

Can Traditional Asset Managers Become a Larger Source of Capital for Ag Tech Start-Ups?

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Much has been written about the difficulties Ag Tech Start-Ups experienced raising new capital and achieving exits since the boom years of 2020 and 2021. Declining investments and scarce successful exits led to investor fatigue, bordering on outright despair.

Despite a slight rebound in 2024, capital invested in Ag Tech Start-Ups of all vintages remains well below 2021 levels.

AGTECH DEAL COUNT AND CAPITAL INVESTED - PEAK TO TROUGH

YEAR	2024	2023	2022	2021	2020	2019	2018
Deal Count	413	543	592	571	519	484	487
Capital Invested (Millions)	\$2,470	\$1,934	\$3,806	\$6,007	\$3,703	\$2,366	\$2,470

Source: Pitchbook



While some market participants held out hope for a funding recovery from the Silicon Valley Bank collapse and a return to pre-slump 2021 SPAC levels of market activity, others began to ask if the Venture Capital centric model is possibly to blame for the difficulties in Start-Up funding overall and in particular, in the Ag Tech arena.

[Recent articles](#) by [Sarah Nolet](#) of [Tenacious Ventures](#) and others have discussed the potential limitations of the typical Venture Capital model for the successful development of Ag Tech Start-Ups.

Interior Lines Advisory highlighted an alternative approach for Ag Tech Start-Ups at the November *Doon Insight Conference*. The presentation offered the Pharma/Biotech model as an alternative in a presentation *entitled "Is the Pharma/Biotech Model an Alternative Approach to Attracting and Allocating Investment in the Ag Tech Sector?"*

These are important discussions and should continue as the the Ag Tech industry seeks a potential new way forward in acquiring capital and generating better outcomes.

However, in this brief analysis, we would like to propose a slightly different solution to some of the financing problems plaguing the Ag Tech sector.

We believe Start-Ups may be able to expand the sources of their investment funding by increasing their visibility and deepening their relationships with Long



Only and Hedge Funds managers, and utilizing Sellside Research firms to get noticed.

While many traditional asset managers - we define these as institutional investment firms that manage portfolios of publicly traded securities – already have well developed Private investment arms, T. Rowe, Fidelity and Baillie Gifford come to mind, we believe the emergence of a unique set of factors could result in larger amounts of Public capital being shifted to Private companies, from both Long Only and Hedge Fund managers, possibly providing increased investment funds for all Start-Ups, including those in Ag Tech.

What could cause traditional asset managers to shift more investment capital to Private companies?

At a recent Start-Up conference, Steve Byrne – former senior Agriculture and Chemicals Analyst at BofA – and Interior Lines Advisory offered an analysis on why this shift may occur.

Our analysis focused on three specific drivers:

1. Private companies are staying Private longer and their valuations are higher than historical levels.
2. Future Public market returns are expected to be lower than historical returns.
3. Traditional asset managers see an emerging revenue opportunity in providing Private investments to Retail investors.



As a result of these drivers, traditional asset managers with established Private company businesses and, we believe new entrants, will be looking for incremental opportunities to deploy capital in the Private market.

We are already seeing signs of this emerging trend. Fidelity Investments announced its new *Fidelity Venture Capital Fund 1* in September 2024, with an inaugural raise of \$250 million from high-net-worth individuals, family offices and RIAs. We expect the announcement of similar new funds from other firms already in the Private space and those looking to enter in the coming months.

The impact of new and incremental capital from traditional asset managers can be meaningful to the pool of capital invested in Start-Ups.

As the table below shows, the traditional asset manager share of Series C+ investments across investor types is growing but still meaningfully smaller than Venture Capital, Private Equity and Strategic Acquirers.

Funding Source for Series C+ Investment

SEGMENT	2020	2024
SERIES C+	% OF TOTAL	% OF TOTAL
ACCELERATOR/INCUBATOR	0.6%	0.6%
VENTURE CAPITAL	60.5%	55%
PRIVATE EQUITY	13.5%	13.6%
STRATEGIC ACQUIRERS	4.1%	10.8%
ASSET MANAGERS	6.3%	8.2%
OTHER	15%	11.8%

Source: Pitchbook

Note: Across all industries, not specific to agriculture

This suggests there is ample room for traditional asset managers to play a bigger role in Start-Up funding, especially with the emergence of new dedicated Venture Capital funds focused on HNW individuals, family offices and RIAs.

So, how can Start-Ups tap into this increasing pool of capital?

One path is through the Sellside Research arms of investment banks.

Sellside Research departments provide information, advice and access for traditional asset managers. The Sellside helps the asset managers analyze companies and make investment decisions.



Sellside firms are already recognizing the trend among traditional asset managers to spend more time analyzing Private companies and are featuring Start-Ups in their research content and conference line-ups. For example Barclays, BofA and UBS Sellside Research departments include Start-Ups in their content and service models.

Working with Sellside firms is a productive path for Start-Ups to gain exposure to traditional asset managers and their capital. And since Sellside Research analysts specialize by sector, it is possible to find experienced analysts with domain expertise in areas like Ag Tech who have strong relationships with traditional asset managers.

And it is not just Start-Ups that can benefit from the growing role of traditional asset managers in the Private space. Venture Capital firms and corporate VCs can build bridges with traditional asset managers by sharing deal flow, co-investing in growth rounds and coordinating exits. This can help attract more attention from Strategic investors and help smooth the path for investment, growth and longer term exits.

In an era where capital is scarce, the ability of Private firms, including Start-Ups, to integrate across investors - from venture, to traditional asset managers, to strategics and potentially to public markets - can be a decisive advantage for the companies that tap into this spectrum of capital.



Traditional asset managers as described in this analysis are not saviors, and their focus is skewed to later stage companies, but they represent a potentially larger source of Start-Up capital. For Ag Tech Start-Ups looking to survive the funding drought, this group of investors might just be worth a little more focus in their capital raising landscape.

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