

Institutional Research Group



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[PitchBook's Valuation Estimates](#), the newest feature in our quantitative suite of tools, provides access to daily valuation estimates for thousands of private capital market companies. This model estimates how a startup's valuation has evolved since its last funding round, enabling investors to source deals, conduct due diligence, and support portfolio monitoring. When offered co-investment deal flows, LPs can leverage PitchBook's Valuation Estimates to gather comps and diligence company valuations.

LP Co-Investments in US VC: Chasing AI at a Price

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- A prolonged liquidity crunch has elevated co-investment on both sides of the table. Cumulative cash flows to LPs have been roughly negative \$200 billion since 2022, driven by a persistent shortage of large exits. The resulting liquidity pressure has increased the appeal of direct co-investment as a mechanism for LPs to gain high-conviction exposure at reduced fees while simultaneously giving GPs a stronger incentive to share co-investment deal flow as a fundraising and relationship tool.
- AI's rapid valuation growth is a major driver of LP demand for direct AI exposure. Series D+ AI & ML startups carried a median pre-money valuation of \$4.7 billion in Q1 2026—nearly four times that of non-AI companies at the same stage. For LPs, co-investment is a mechanism for increasing direct exposure to the sector's fastest-appreciating names without proportionally increasing fund-level fees.
- Capital is chasing AI startups, not the other way around. In Q1 2026, every \$0.90 demanded by a venture-growth-stage AI startup was met by \$1 in available supply, a mild capital surplus that has held since Q2 2025. This contrasts sharply with non-AI startups, particularly at the late stage, where they received only \$1 for every \$2.80 demanded in the same period.
- The GP incentive to withhold the best deals from LP co-investment has eased, but allocation scarcity has emerged as a new constraint. Round sizes now routinely exceed what a single fund can absorb, and AI companies consciously select value-additive investors, giving GPs a reason to bring in credible LPs. In the most competitive rounds, however, LP access is contingent on factors such as the GP relationship, company approval, the GP's available allocation, and the LP's ability to commit on compressed timelines.
- The compressed cadence of AI funding rounds raises the bar for LP co-investment execution. The median time between rounds for AI startups contracted from 1.6 years to 1.3 years between 2024 and Q1 2026, leaving a short turnaround time for evaluation. This structural constraint favors LPs with dedicated direct investment programs and the internal bandwidth and capability to move quickly, and it raises the bar for those without.



- VC occupies an isolated position in the private market risk-return opportunity set, constraining co-investment growth. Among major private market strategies, VC exhibits the highest estimated desmoothed volatility while generating only midrange returns by 15-year horizon IRR—volatility that is not compensated with commensurate outperformance relative to peers. Until distributions recover and VC performance improves, meaningful acceleration in co-investment activity will remain constrained.
- AI exit valuations remain largely untested, and fee discipline matters. The most heavily capitalized AI companies have not yet accessed public markets, leaving exit valuations unvalidated by market transactions. Until AI exits provide concrete evidence of returns at scale, LPs would be well served to apply the same fee discipline to direct AI exposure—including secondary market purchases through intermediaries—as they do to their broader co-investment programs.

Direct exposure, indirect risks: The LP co-investment landscape in US VC

US VC fund managers consistently report strong LP interest in co-investments.¹ Co-investing in deals offers LPs direct exposure to startups, lower blended fees, and the potential for enhanced returns. However, not all LPs have the resources or expertise to build and manage a diversified direct investment portfolio, increasing their exposure to idiosyncratic risks inherent to venture investing. Underperformance in such deals can also strain GP-LP relationships.

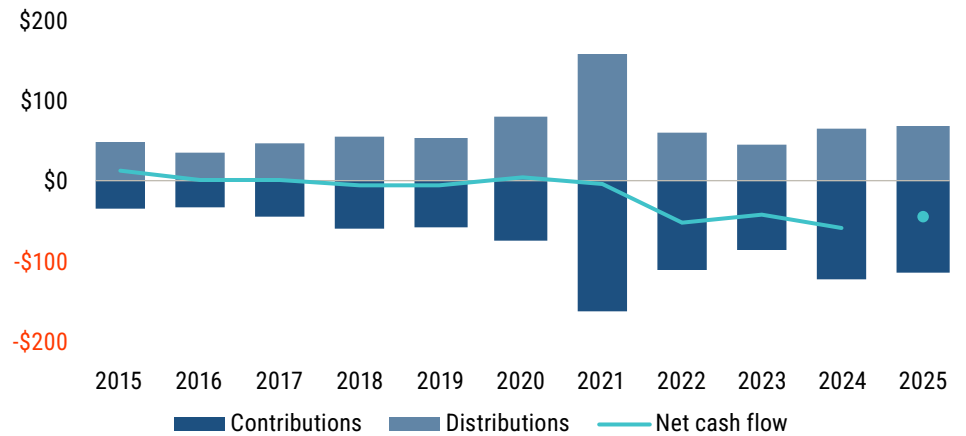
While co-investment is not a new strategy, it remains a nuanced topic in VC. By circumventing standard fund economics, co-investments reduce fee revenue for GPs and can create misaligned incentives. LPs seeking to selectively gain direct exposure also introduce timing complexity into deal processes where speed and consistency are critical. In the current fundraising environment, however, offering co-investment rights has become a meaningful tool for GPs to attract and deepen LP relationships, particularly among emerging managers.

