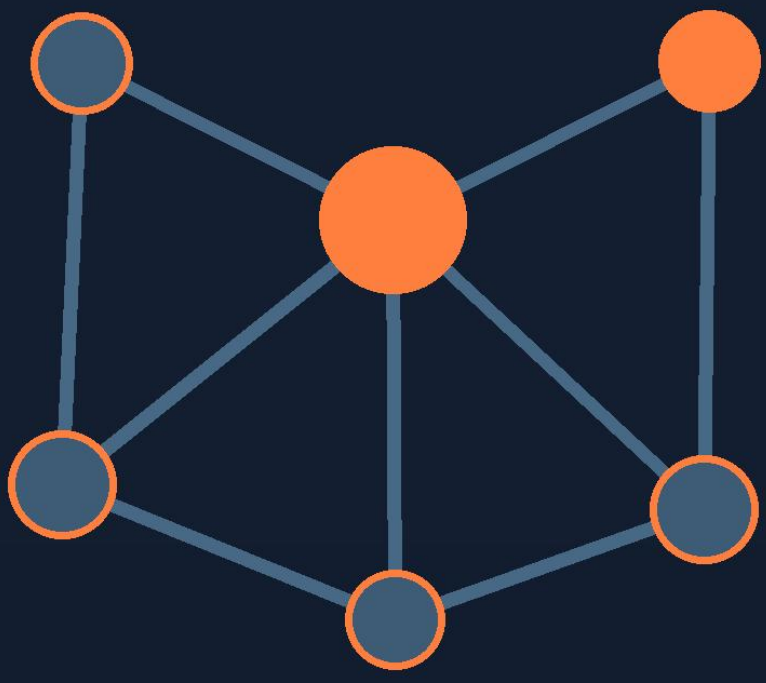
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SF / 06

Venture Capital Explained

From Investment Thesis to Portfolio Decisions



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Venture Capital Explained

From Investment Thesis to Portfolio Decisions

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> **Important reader note.** This book provides general education, not an invitation to invest, a securities offering, a fund launch service or legal, tax, accounting or investment advice. All companies, portfolios and calculations are hypothetical. Private investments can involve loss of capital, long holding periods and complex legal obligations. Professional and jurisdiction-specific verification is necessary before any regulated activity.

About this book

Venture capital is frequently described as money for promising startups. That description misses the operating system around the money: a defined investment mandate, specialist sourcing, staged conviction, portfolio construction, contractual rights, follow-on reserves, governance, reporting, liquidity constraints and accountability to capital providers. The model can create important new businesses, but it is not the best capital route for every company, and an investment manager is not interchangeable with an innovation consultancy or startup builder.

This book explains venture financing from both sides of the transaction. It distinguishes the company that seeks growth capital from the entity that evaluates and funds it, and the limited partners who may support a managed fund. It also separates ownership of an ordinary operating business from running a pooled investment fund, an activity that can have substantial licensing, disclosure and fiduciary implications. The SEC maintains explanatory resources on the structure and obligations of private funds and advisers [R1].

The examples are designed to make decisions understandable, not to market returns. Every portfolio model is an illustration, not a prediction of what Silicon Founders or anyone else has achieved. Use the appendices to build a disciplined decision process before discussing capital with others.

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CHAPTER 01

1. What Venture Capital Is, and What It Is Not

Capital matches a particular kind of business risk

Venture capital is generally associated with equity or equity-linked financing of companies with uncertain early performance and a prospect of meaningful growth. Unlike a loan whose contractual repayment schedule may be central, venture investments often depend on the value eventually realized from company equity. The investor accepts the possibility of partial or total loss, and the company takes on the obligations and dilution embedded in its financing terms. Neither side should treat a funding announcement as an operating success metric.

A venture may be well run without fitting this model. A profitable professional service, local manufacturer or narrowly focused SaaS provider may generate substantial owner value without pursuing the growth scale or exit profile a venture investor seeks. Alternative financing includes customer cash, grants, strategic contracts, bank debt where appropriate, revenue-based arrangements and owner capital. The correct choice depends on economics, risk, ownership preferences and capital need, not fashion.

Distinguish three different businesses

A **startup or operating venture** sells products or services to customers. An **investment manager or fund** selects and owns securities on behalf of a defined pool of capital under legal rules. A **venture studio or advisory business** may help build, research or commercialize companies, potentially for fees, ownership or shared services. An organization can be involved in more than one activity, but each has different authority, liabilities, economic incentives and compliance requirements. Do not call an advisory service a regulated investment manager or promise access to investors merely because it serves startups.

