

# The next big thing: the true role of VC in Latam (and the world)



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(1) A return distribution in which a very small number of investments generate the majority (or nearly all) of a fund's returns, while most investments produce modest outcomes or losses. In VC, performance is driven not by the average deal, but by capturing one or two outliers capable of offsetting multiple failures.

## O. Abstract

This document argues that Venture Capital should not be understood as a conventional asset class, but rather as a mechanism of structural transformation driven by power-law dynamics, illiquidity, and extreme dispersion of returns. In an environment where global capital has grown faster than the pool of opportunities genuinely suited for VC—particularly in digital sectors with declining barriers to entry—the traditional model faces structural pressure: valuation inflation, an excess of undifferentiated generalist funds, and a lower probability of generating outsized outcomes.

In response, the central thesis is that VC's competitive advantage no longer lies in broad diversification, but in deep sector specialization—particularly in areas where capital remains a structural necessity for innovation, such as biotechnology and other deeptech domains. In these sectors, scientific, regulatory, and operational barriers restore the asymmetry required for the venture model to function. In emerging ecosystems like Latin America, such specialization converts informational asymmetry into structural advantage, enhancing investment selection, monitoring, and exit execution.

The manifesto concludes that the industry's adjustment will not be marginal, but rather a redefinition of the type of risk worth financing and the time horizon required to finance it. Within this framework, investing in biotechnology in Latin America is not merely a thematic strategy, but a rational response to the evolving global venture landscape and to the opportunity of building durable informational advantages in developing markets.

## 1. Introduction

Talking about Venture Capital (VC) often generates expectations that do not align with reality. Many view it as just another asset class—something to be measured, compared, or averaged against other alternatives. But the truth is that VC does not function that way. It is not just another financial asset: it is a mechanism of transformation, a bet on the future before anyone else sees it coming. VC operates on a different timeline. It is illiquid, unpredictable, sometimes frustrating. But it is also the space where ideas are born that reshape entire industries.

At the same time, the VC industry is undergoing a transformational moment. After the post-pandemic boom, prices have adjusted, and Artificial Intelligence has redefined the SaaS landscape. Betting on winners-take-all<sup>2</sup> applications is no longer obvious, and other industries—with different dynamics—are becoming more relevant as capital intensity rises.

Finally, the regional dimension must be considered. In young ecosystems like Latin America, where data is scarce and institutions are still being built, the key is not just diversification: it is specialization. When certainty is limited, deep knowledge becomes the compass.

(2) "Winners take all" refers to a competitive scenario in which a single company (or a very small number of firms) captures the majority of the economic value within a category—not only in terms of users, but also revenues, margins, and pricing power—leaving the remaining competitors structurally marginalized.

This manifesto starts from a simple idea: given the complexities and implications of an asset like VC—embedded in a shifting industry dynamic and particularly within a region such as Latin America—specialization turns informational asymmetry into competitive advantage. It is the most intelligent way to transform uncertainty into opportunity.

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## 2. VC Is Not Just Another Asset Class

If you look only at the point probability of achieving a  $\geq 20x$  return in a seed investment, it may seem similar to the 2.7% probability of hitting a single number in European roulette<sup>3</sup>. That intuitive comparison helps illustrate the rarity of outliers in a VC fund's investment thesis—but it falls short of capturing expected value and scalability.

Let's examine the numbers. According to Cambridge Associates, U.S. VC funds deliver average net returns of 14%–18% IRR over ten years, with enormous dispersion: the top 10% exceed 30%, while the bottom 10% barely return capital. In Private Equity, the story is different: less risk and volatility, more predictable horizons. VC, by contrast, operates under a “power law” logic. It is worth noting that average IRRs of VC funds in Europe and the U.S. do not consistently outperform the S&P 500 over long horizons—and often underperform.

A very small percentage of companies account for most of the portfolio's returns. That is both the magic and the frustration of the model: many failures, few victories—but each victory can redefine the entire outcome. Large allocators understand this. That is why endowments such as Yale or Cambridge typically limit VC exposure to 5–8% of their portfolios. Not out of fear, but because they understand it is a small allocation with disproportionate potential impact.

VC does not seek stability; it seeks disruption. At its best, it is a bet on structural change, at its worst, a lesson in patience. In Latin America—where cycles are longer and exits tend to be smaller (USD 150–400 million on average)—investing in VC requires conviction: believing that an outlier can transform not just a portfolio, but an entire industry.

Although VC is not an “indexable” asset, the capital it deploys still carries a mandate: to create economic value with risk-adjusted returns. That mandate coexists with another equally important one: not to erode the market mechanisms that make sustainable value creation possible.