Against this backdrop, LPs have steadily increased their direct exposure to VC-backed startups, with particular momentum in top-valued AI companies. Two converging forces are driving this trend: a prolonged liquidity crunch that has suppressed distributions and constrained LPs' ability and willingness to grow VC allocations, and the rapid growth of the AI sector, which has created demand for exposure beyond what fund-level allocations can provide. This pursuit, however, carries execution risks, including concentration risk in a sector that has yet to demonstrate consistent public market returns; compressed deal timelines; information asymmetry; and, in certain cases, elevated fees charged by intermediaries.



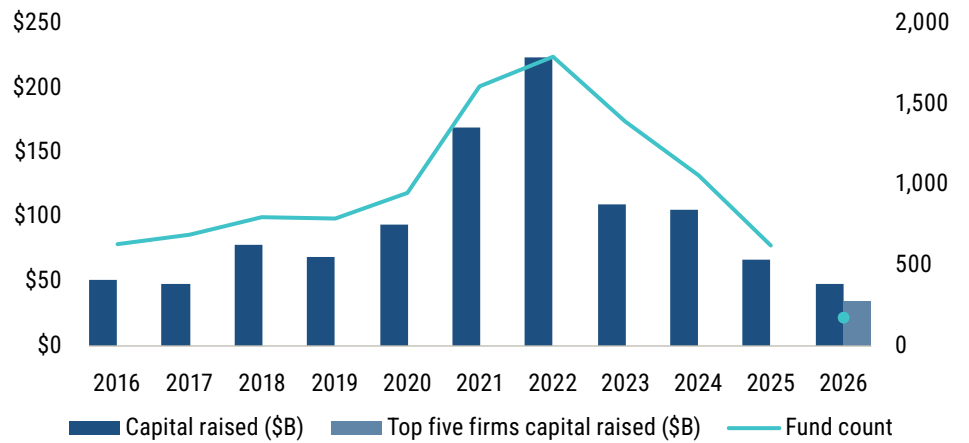
A difficult fundraising environment elevates co-investment on both sides of the table

VC cash flows (\$B)



Source: PitchBook • Geography: US • As of September 30, 2025

VC fundraising activity

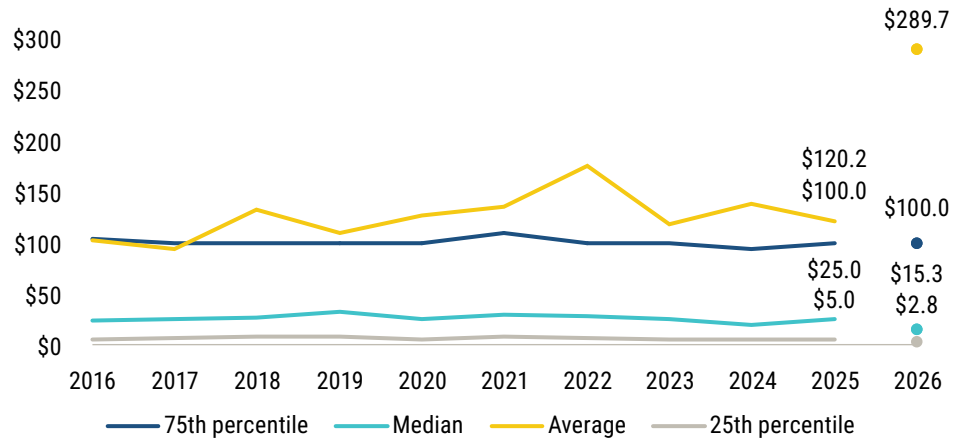


Source: PitchBook • Geography: US • As of March 31, 2026

Note: The top five firms are Thrive Capital, Andreessen Horowitz, Founders Fund, Kleiner Perkins, and Battery Ventures.