Even the word 'venture investor' can describe different roles: an individual investing personal capital, a corporate investor using company resources, a family office, a syndicate and a professionally managed fund. Each requires careful evaluation under the rules applicable to its activities and jurisdiction. The SEC's *Starting a Private Fund* resource explains that funds may be distinct from their advisers and management entities, and that adviser registration or exemptions require analysis [R1].

Align expectations before the first meeting

A founder should ask an investor about mandate, capital availability, check size, reserve strategy, decision authority, typical process and support. An investor should ask about business evidence, use of proceeds, milestones, capitalization and constraints. Mutual clarity reduces wasted time and protects relationships. An introduction is not an investment commitment; a term sheet is not necessarily a completed transaction; projected returns are not achieved performance.

Deliverable: A comparison of venture equity, non-dilutive capital and customer funding for one fictional company. **Decision gate:** Identify the entity and regulated activities involved before using investment terminology in external communications.

CHAPTER 02

2. Investors, Funds and the Life of Capital

Understand the capital chain

In one common private fund arrangement, limited partners (LPs) commit capital to a legally constituted fund, while a general partner or associated manager oversees investments subject to the governing documents. A fund often calls committed capital over time rather than receiving all commitments as cash on day one. Management companies, advisers, the fund and portfolio companies are not interchangeable bank accounts or legal persons. Structures vary across countries and fund types; the governing documents control.

The life of capital can include raising commitments, an investment period, follow-on financing, holding companies, distributions and eventual winding down. Timing is uncertain. Some ventures may exit quickly; others take many years; some never return capital. The SEC's Investor.gov educational material notes that private equity investments are commonly illiquid and that investors may need to hold them for years [R2]. Venture portfolios require planning for this duration.

Fees, carried interest and net outcomes

A fund may charge management fees, allocate operating expenses, and provide carried interest to managers under defined conditions. The levels and calculation bases depend on the documents; widely discussed fee patterns are not universal or guaranteed. An LP should distinguish gross asset performance from net cash it actually receives after fees, expenses, carried interest and other allocations. Side letters and co-investment arrangements can affect different participants' rights and obligations.

An illustrative fund has $20 million in total commitments and a hypothetical 2% annual fee on committed capital in a particular year. That formula suggests $400,000 for that year, but says nothing about actual fund terms, step-downs, offsets or expenses. It is not a recommended rate or statement of market practice. A limited partner must read the governing documents and cash-flow terms, not infer fees from a marketing slide.

Governance and transparency matter

Institutional Limited Partners Association (ILPA) principles emphasize alignment of interests, governance and transparency. The principles discuss reporting, conflicts, economics and effective LP-GP partnership practices [R3]. These are guidance rather than a universally binding legal code. Practical questions include: Who may approve conflicted transactions? Who values illiquid holdings? How are fees allocated? What are the key-person protections? What information is given to LPs? What happens when a strategy changes?

For a small business simply evaluating ventures, one can borrow the discipline of documentation without pretending to be a fund. Write an owner-level investment policy, create a decisions register, and keep capital authorization separate from research and outreach.

Deliverable: A map of stakeholders, entities, cash flows and decision rights. **Decision gate:** Fund formation and investment adviser status require qualified jurisdictional analysis before any operation or solicitation.

CHAPTER 03

3. Developing an Investment Thesis and Mandate

Make the thesis falsifiable

An investment thesis should explain where the investor believes valuable opportunities may emerge, what evidence supports that view and what would change the opinion. 'We invest in AI' is an interest area, not a thesis. A stronger thesis identifies customer problems, procurement behavior, enabling technology, business model, geography and specific reasons for timing. It also recognizes how the thesis could fail: regulation, lower willingness to pay, infrastructure costs, or inability to reach buyers.

Mandate turns thesis into constraints. Define allowed sectors, stage, geography, type of security, check-size range, concentration limits, follow-on strategy, holding period, prohibited activities and decision authority. If an opportunity violates a mandatory constraint, either decline it or initiate a formally authorized mandate review. Do not redefine the mandate quietly in the middle of an exciting pitch.

Distinguish thematic exposure from portfolio fit

A portfolio can be overexposed to a risk that is not obvious from industry labels. Five businesses may use different labels - EdTech, HealthTech, FinTech, GovTech and enterprise AI - yet all rely on the same cloud provider, customer acquisition channel, regulatory decision or geographic budget cycle. Risk mapping should identify shared dependencies, not just sectors. Separate strategic preferences from hard concentration limits.