VC capital is not neutral. It reshapes signals (price, scarcity, time) and, when used to persistently cover operational inefficiency, it distorts markets: it blocks price signals, displaces efficient actors, and generates negative externalities (adverse customer selection, artificial barriers to entry, destruction of value in adjacent chains). WeWork is emblematic<sup>4</sup>: expansion and below-cost pricing not driven by genuine productivity or scale, but by capital subsidies—followed by ecosystem-wide shock.

Demanding returns from VC is not financial reductionism; it is preserving the social function of entrepreneurial capital. Profitability acts as a reality filter: it forces growth to come from productivity, learning, and durable competitive advantages (technology, processes, research), not from temporary capital transfers to customers. Demanding responsibility means recognizing that

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(3) Although the point probability of achieving a  $\geq 20x$  return in VC may look “similar” to the 2.7% probability of hitting a single number in European roulette, they are not comparable: roulette has a capped payout and negative expected value (EV), whereas VC has an unbounded right tail and an EV that can be made positive through informational advantage, specialization, and portfolio construction. Therefore, saying that “the single number pays more” is false in terms of expected value and payoff scalability.

(4) Anna Wiener, “The Rise and Fall of WeWork,” *The New Yorker*, November 10, 2019.

VC operates in complex systems where excess liquidity can create “zombie” competitors, artificial demand curves, and unrealistic pricing trajectories that eventually collapse.

### 3. In a World with Fewer Barriers to Entry, Capital Becomes Expendable

The decline in the cost of building digital technologies—cloud, open source, no-code/low-code, APIs, AI—has substantially reduced the capital required to launch and scale software products<sup>5</sup>. This directly impacts the universe of “VC-investable” companies: many businesses no longer require venture capital to reach profitability or meaningful growth, and therefore do not need early dilution or successive funding rounds. The result is not more opportunities for VC, but fewer—because a company that can grow through cash flow or bootstrapping no longer fits the asymmetric return logic that justifies the model.

This particularly erodes the classic case of dominant vertical SaaS. If tools are cheap, replicable, and globally accessible, barriers to entry fall and the probability of a single winner capturing durable market power declines. Instead of category winners, markets fragment into multiple efficient players—noncapable of extracting extraordinary rents. For traditional VC, this is problematic: fewer natural monopolies, fewer power-law outcomes, and more companies that are “good” but not transformational.

Meanwhile, capital allocated to venture capital has grown significantly over the past decade, as has the number of funds and active managers. This growth has not been proportional to the expansion of structurally suitable VC opportunities. The result is a classic supply-demand imbalance: too much capital chasing a shrinking number of assets that genuinely justify high valuations and long illiquidity cycles.

Excess capital manifests in three distortions:

- (i) early-stage valuation inflation,
- (ii) funding of companies that do not require VC but accept it for pricing arbitrage, and
- (iii) proliferation of undifferentiated generalist funds.

In this context, competition does not improve efficiency—it degrades investment discipline. The problem is structural. The standard VC model was designed for environments with capital scarcity and high technological barriers—not for a world where software is abundant and cheap.

Given this mismatch, the system can rebalance through two plausible paths.

The first is greater specialization in deeptech (biotechnology, medtech, decarbonization, advanced materials, space, etc.), where barriers remain high, development cycles long, and risk capital structurally necessary<sup>6</sup>. In these sectors, capital does not subsidize inefficiency—it enables existence. Specialization is not aesthetic preference; it is a prerequisite for informational advantage and subsequent returns.

The second path is structural innovation in capital itself—evergreen or “buy and hold” models that recognize not all strong companies are built for rapid exits or hyper-scaling<sup>7</sup>. These vehicles accept lower turnover, longer horizons, and value accumulation rather than forced liquidity. In a world with fewer “home runs,” insisting on fixed-duration funds and exit pressure may be counterproductive. The alternative is not abandoning VC—but adapting its form to the companies that actually exist.

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(5) Garry Tan (CEO de Y Combinator): “But (founders) they’re going to be able to get there (be a giant company) without having 5,000 people. They might be able to do it with 20 or 30 people.” <https://www.vanta.com/resources/why-the-next-unicorns-are-built-by-ai>

(6) Luciana Lixandu (Sequoia Capital): “We’re still investing in SaaS, but we’re much more selective... What excites us today are platform shifts such as AI-native, bio-compute, and deep infrastructure.” en <https://vds.tech/news/deep-tech-vs-saas-venture-capital-trends>

(7) <https://techcrunch.com/2023/06/22/andreesen-horowitz-a16z-perennial-evergreen-fund>

In sum, the adjustment will not come through marginal corrections, but through a redefinition of the type of risk worth financing and the level of patience required from the capital that finances it. Everything else is temporary friction.

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#### 4. VC and the Transformational Responsibility of Capital

From Kortum and Lerner (2000) to recent OECD reports, one fact repeats: VC drives innovation more than any other form of capital. Each dollar invested in VC generates more patents, productivity, and long-term growth—not only in Silicon Valley, but in São Paulo, Santiago, and Bogotá.