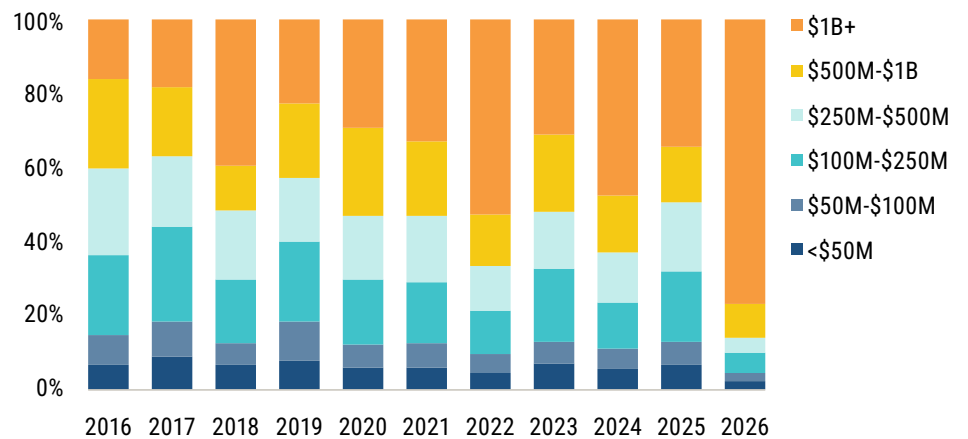


Range of VC fund sizes (\$M)



Source: PitchBook • Geography: US • As of March 31, 2026

Share of venture capital raised by size bucket



Source: PitchBook • Geography: US • As of March 31, 2026

Liquidity has been the defining constraint on the venture market for the past several years. Its impact has been felt across the ecosystem: by companies extending runways, by GPs navigating longer holding periods, and by LPs unable to access returns on investments they made a decade ago. Cumulative cash flows to LPs have been roughly negative \$200 billion since 2022, driven by a persistent shortage of large exits. As overallocation pressures mounted, many institutional LPs pulled back from new VC commitments and concentrated on recommitting with established, brand-name managers. This dynamic has bifurcated the fundraising landscape, pushed GPs to expand their offerings to deepen LP relationships, and increased LP interest in direct investment as a mechanism for gaining high-conviction exposure at reduced fees.



This lack of liquidity is not an exaggeration. The median DPI multiples for North American VC fund vintages from 2015 onward are all less than 1x. Even top-quartile DPI multiples are less than 1x from 2017 onward, and the top-decile DPI multiples are less than 1x from 2018 onward.² For LPs that signed on to market-standard 10-year funds, their ability to manage cash flows and reserves across their portfolios may be severely hampered. The common practice of exercising the two one-year extensions and the fact that some managers are negotiating longer base terms—a practice that has been gaining popularity for growth-stage funds—further weighs on the liquidity shortage issue. This prolonged liquidity crunch led to a distinct bifurcation between a handful of large established managers and the rest of the market. These market shifts have strengthened the case for GPs to lean into co-investment as a point of differentiation and a tool for deepening LP relationships—an incentive that has always existed but that carries more weight in the current environment.

Large multistage funds have not only sustained their fundraising pace but also captured a growing share of total capital raised. As discussed in the [Q1 2026 PitchBook-NVCA Venture Monitor](#), five large managers collectively accounted for 73.1% of all capital raised in the quarter and represented nearly all of the 10 largest funds closed in that period. These managers have also disproportionately gained exposure to top AI names—a meaningful draw for both prospective and existing LPs. For new LPs, this exposure signals deal access and co-investment potential; for existing LPs, it represents growing net asset value exposure to names they are already invested in through the fund, with co-investment and secondary access as additional ways to increase that exposure directly.

For smaller and emerging managers, differentiation has become a prerequisite rather than an advantage. Our data on emerging managers that closed a new fund at \$300 million or more between 2023 and Q1 2026 shows that pedigree and thematic focus—with AI as the dominant theme—are the most consistent differentiators. Among the 41 non-corporate-VC funds in this cohort, the majority were raised by managers with prior investing experience at established venture firms or deep operational credibility in their target vertical. Several of the 48 funds (the total number of funds including CVC funds) carry an explicit AI or technology mandate, with AI-focused managers represented across the size range.

