

ARTIFICIAL INTELLIGENCE: THE MOST DISRUPTIVE TECHNOLOGICAL INNOVATION SINCE THE INDUSTRIAL REVOLUTION

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OVERVIEW

Artificial Intelligence (AI) is quickly proving to be one of the most significant innovations of the modern era. Its influence is already visible in our daily lives, workplaces, and institutions—and it's only accelerating.

Much like the Industrial Revolution mechanised physical labour, AI is beginning to automate many aspects of cognitive work. Tasks once performed by teams of people can now be handled or accelerated by intelligent systems. This change will alter the structure of industries, reshape job functions, and open new avenues for economic growth and investment.

AI is not a fleeting trend—it's part of a long-term shift in how societies and economies operate. For investors, being on the right side of this digital transformation will be essential. Venture capital, in particular, plays a critical role in financing this disruptive innovation. Many of the most transformative AI companies—from foundational model labs to application-layer businesses—are being built and scaled privately. Investors who allocate to venture capital can position themselves at the forefront of value creation, well before these technologies reach public markets.

VC POWERING AI DISRUPTION

According to data from Pitchbook, AI-related companies accounted for 64% of capital invested in US VC-backed companies in the first half of 2025. This is up from just under 49% in 2024.

VC firms are funding companies at all stages of the AI technology stack. These include:

- **Foundation Models:** Developers of general-purpose LLMs such as OpenAI, Anthropic, Mistral AI, and Together AI, focusing on building scalable, safe, and high-performance foundation models.
- **Tooling & Infrastructure:** Companies like Databricks (unified analytics and AI platform),

Crusoe (AI-optimised compute infrastructure powered by stranded energy), and Thinking Machines (data science infrastructure for enterprises).

- **Vertical Applications:** Domain-specific platforms including Abridge (clinical conversation AI), Harvey (legal AI copilot), Hebbia (financial document intelligence), Anysphere and Lovable (software development), and Glean (AI-powered workplace search).
- **Generative Media & Interaction:** Innovators like Synthesia and ElevenLabs (synthetic video and voice), Pika and Suno (AI-powered visual and audio content generation), Notion (integrated AI productivity suite), and Replit (developer tooling enhanced by code generation agents).

AI companies that have raised capital in the last six months include the following:



Raised \$40bn at a \$300bn post-money value in August 2025. Hit \$12bn of ARR in July 2025, doubling revenue in seven months. Investors include Khosla Ventures, Thrive Capital and Andreessen Horowitz.



Raised \$3.5bn at a \$61.5bn post-money value in March 2025. Hit \$4bn of ARR in July 2025, growing 4x since the start of the year. Investors include Spark Capital and Lightspeed Venture Partners.



Raised \$900m at a \$9.9bn post-money value in June 2025. Surpassed \$500bn of ARR in June 2025, having only been founded in 2023. Investors include Andreessen Horowitz, Accel Partners and Thrive Capital.



Raised \$150m at a \$7.2bn post-money value in June 2025. ARR hit \$100m in early 2025, with expectations of \$200m+ for the next year. Investors include Kleiner Perkins, Lightspeed and Khosla Ventures.

While many of today's leading AI companies are demonstrating remarkable progress, we remain in the early innings of the AI revolution. As with past technology shifts, the first wave of applications often mimics the tools and workflows of the previous paradigm—layering new capabilities onto old structures. These early efforts typically aim to boost

efficiency or reduce costs, rather than fundamentally rethinking how work is done in an AI-native world. For investors, the more profound opportunity lies ahead: in the emergence of AI-native applications that are designed from the ground up around intelligent systems—and increasingly built as full-stack, vertically integrated platforms.