A thesis should also specify what success looks like before liquidity. This may include verified pilot conversions, repeat usage, customers in a defined category, gross margin milestones or regulatory clearance where required. Growth claims should be measurable, source-linked and time-bound. When a thesis depends on a government policy or other changing fact, date the source and check it before commitments.

Write an investment decision rubric

Use a repeatable screening rubric across strategy, market, revenue economics, demand, people, finance, technology, legal risk and evidence quality. Specify who scores the opportunity and what grade of evidence is needed. A score can organize a queue; it cannot replace underwriting, a legal compliance decision or authorized approval. A significant unresolved integrity concern should stop the process regardless of a favorable total.

A good process also records **pass reasons**. If the committee declines a company for price, concentration or insufficient evidence, that is not necessarily a judgment that the company lacks quality. The purpose is consistent allocation of scarce attention and capital.

Deliverable: A one-page thesis, mandate constraints and evidence rubric. **Decision gate:** Investment thesis and approval authority must be agreed before a live transaction is considered.

CHAPTER 04

4. Sourcing Opportunities Without Fabricating Traction

Access is not the same as investment quality

Opportunities may come from customers, universities, founders, conferences, research, public applications, service partners and thematic searches. The volume of introductions does not establish quality. Count unique eligible opportunities, evidence level, conversion into actual reviews and reasons for decline. Avoid listing organizations as 'partners,' 'portfolio companies' or 'investors' without verified relationships and authorization.

A disciplined opportunity log includes opportunity ID, sector, country, source, publicly verifiable company identity, contact authorization, founding stage, core problem, capital need, mandate fit, evidence grade, conflicts check and next step. Where research uses public contact details, respect communications and privacy rules. Never collect identity documents or private bank statements through an open intake form.

Qualify with a short first meeting

The first meeting is a filter, not full diligence. Ask what the company does, who pays, what is proven, why it could become meaningful, what constraints exist and what capital would change. Ask founders what they would do if capital were unavailable. An investor should be able to explain the next step and why the information requested matters. Sensitive diligence should occur later in controlled channels with permissions.

Deal flow tends to create narrative bias. A compelling founder story can make an analyst overlook inconsistent metrics; familiarity with a known institution can create unwarranted confidence. Mitigate with a standard scorecard, contrary-case question and separation of sourcing and independent review when resources permit. Document conflicts when an evaluator stands to receive advisory fees, equity or referral compensation from the company.

Build a respectful decline process

A prompt, clear decline is better than months of ambiguous interest. A concise response might say the opportunity falls outside the current mandate, requires traction at a later stage, or lacks particular evidence; it should not make unsupported statements about the team's integrity. Do not claim that a committee approved, rejected or met if no such authorized process occurred.

A pass can be reversed when a specified event occurs, such as verified customer demand or a legal permission being obtained. Record the trigger rather than promising periodic attention without operational capacity. A monitored pipeline needs a responsible owner, current status and dated next action.

Deliverable: Source-specific opportunity register and standardized first-meeting note. **Decision gate:** No external statements of commitment, partnership or fund availability without authorization and verified facts.

CHAPTER 05

5. Screening, Diligence and Investment Decisions

Work from existential risks inward

An effective diligence process examines mandate fit, integrity, legal ability to transact, ownership of core assets, demand, finance and people before spending disproportionate effort on lower-materiality details. Define a review plan with scope, evidence requests, qualified reviewers and a deadline. Scope expands when major issues emerge; it should not expand mechanically into a checklist with hundreds of unprioritized items.

Treat a founder's representations, internal company records, independent confirmations and analyst forecasts as different sources. Review a selection of customer contracts, reconcile financial claims, check IP assignments, inspect governance approvals, validate critical technical claims and map regulated activities to specialist advice. WIPO's venture IP due diligence guidance highlights ownership chains, software and licensing inventories and related risk assessments [R4].

Turn findings into decisions

An issue is not resolved because someone answers an email. Define closure evidence. For example, an unexplained revenue discrepancy may require ledger reconciliation and a reviewer sign-off; an uncertain software license may require legal interpretation and replacement of a component. Each issue receives severity, owner, due date, proposed remedy and impact if unresolved. The committee should distinguish between a company that has manageable problems and one with risks it cannot assess.

Material concerns involving possible fraud, lack of corporate authority or a fundamental licensing barrier are escalation gates. Avoid defamatory conclusions based on incomplete evidence; preserve the observed facts and seek specialized review. Other issues may be addressed through deal terms, operating milestones or conditions, but only with documented approval.