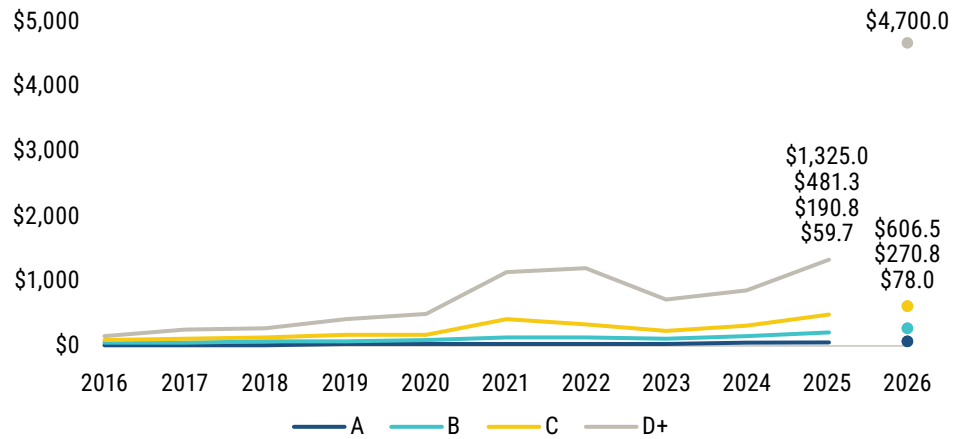
Apart from pedigree and AI focus, co-investment rights have emerged as one of the most tangible tools available to smaller and emerging managers to demonstrate deal access and deepen LP relationships. The offer of co-investment rights gives LPs a concrete reason to commit capital to lesser-known managers even as they manage the liquidity pressures of the current environment. [Emerging managers have consistently outperformed since the late 1990s](#); however, their returns are more volatile than those of established peers, and LPs require additional incentives to allocate to newer names during periods of uncertainty. Co-investment with emerging managers may not provide access to the largest AI names, but it offers the same structural benefits as co-investment with established managers: fee reduction, direct exposure, and GP relationship depth.



Why AI has become the primary catalyst for LP co-investment

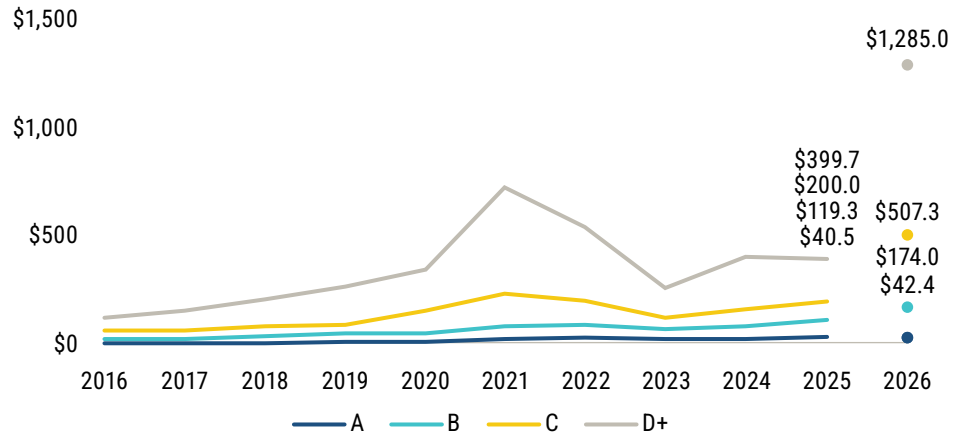
AI's hypergrowth draws LP participation

Median AI & ML VC pre-money valuation (\$M) by series



Source: PitchBook • Geography: US • As of March 31, 2026

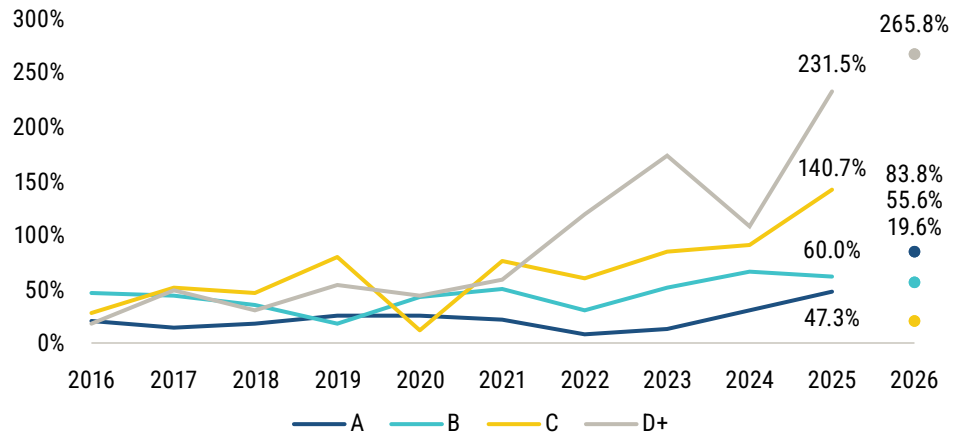
Median non-AI & ML VC pre-money valuation (\$M) by series