THE MOVE TO AI-NATIVE FIRMS

Vertically integrated AI-native firms don’t just use AI to enhance existing workflows—they use it to deliver the end product or service directly. Instead of selling software to traditional providers, AI-native firms operate as the providers themselves. The table below shows how an AI-native firm in the legal industry would compare to a legal AI tools provider:

Feature	AI Tools Provider	AI-Native Firm
Main Function	Speeds up document review & legal research	Delivers legal outcomes end-to-end with minimal human oversight
Role of AI	Supports human lawyers (eg finding clauses)	Replaces many human tasks—drafting, reviewing, advising, etc.
User	Lawyers in firms or in-house legal teams	Clients directly (startups, individuals, large businesses)
Business Model	SaaS or usage-based pricing sold to law firms	Subscription or outcome-based legal service
Human Involvement	Lawyer reads, interprets and validates AI output	AI drafts, validates and delivers directly
Economic Capture	Charges per seat or per user	Captures full legal service revenue per client

While many early AI leaders may begin as specialised tool providers, the most ambitious are likely to evolve into full-stack AI-native firms—owning the entire product experience and delivering end-to-end outcomes for their customers. This shift doesn’t just improve efficiency, it also expands their addressable market significantly.

Over the next decade, AI-native firms are likely to capture a growing share of global labour income by automating tasks that have traditionally been performed by human workers. Today, labour accounts for over half of global GDP, representing the single largest pool of economic value in the world. As AI systems take on increasingly complex workflows—in law, finance, healthcare, customer service, and more—AI-native companies will shift from enabling human productivity to replacing or absorbing entire job functions. This transition won’t just drive cost savings; it will fundamentally reshape the flow of economic value from wages toward software-driven service platforms. For investors, this marks one of the most significant capital reallocations of the 21st century.

As the table below shows, AI-native firms can address 10-100x larger markets by delivering solutions as opposed to software products.

Vertical	Traditional SaaS TAM	Full-Stack AI TAM
Legal	~\$26.7bn (global legal tech market) ¹	~\$1.05tn (global legal services revenue) ¹
Finance	~\$123bn (financial services software) ²	~\$1.28tr (wealth management market) ³
Healthcare	~\$663bn (healthcare IT market) ¹	~\$9.8tr (global spending) ⁴
Education	~\$163bn (edtech market) ¹	~\$7.6tr (global education market) ⁵

1. Grand View Research. 2. Kings Research. 3. Business Research Insights. 4. World Health Organisation. 5. HolonIQ.com

One of the most powerful promises of AI-native firms is their ability to democratise access to high-quality services—for example, legal, healthcare, and education—that have historically been expensive, slow, or inaccessible to large parts of the population. Just as Uber broadened access to chauffeured rides—transforming what was once a luxury into an everyday convenience—AI-native providers are making expert-level services available at radically lower cost and with near-instant delivery. Importantly, Uber didn’t just disrupt; it grew the market and created new forms of employment. Similarly, AI-native firms may not only displace traditional gatekeepers, but unlock entirely new markets and serve customers who were previously priced out. This shift has the potential to expand economic inclusion, even as it transforms the structure of legacy service industries.

What we’ve seen so far is just the beginning. Over the next five years, AI systems will evolve from isolated assistants into collaborative multi-agent teams—capable of coordinating complex workflows like running a sales cycle, preparing legal documentation, or drafting technical proposals. Personal AI agents will also become more common, managing tasks like scheduling, budgeting, and travel on behalf of individuals. These changes won’t just make work more efficient—they signal a future where every company will need AI at the core of its operations to stay competitive. This will drive massive disruption across industries, creating new winners and rendering many incumbents obsolete. For investors, the most valuable businesses of the next decade will be those built with AI at the foundation, not just as an add-on.

However, we have to recognise that alongside the promise of new industries and productivity gains, AI will also cause significant disruption in the short term. Many jobs are likely to be displaced faster than replacement roles are created. This will create real challenges for societies and will require a coordinated efforts from policymakers to balance innovation with stability. For investors, this underscores both the scale

of the opportunity and the transitional risks that historically accompany any major technology shift.

ACCESSING THE AI OPPORTUNITY

Investors seeking direct exposure to the AI revolution face a critical question: which asset class offers the most direct access to the companies shaping the future? While AI is a theme that touches nearly every corner of the capital markets, not all exposure is created equal. The table below compares the three primary pathways—venture capital, private equity, and public equities.