VC finances what sounds impossible: mRNA vaccines, low-cost solar energy, artificial intelligence, agricultural biotechnology. It arrives when others retreat. In Latin America, that is gold—because VC does not merely fund startups; it creates industries that do not yet exist.

This is why VC cannot limit itself to funding the next delivery app or trivial consumer product. Founders Fund's manifesto criticized this in the mid-2000s: much of the industry had shifted from financing the future to funding the trivia. VC drifted from solving radical problems toward incremental ones.

The role of Venture Capital must extend beyond financial return. It must assume risks others cannot, multiply human possibility, and push the frontier of knowledge. Investing in companies addressing energy, health, and biotechnology is not altruism—it is the only rational path to durable returns. If VC does not finance the impossible, who will? Venture Capital was born for that purpose: to bet on the improbable and make it happen. And if it ever drifted from that mission, today it has the opportunity to reclaim it.

The 2025 Nobel Prize in Economics awarded to Joel Mokyr, Philippe Aghion, and Peter Howitt confirms this manifesto's thesis: progress is not a market accident—it is a collective decision to bet on innovation. Aghion and Howitt demonstrated that sustained growth arises from creative destruction, from companies who dare to replace the old with the new, even when the path is uncertain. Mokyr, for his part, showed that societies prosper when they cultivate a culture that legitimizes technological change and useful knowledge.

VC can be the practical embodiment of these theories. It can finance creative destruction and turns innovation culture into action. In Latin America—where institutions are still developing—that responsibility is even greater: specialize, invest with purpose, and support those tackling hard problems to move the region closer to the frontier of knowledge.

As Mokyr wrote, “technological progress is not inevitable; it is the result of choosing to believe that change is possible”. That is also the essence of VC: to finance the improbable, make it possible, and turn it into development.

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#### 5. In Emerging Ecosystems, Sector Specialization Converts Informational Asymmetry into Alpha

In mature markets, information is abundant. In emerging ones, it is scarce. Where others see opacity, specialized funds see opportunity. And that's where the trick relies on, in high informational asymmetry contexts (e.g., cross-border or

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(8) La ventaja empírica es más clara en fondos pequeños/medianos (sub-\$250M). En ese tramo, los datos de Pitchbook favorecen a los especialistas.

(9) Nörthemann, A. Industry-specific specialization in venture capitalists' internationalization decisions. *J Bus Econ* 93, 891–927 (2023)

emerging market investing), sector specialization reduces risk and barriers while increasing the probability of successful regional investment. While data comparing specialist vs generalist returns is limited, there are meaningful indications favoring specialists. There is also evidence validating the mechanism by which specialization enhances evaluation, monitoring, and value creation in cross-border investing.

Why? Because specialization enables three critical and fundamental advantages:

1. Better understanding — You know the technologies, regulators, timelines, and sector-specific risks.
2. Better support — You add more than capital: partnerships, operational experience, network access.
3. Better exits — You understand who can acquire, merge, or license the company.

We are not simply talking about thematic deal-flow concentration; it is operational-thematic specialization. In high asymmetry contexts like India or Latin America, geographic specialization is a robust lever to mitigate informational risk and improve selection, monitoring, and exits. When a well-known firm like Andreessen Horowitz launches a biotechnology fund, they don't go on their own, but partner with mega corporation such as Lilly.

What we see here is not simply concentration of same topic opportunities, but the acumen of knowledge and the strength of connections applied to one specific objective.

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## 6. Zentynel's bet

Latin American Venture Capital is maturing—on its own timeline and with its own codes. It will not replicate Silicon Valley, nor should it. Its role is not simply to create unicorns—it is to build industries, talent, and technological sovereignty.

Investing in VC in this region is ultimately an act of conviction. It requires embracing uncertainty, complexity, and the understanding that returns do not always come as multiples. Sometimes they come as impact, knowledge, or independence. Investing early and with focus is not merely a financial strategy—it is a way of building the future.

Our conviction at Zentynel is that focusing on a specific segment (biotechnology) in a specific geography (Latin America) responds to a clear demand: specialized support for a high-value industry capable of reshaping the productive dynamics of a region with extraordinary biological and human potential. A demand for solutions to health, food, and environmental challenges that will define the next century. And a demand for investment opportunities that combine financial return with transformative impact.

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(10)Nörthemann, A. Industry-specific specialization in venture capitalists' internationalization decisions. *J Bus Econ* 93, 891–927 (2023)

(11)Joshi, K. A. (2018). Managing Information Asymmetry Risks Using Deal Syndication and Domain Specialization: An Indian Context. *Asian Journal of Innovation & Policy*.

(12)<https://a16z.com/announcement-andreessen-horowitz-partners-with-lilly-to-launch-first-of-its-kind-biotech-ecosystem-venture-fund/>