Source: PitchBook • Geography: US • As of March 31, 2026



Median AI & ML VC pre-money valuation premium by series



Source: PitchBook • Geography: US • As of March 31, 2026

AI's explosive growth has given LPs their own distinct reason to pursue co-investment. This trend is particularly salient at the latest stages of the venture lifecycle, where LPs are writing checks for AI unicorns. LP interest in growth-stage AI co-investments is driven by two interconnected factors. First, these are relatively de-risked companies by venture standards, allowing LPs to deploy larger checks with greater confidence in the underlying business. Second, AI companies have been experiencing rapid valuation growth. For LPs whose fund-level exposure provides only a proportional slice of that appreciation, the case for direct investment is straightforward: more direct exposure, often at reduced or zero carried interest, is expected to enhance net returns meaningfully, particularly for LPs with the internal capacity to execute selectively.

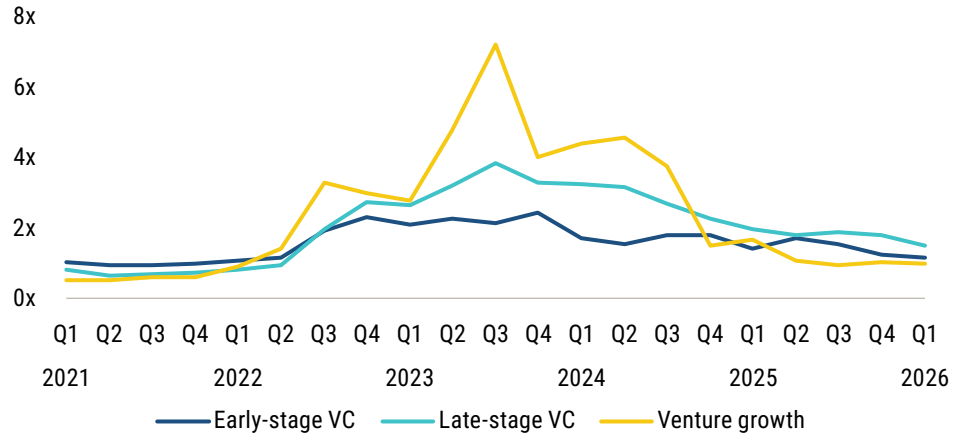
The valuation data explains why LPs are motivated to go beyond their fund commitments. AI startups command a significant premium over their non-AI counterparts across all stages of the venture lifecycle. The gap is widest for the most mature startups close to making an exit: In Q1 2026, Series D+ AI & ML startups carried a median pre-money valuation of \$4.7 billion—nearly four times that of non-AI companies at the same stage. For a large LP with a fixed commitment to a multistage fund, that premium compresses effective exposure. Co-investment is, in part, a response to that compression: a mechanism for increasing the weight of high-conviction names in a portfolio without proportionally increasing fund-level fees.

The depth of LP demand for AI exposure is also visible beyond primary co-investments. Secondary market data shows that AI companies now dominate the most actively traded private company stakes: According to Forge Global data, AI's share of total secondary trading volume rose from 2% in 2022 to 44% in 2025.³ The scale of secondary market activity reflects demand for direct AI exposure that fund-level allocations alone are not satisfying. We explore the implications of this in the ["Outlook"](#) section of this note.