Category	Venture Capital	Private Equity	Public Markets
Exposure to AI Innovation	Direct & early—funds frontier models, infrastructure & AI-native startups	Indirect—backs legacy companies integrating AI into operations	Broad but diluted—strategic players and diversified tech portfolios
Stage of Access	Seed to pre-IPO	Late-stage growth to mature	Post IPO
Typical Target Companies	AI model developers, infrastructure platforms, application companies	SaaS companies, services and traditional businesses with AI enhancement plans	Megacaps, cloud providers model developers. Limited mainly to META, GOOG, NVDA, MSFT & AMZN
Upside Potential	High—asymmetric potential from early entry	Moderate—operational efficiency gains	Lower—most upside captured in private rounds
Key Limitations	Illiquidity, higher loss rates, entry pricing	Limited exposure to core AI technology, risk of being disrupted by AI-native startups	Late access, few pure AI companies, missing out on the period of explosive growth

While other asset classes may offer some exposure to AI through large platforms or mature incumbents, only venture capital provides direct access to the companies driving disruption—at the very point when their growth is fastest and value creation most significant. This disruption is already playing out across high-margin, information-heavy sectors such as legal, finance, customer service, and digital content—areas traditionally shielded from automation but now increasingly served by AI-native platforms.

Industries like legal, finance, healthcare, and customer service—together representing over \$9 trillion in annual global spending—are heavily reliant on repetitive, high-cost labor, making them prime targets for AI-driven disruption. Companies such as Harvey (legal), Abridge (clinical), Hebbia (financial research), and Anysphere (software development) are already proving that AI-native platforms can deliver faster, cheaper, and often better outcomes than traditional incumbents. For

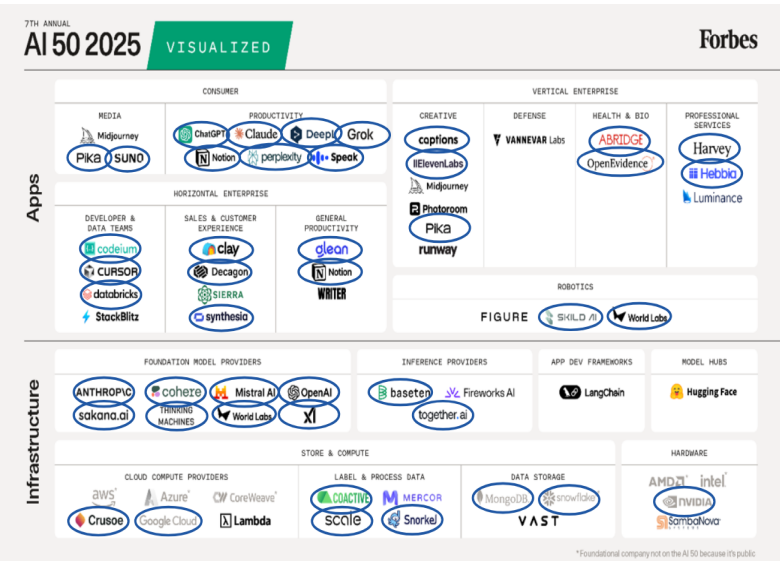
investors, this marks both a risk and an opportunity: incumbents that fail to adapt risk obsolescence, while early-stage AI challengers are rapidly gaining traction. As adoption accelerates, the window to access these future category leaders at the venture stage is narrowing.

SELECTING THE BEST VC MANAGERS

Gaining meaningful exposure to the AI revolution requires more than simply backing any fund with “AI” in its mandate. The most effective venture strategies will focus on accessing the small set of established firms that are repeatedly earning allocation in the top AI deals. Firms like Andreessen Horowitz, Lightspeed, Khosla Ventures, Thrive Capital, and Kleiner Perkins have demonstrated a consistent ability to source, back, and help build the leading AI-native companies—often from the earliest stages.

