it has to face some financial constraints that limit its ability to scale up due to the lack of depth and size of European financial markets

PROPOSED ACTIONS	DRAGHI REPORT / OTHER REPORTS OR ORGANISATIONS
1 Integration of EU equity markets	Draghi report proposes integrating EU equity markets by harmonising rules, reducing market fragmentation, and establishing a unified supervisory framework to create a larger, more visible, and attractive stock market for investors. Letta proposes unifying EU financial markets to mobilise savings and private investments within the EU ESMA (European Securities and Markets Authority) supports this by advocating for the creation of Pan-European markets and enhancing its role as a central supervisory authority to ensure consistency and efficiency across member states. ESNA proposes to create a unified Stock Market framework
2 Complement financial integration with further harmonisation of tax systems, corporate governance rules	Draghi report focuses on harmonising insolvency frameworks and eliminating taxation obstacles to facilitate cross-border investments, rather than addressing broader harmonisation of tax systems and corporate governance rules. Letta proposes reducing fragmentation through a European Business Code and prioritising regulations over directives but does not explicitly advocate for tax harmonisation
3 Creation of a Pan - European secondary market	Draghi report does not explicitly propose the creation of a Pan-European secondary market. ESMA (European Securities and Markets Authority) proposes fostering the development of dedicated EU-wide markets tailored to specialised industries or specific needs, such as SMEs, with sufficient size, liquidity, and visibility to attract EU and international investors. ESNA proposes to establish a structured market where investors can buy and sell stakes in startups or VC funds before they reach maturity.
4 European Investment Fund (EIF) should create a new instrument to address VC scale	Draghi report does not propose a specific new instrument. It focuses on expanding the EIB and EIF's capacity through public guarantees and financial instruments - a more generic proposal to scale existing mechanisms
5 Reinforce the EIF and EIB "patient money" approach	Draghi report proposes to enable the EIB Group to take on more and larger high-risk projects, focusing on innovative projects, start-ups and scale-ups, making greater use of EIB Group's own financial firepower
6 Financial literacy programs	Draghi report does not specifically address financial literacy programs ESMA (European Securities and Markets Authority) proposes embedding financial education in curriculums and coordinating efforts at the EU level to improve financial literacy and investment decision

- Actions not proposed by Draghi / other reviewed reports or sources.
- Actions addressed in part by Draghi or partially aligned with proposals in some reports
- Actions addressed by Draghi / across multiple reports and sources, reflecting broad agreement

Finding 2: With strategic diversification, experienced management, and regulatory adjustments, pension funds could play a key role in strengthening Europe’s capital market for startups and scale-ups

PROPOSED ACTIONS	DRAGHI REPORT / OTHER REPORTS OR ORGANISATIONS
7 Enhance Regulatory Support and Reduce Investment Restrictions for pension funds	Draghi report does not directly address reducing restrictions for pension funds to invest in VC. But highlights the importance of channelling household savings into productive investments through pension schemes, which could indirectly increase capital flows into equity markets The report also recommends that the Commission should assess whether changes to the capital requirements under Solvency II are warranted by further reducing the capital charges on equity investments held for the long term. Letta recommends eliminating regulatory and operational barriers within the EU to ensure smoother capital flows, and adjust regulations for private investment in strategic sectors Invest Europe recommends to remove limitations to invest in long-term asset classes for pension funds (IORP Directive). As a general principle, the Draghi report proposes leveraging public funding to attract private capital But its proposals are not specifically directed at pension funds. It proposes to increase the use of guarantees, in particular, loans, blending instruments and other types of financial instruments in support of “strategic sectors” of the economy (innovation, start-ups / scale-ups, infrastructure, R&D, energy, digital transformation) across the policy priorities supported by the EU budget ESNA proposes to position public funding bodies (e.g., EIB or national development banks) as lead investors in startup funding rounds. This ensures robust initial capital that attracts private co-investors like pension funds. No related actions identified in Draghi / other reports. No related actions identified in Draghi / other reports No related actions identified in Draghi / other reports
8 Public-Private Partnerships to Mitigate Risk for pension funds	
9 Develop Expertise and Strengthen Management in Pension Fund VC Portfolios	
10 Promote Diversified Allocation Strategies of pension funds VC Investments	
11 Encourage Local and Regional Investment Initiatives (pension funds should adopt “best efforts” policies to prioritize local or regional investment	