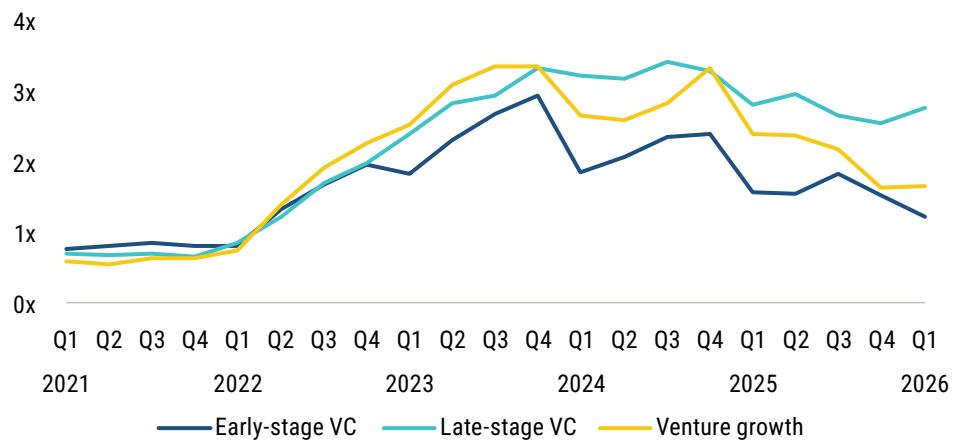
Capital is chasing high-quality AI startups, not the reverse

AI venture capital demand/supply ratio by quarter



Source: PitchBook • Geography: US • As of March 31, 2026

Non-AI venture capital demand/supply ratio by quarter



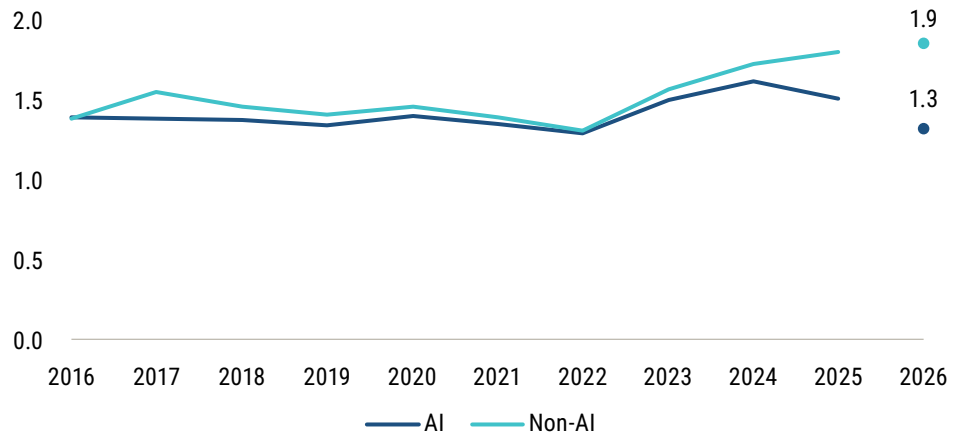
Source: PitchBook • Geography: US • As of March 31, 2026

Our analysis shows that capital supply for mature AI startups has exceeded demand in recent quarters. In Q1 2026, every \$0.90 demanded by a venture-growth-stage AI startup was met by \$1 in available supply—a mild capital surplus that has held since Q2 2025. This stands in contrast to non-AI startups, which have faced persistent capital scarcity since 2022. In Q1 2026, non-AI venture-growth-stage startups received only \$1 for every \$1.70 demanded. The shortfall was most acute at the late stage, where non-AI companies received \$1 for every \$2.80 demanded, compared with \$1 for every \$1.40 demanded for AI late-stage startups in the same period.



When capital supply exceeds demand, the balance of power shifts toward the company. The most sought-after AI startups can be selective about their cap tables, prioritizing investors that bring strategic value, sector networks, or downstream commercial relationships alongside capital. This has a direct consequence for LP co-investment: Access to the best names is no longer dictated by a GP's willingness to offer co-investment rights. It increasingly depends on whether the LP itself is a welcome participant at the company level. For most LPs, that access runs through the GP relationship, reinforcing why co-investment rights are most reliably available to LPs in established, high-conviction fund partnerships rather than through intermediaries.