While there is growing interest in specialist AI-focused managers, the most consistent and valuable exposure to top-tier AI opportunities still comes from these large, multi-stage platforms. They have the networks, reputation, and infrastructure to win access to oversubscribed rounds—and critically, they also have the capital reserves to support companies through the heavy compute and talent costs that come with scaling AI infrastructure and products. In an era where the leading AI-native companies may raise hundreds of millions (or even more for the foundational model firms), this deep capital base can be a competitive advantage.

As can be seen by the chart below, VenCap’s Core Manager investment strategy has provided investors with early exposure to many of the leading AI startups—including OpenAI, Anthropic, Anysphere, Harvey, Synthesia and Glean. In total, VenCap Funds have exposure to 68% of the top 50 startups in the AI sector as compiled by Forbes earlier this year.



It is this ability to consistently access a high proportion of the very best companies across successive technology cycles that sets these Core Managers apart from the rest of the VC industry. While there are a growing number of emerging managers focused on the AI space, it is an impossible task for Limited Partners to select which may ultimately prove successful.

BALANCING RISK AND OPPORTUNITY

Investing in venture capital, particularly in early-stage AI companies, carries meaningful risk. These businesses often operate in unproven markets, face significant technical and commercial hurdles, and require substantial capital before reaching profitability. Returns in venture capital follow a power law distribution: most companies will fail, and the majority of value will be concentrated in a small number of breakout winners. Crucially, many of the companies that look like early winners today will ultimately not make it. Strong initial traction, rapid user growth, or high-profile funding rounds can mask weaknesses in defensibility, scalability, or unit economics that only become visible over time. The history of past technology waves is littered with early market leaders that disappeared or were overtaken by later entrants.

VC also presents structural challenges, including illiquidity, long time horizons, and elevated entry valuations—especially in the most competitive segments of the AI market. Investors may find themselves deploying capital at premium prices, with no short-term liquidity and limited visibility into eventual outcomes. These risks are real—but they are also manageable.

Thoughtful portfolio construction is the best defense: diversifying across fund vintages, stages, and managers; pacing commitments over multiple years to smooth timing risk; and prioritising access to top-tier firms with a proven ability to identify and support enduring companies. This approach improves the odds of owning the true long-term category leaders, while reducing exposure to overhyped early movers that later fade.

Still, despite these risks, the greater danger may be underexposure. AI is not a cyclical theme—it is a

generational shift that will transform industries, displace incumbents, and redefine how value is created. The most important companies of the next two decades are being built now—and overwhelmingly, they are being built in the private markets.

SUMMARY

Artificial Intelligence is not just a new technology wave—it's a structural shift in how economies are organised and value is created. Much like the Industrial Revolution transformed physical labour and industrial output, AI is redefining knowledge work, software, and services at an unprecedented pace and scale.

This transformation is being driven by a new generation of AI-native firms—companies that don't just build tools, but deliver end-to-end services powered by intelligent systems. These firms are vertically integrated, full-stack by design, and aim to displace entire industries, not just enhance existing workflows.

The implications for investors are significant:

- **AI-native firms can address markets 10–100x larger** than traditional SaaS tools by capturing full service value rather than incremental productivity gains.
- **Global labour income—one of the largest sources of GDP—is in play**, as AI automates tasks previously performed by humans, particularly in high-margin sectors like law, finance, and healthcare.
- **Access to these companies is increasingly concentrated in venture capital**, where investors can participate in value creation before public markets get access.

As AI redefines entire industries, the most significant value creation is happening inside private companies building AI from the ground up. For investors, this makes venture capital not just an option—but a strategic necessity. Gaining exposure early, through the firms backing these AI-native leaders, may be one of the clearest ways to capture long-term upside as the technology reshapes the global economy.

ABOUT VENCAP

VenCap was founded in 1987 and has invested almost \$3.0 billion into more than 450 venture capital funds. These funds are underpinned by over 17,000 portfolio companies including the likes of Google, Facebook, Nvidia, OpenAI, Spotify, Coinbase, Uber and Stripe. Over the last 15+ years, VenCap has focused its investment activities on a small group of “Core Managers”. These managers are established VC firms that have demonstrated a proven ability to consistently back the top 1% of companies that emerge from the VC ecosystem globally.

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