Actions not proposed by Draghi / other reviewed reports or sources.Actions addressed in part by Draghi or partially aligned with proposals in some reportsActions addressed by Draghi / across multiple reports and sources, reflecting broad agreement

Finding 3: Sovereign wealth funds represent a substantial untapped potential for scaling up Europe's venture capital ecosystem

PROPOSED ACTIONS	DRAGHI REPORT / OTHER REPORTS OR ORGANISATIONS
12 Advertise the strengths of European Ecosystems specifically to global SWFs	Draghi report does not specifically propose any related action Invest Europe - Attract foreign capital to the Union is one of the 3 priorities in its Forward 2024-2029 policy agenda, but there's no specific action proposed aimed at SWFs. Draghi report does not specifically propose any related action. ESMA proposes to create better conditions for pan-European partnerships (in general, not specifically for SWFs) Invest Europe denounces the complex and fragmented foreign direct investment screening system and proposes to redefine foreign investment rules to acknowledge characteristics of private equity fund structures
13 Coordinate strategic bilateral cooperations to make European VC more accessible to SWFs	
14 Create a "Pan-European Scaling Fund of Funds"	No related actions identified in Draghi / other reports.
15 Harmonize standards (standardized governance structures, reporting requirements, and investor rights) to reduce complexity for SWFs investing across multiple European jurisdictions	Draghi report proposes that ESMA should transition into the single common regulator for all EU security markets. This would help address market fragmentation by ensuring consistent standards and enforcement across the EU. Invest Europe proposes setting a One Stop Shop Mechanism for multi-country transactions, so foreign investors only need to file a single application.

- Actions not proposed by Draghi / other reviewed reports or sources.
- Actions addressed in part by Draghi or partially aligned with proposals in some reports
- Actions addressed by Draghi / across multiple reports and sources, reflecting broad agreement

EU Startup Ecosystem: Driving change past, present and future

ESNA highlights the underdevelopment of actions to diversify private capital for startups

According to ESNA's SNS Report 2023 the Standard #6 "Access to Finance" has an overall positive score of 55% implementation.

However, policy initiatives that aim to increase the amount and diversity of private capital (for example from European Pension Funds) available for co-investing in high-growth startups remain underdeveloped, with only 33% Member States addressing it.

Proposed actions to mobilise investment

In the report "EU Startup Ecosystem: Driving Change – Past, Present and Future" 2024, ESNA identifies the lack of pension fund investment in venture capital as a key challenge for scaling startups in Europe.

ESNA proposes actions to create a unified European capital market, improving funding access and cross-border investments. Key measures, like secondary markets, would directly enhance pension funds' role in VC.

Source: "EU Startup Ecosystem: Driving Change – Past, Present and Future" 2024

ESNA "Investment" related policy recommendations with impact on pension funds in VC



Develop a Secondary Market

Proposal: establish a structured market where investors can buy and sell stakes in startups or VC funds before they reach maturity.
Impact on pension funds: provides liquidity, making VC investments more appealing to risk-averse pension funds. Encourages recycling of capital into new ventures, boosting the overall VC ecosystem.

Create a Marketplace at EU Level (Pre-IPO)

Proposal: build an EU-wide platform tailored for high-growth startups nearing IPO. The marketplace would connect these startups with institutional investors, including pension funds, facilitating late-stage investments.
Impact on pension funds: Enables pension funds to focus on scaling startups with reduced risk and clearer growth trajectories. Aligns startups with investors interested in larger, more stable opportunities.

Create a Unified Stock Market Framework

Proposal: Harmonise stock market regulations across the EU to create a more integrated capital market. This includes standardising listing requirements and regulatory compliance for startups.
Impact on pension funds: simplifies cross-border investment for pension funds, reducing administrative burdens. Makes it easier for startups to go public in the EU, providing clear exit opportunities for investors.

Promote EU (Public) Funding Leading Investment Rounds

Proposal: Position public funding bodies (e.g., EIB or national development banks) as lead investors in startup funding rounds. This ensures robust initial capital that attracts private co-investors like pension funds.
Impact on pension funds: de-risks investments for pension funds by signalling public confidence in startups. Enhances the flow of private capital into VC, addressing funding gaps.

A2

Annex

Workshop: Unlocking Europe's Scale-Up Potential

Season overview

For this report, a high-level workshop was organised on December 6th in Luxembourg, inside the European Investment Bank, with 30 participants representing 20 organizations, which can be found in the list beside.