Median time (years) between VC financing for AI and non-AI companies



Source: PitchBook • Geography: US • As of March 31, 2026

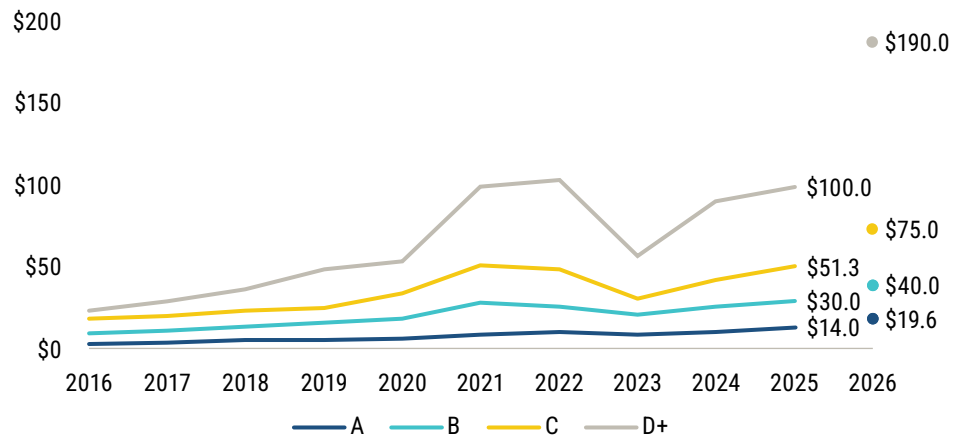
The faster cadence of AI funding rounds compounds the execution challenge. Between 2022 and Q1 2026, the median time between rounds for non-AI startups lengthened from 1.3 years to 1.9 years, reflecting slower deployment and more deliberate diligence. AI startups have begun to move in the opposite direction: After rising from 1.3 years to 1.6 years between 2022 and 2024, the median time between rounds for AI startups returned to 1.3 years by Q1 2026, driven by both elevated capital availability and high cash consumption. A sub-14-month median window between rounds leaves limited time for LP co-investment evaluation—a structural constraint that favors LPs with dedicated direct investment programs and the internal bandwidth to move quickly, and one that raises the bar for those without.



Eased concerns about adverse selection

Historically, a common LP concern about co-investing was that GPs lacked the incentive to share their highest-conviction deals because co-investments reduce fee revenue and carry. That concern has meaningfully eased in the current AI environment, for two structural reasons that we outline below. That said, for the most competitive AI deals, allocation itself remains scarce—the GP’s ability to offer co-investment is constrained not only by incentive but also by what the company will allow.

Median VC deal value (\$M) by series



Source: PitchBook • Geography: US • As of March 31, 2026

First, deal sizes at the growth stage have outgrown what a single fund can absorb. From 2023 through Q1 2026, the median US VC deal size expanded consistently across all series. The increase was most pronounced at Series D+, where the median deal size nearly doubled from \$100 million in 2025 to \$190 million in Q1 2026—a pace of growth last seen heading into the 2021 capital boom. Rounds of this scale routinely exceed the capacity of a single fund’s ownership targets, which means GPs must syndicate regardless of their preference. When syndication is structurally necessary, the adverse-selection question shifts from whether the GP will share the deal to who receives the allocation. For the most sought-after names, however, allocation is itself coveted—LP access in the hottest deals is contingent upon the GP relationship, the company’s willingness to permit co-investment participation, the GP’s available allocation in the round, and the LP’s own ability to evaluate and commit on the timelines these rounds demand.

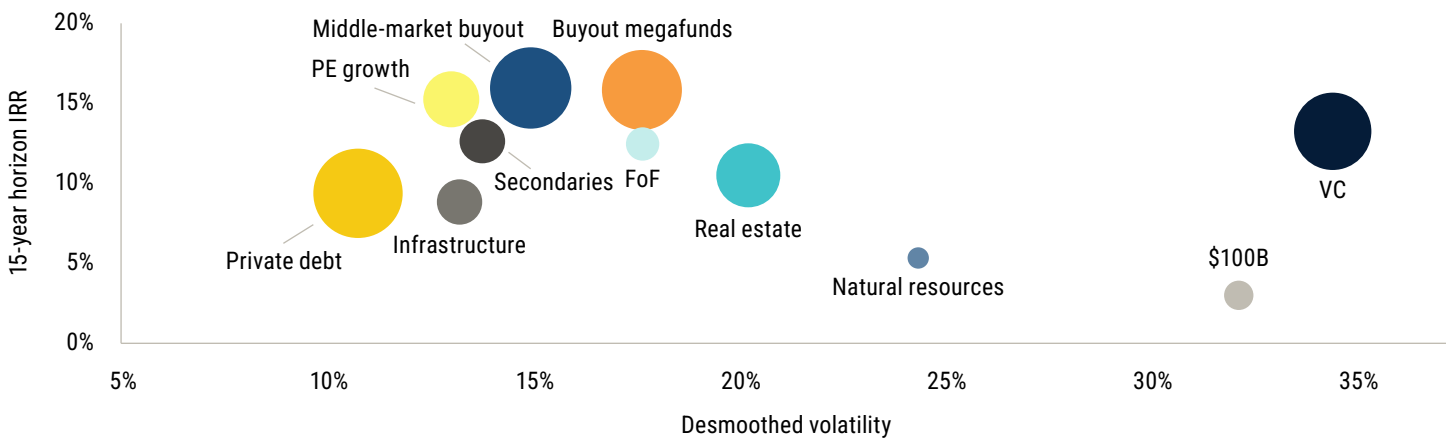
Second, as discussed earlier, the most sought-after AI companies prioritize investors that contribute strategic value in addition to capital. When a GP can deliver a credible, value-additive LP as a co-investor, it strengthens its own position in a competitive round—giving GPs a strong reason to bring in their LPs. This inverts the classic adverse-selection dynamic: Rather than the GP reluctantly sharing deal flow, the GP now has a structural incentive to involve LPs whose participation enhances the overall syndicate. But this dynamic applies most cleanly to deals where the GP has negotiating leverage with the company—in the most competitive rounds, even well-positioned GPs may find co-investment allocation difficult to secure.



The combined effect of these two forces is a meaningful shift in the GP incentive structure: GPs that once had reason to withhold their highest-conviction deal flow from LP co-investment now have structural reasons to offer it—both because round sizes require outside capital and because LP participation can strengthen the GP's competitive position with the company. Increasingly, the constraint is not GP willingness but allocation availability in the deals that LPs most want access to.

Outlook

15-year returns versus estimated volatility by select asset classes



Source: PitchBook • Geography: US • As of June 30, 2025

Note: Fundraising data is as of December 31, 2025. Bubble sizes represent the past five years of capital raised.

LP co-investment activity is expected to grow incrementally over the medium term. As more institutional investors build the internal resources and portfolio infrastructure to co-invest consistently across a diversified deal set, the gradual institutionalization of direct investment programs among larger LPs will improve the strategy's risk-return profile and expand the pool of LPs capable of executing selectively.

That growth faces a structural constraint rooted in the performance of VC itself. When measured against other major private market strategies—including various PE strategies, private debt, secondaries, and real estate—VC exhibits the highest estimated desmoothed volatility while generating midrange returns by 15-year horizon IRR. This places VC in an isolated position within the private market risk-return opportunity set, where [its volatility is not compensated with commensurate outperformance relative to peers](#). Since 2022, LPs have grown increasingly cautious about VC allocations, weighed down by the denominator effect and persistent liquidity constraints; the denominator effect has partially eased, but distributions have not recovered. Meaningful acceleration in co-investment activity will depend on a broader recovery in VC performance and continued improvement in LP cash flows—without that, extended holding periods will continue to compress bandwidth for new direct commitments. The LP segments most exposed to this constraint are endowments operating near their illiquidity limits: Harvard University's and Yale University's 2025 secondary market sales of PE holdings were each framed as portfolio management decisions but nonetheless illustrate the liquidity pressure that even the largest institutions are navigating.



The AI dimension adds a layer of complexity to this picture. The most heavily capitalized AI companies have not yet accessed the public markets, leaving exit valuations largely untested. The anticipated SpaceX IPO—following SpaceX’s February 2026 acquisition of xAI—will be the first meaningful signal for how public market investors price high-spending, preprofitability AI companies at scale. LPs co-investing alongside GPs in well-positioned AI names are better placed to realize returns than those seeking exposure through intermediaries—brokers and secondary dealers that have emerged to monetize LP demand for marquee AI names, often without verified access and at a significant fee premium. Until AI exits provide concrete evidence of returns at scale, LPs would be well served to apply the same fee discipline to direct AI exposure as they do to their broader co-investment programs.



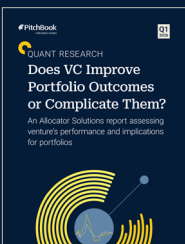
References

- 1: Co-investment refers to a direct investment made by an LP alongside a GP into a specific portfolio company, outside of the fund structure, typically at reduced or no management fees and carried interest.
- 2: For further information, read the [Q3 2025 PitchBook Benchmarks \(with preliminary Q4 2025 data\)](#). PitchBook clients can access North American benchmark data in the accompanying Excel data pack on the PitchBook Platform.
- 3: [“How AI Shaped the Private Market: A Look at the Data Behind 2025’s Transformation,” Forge Global, Shane Larkin, December 15, 2025.](#)



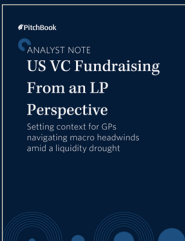
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