The workshop was divided in two blocks. The first one consisted in a presentation to give context of the report: Untapped opportunities for European Venture Capital, followed by a round table exploring how Europe can improve its venture capital ecosystem to support startups.

The second block started with a keynote about addressing late-stage funding gaps in Europe, with another round table with a focus on how pension funds can play a great role in Europe’s venture capital ecosystem.

Participants

- European Investment Fund (EIF)
- Ministry of Finance of Luxembourg
- SERN (Startup Europe Regions Network)
- Leibniz IRS
- European Capital Markets Institute (ECMI)
- Barrabes.biz
- ESNA (European Startup Nation Alliance)
- European Investment Bank (EIB)
- B-Green SARL
- PensionsEurope
- Regsearch
- Startuprad.io
- European Commission
- Startup Luxembourg
- Gener8tor Luxembourg
- LBAN (Luxembourg Business Angel Network)
- WSA (World Summit Awards)
- OQ Technology
- LPEA (Luxembourg Private Equity & Venture Capital Association)
- Business Tampere

MAIN FINDINGS

Roundtable 1

Fuelling Europe’s competitive edge: scaling venture capital

This first roundtable highlighted the urgency of harmonizing regulations, expanding access to late-stage funding, and creating a supportive policy environment for startups. Entrepreneurial mindset and leveraging Europe's strengths, like talent and ethical innovation, was also discussed.

Philippe Hoett described the importance of supporting growth-stage companies, with complementary innovative solutions to equity funding.

Panagiotis Savdalis emphasised the need of synergies among stakeholders to reduce fragmentation and give startups tools to scale effectively.

Jonas Mercier discussed about Luxembourg ecosystems, pointing that despise being strong locally and doing efforts in connecting stakeholders, expanding in Europe is still a challenge because of fragmentation.

Lastly, Carolina Rossi shared some insights from their compendium focused on the need of policy harmonization across the EU to support scaling startups.

The audience participated in the open discussion, giving more weight to culture, market access and regulation, with a special focus in fostering entrepreneurial mindset, like improving pitching skills and EU strengths, like social safety and diverse and sustainable innovation frameworks.

Keynote 1

Europe’s Competitiveness and Scale-Up Challenges

Andreas Küebart, present some of the main findings obtained during the creation of this report. The analysisit highlited Europe’s diminishing competitiveness compared to the US and china. The structural financial issues, like limited venture capita and lower involvement of pension funds were emphasised as possible causes. Policy changes to mobilize more scale-up funding a and the need of engage institutional investor are key to create a sustainable ecosystem.

Participants

Chiara Frencia	SERN
Andreas Kuebart	Leibniz IRS
Panagiotis Alexandros Sevdalis	European Commision
Jonas Mercier.	Startup Luxembourg
Carolina Rossi	ESNA
Philippe Hoett	EIB

MAIN FINDINGS

Roundtable 2

How to tap pension funds as limited partners for European VC

The second workshop discussed barriers and opportunities for integration pension funds into venture capital to support the ecosystem. The main solutions revolved around education, regulatory adjustments and improve collaboration between institutional investors and startups.

Remy Charrier shared experiences mobilising institutional investors into venture capital with models like fund-of-fund to derisk investment and provided more incentives to participate.

Apostolos Thomadakis outlined the dominances of debt-based financing over equity, sharing insights from Nordic countries where pension funds have embraces VC funding.

Jochen Brodersen stressed the need of aligning institutional investment with broader innovation goals, to ensure predictable funding and improve collaboration among stakeholders, while leveraging existing tools like InvestEU.

Stefan Pesch focused on the role of education and awareness in addressing pension funds and creating incentives and initiatives to close the gaps, like masterclasses or co-investment opportunities.

Frome the audience, there was a specific warning on neglecting early-stage investment, and a highlight of the role of business angels, to make sure there is a robust pipeline of future scale-ups.

Keynote 2

Addressing Late-Stage Funding Gaps

Chiara Fratto provided an in-depth look at Europe’s funding challenges and EU scale-up barriers. The key points included a lack of late-stage funding, the importance of venture capital-backed companies to growth and the actual EU startups reliance on foreign investment. She concluded with a calling for collaboration between policymakers and institutional investors to catalyse private investment to close the scale-up gap.

Participants

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Chiara Fratto	EIB
Remy Charrier	EIF
Jochen Brodersen	DG RTD
Stefan Pesch	LPEA
Apostolos Thomadakis	ECMI

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