Write the investment memo for future readers

A concise memo should include the investment thesis, company and market, traction and source quality, unit economics, capital requirement, cap table, proposed rights, alternatives, downside, legal/integrity flags, valuation method and recommendation for an authorized body. Explicitly list what the memo cannot verify. Write the counterargument before writing the conclusion. An investor may decide to fund a company that still has substantial risk, but the uncertainty should be visible rather than hidden.

Deliverable: Diligence memo and issue register. **Decision gate:** Investigating a company, scoring it, approving its commercial fit and committing capital are distinct stages with different authority.

CHAPTER 06

6. Portfolio Construction, Reserves and Concentration

Every first check creates potential future decisions

A venture portfolio needs more than a list of promising companies. It needs constraints on initial exposure, likely follow-on needs and the liquidity available to support commitments. If an investor deploys all resources in initial checks, a promising company may later require capital the investor cannot provide, while unspent reserves have an opportunity cost. The appropriate balance depends on capital availability, mandate, company quality and concentration tolerance.

Construct simple scenarios. A fictional $5 million allocation could assign $3 million to initial investments and $2 million to potential follow-ons and support, but that is merely a demonstration of categories. Before applying it, the owner must decide what percentage could be lost without jeopardizing core obligations, whether commitments can be met during a downturn, and whether new funding can be raised only under a permitted legal structure.

Model concentration at several levels

Position size as a percentage of the relevant pool; then map exposure by country, sector, stage, technology provider, buyer category and currency. A portfolio of ten companies is not automatically diversified if all ten depend on the same customer budget cycle. Note correlated downside scenarios and any contractual capital calls. Compare illiquid private exposure with immediately accessible cash and other liabilities at the owner or fund level.

For every holding track the original thesis, check size, security type, legal rights, current milestones, cash runway, next financing probability, need for further capital and likely decision timetable. Do not automatically double down because a prior amount was invested. Sunk cost is not a new investment thesis.

Allocate follow-on capital by fresh evidence

A follow-on decision should be made using updated evidence and price. Questions include: Did the company meet the agreed milestones? Did customer quality improve? Has the cap table become more complex? Is the new round an attractive use of scarce funds relative to other options? Are there bridge financing dependencies or pay-to-play provisions? Is an extension of runway enough, or has the business model changed?

Portfolio discipline must account for tail outcomes: some positions may fail completely, some may remain illiquid for years, and a few may drive a large portion of portfolio value. Do not turn that general observation into a numerical claim about guaranteed winner rates or expected return distributions. Model portfolio-specific risk rather than importing unsupported averages.

Deliverable: Capital allocation table and three reserve scenarios with cash triggers. **Decision gate:** A capital budget is not permission to invest; transactions still require the relevant approvals.

CHAPTER 07

7. Term Sheets, Ownership and Value Creation

Capital terms determine more than ownership percentages

A startup financing may use priced equity, SAFEs, convertible notes or other instruments. Each affects capitalization, future rights and distribution of proceeds differently. In a simplified round, $2 million of primary investment at an $8 million pre-money equity value creates a $10 million post-money value and 20% new investor ownership before other adjustments. Option pool top-ups, convertible instruments and different share rights can change the actual result.

Y Combinator publishes post-money SAFE forms, including valuation cap and discount structures, and describes their conversion mechanics. NVCA publishes model legal documents for US venture financings, including stock purchase, investor rights, voting and co-sale arrangements [R5] [R6]. These resources are educational starting points and not licenses to copy terms into another jurisdiction without legal analysis.

Model the distribution waterfall

A preferred share with a 1x non-participating liquidation preference may receive either its preference or its as-converted common share under the specific documents. Other structures may include participation, seniority, dividends and special consent rights. An investor should not confuse paper post-money value with proceeds available at exit. A founder should understand how potential sale prices distribute among debt, different equity classes and employees.

Board seats, voting rights, vetoes, information rights and pro-rata participation can shape a company's operations for years. Create a rights matrix showing who approves changes in strategy, fundraising, share issuance, major debt, company sales and related-party transactions. The aim is clarity about durable consequences, not a universal verdict that any provision is good or bad.

Value creation after investment is operational

The phrase 'value-add investor' is easy to promise and hard to substantiate. Genuine assistance can include customer introductions with consent, executive hiring, product strategy, compliance introductions, technical guidance and future fundraising preparation. Measure specific actions, not vague claims about networks. An introduction is not a contract and a partner meeting is not revenue.

Avoid hidden conflicts between paid advisory services and investing. If an adviser may receive fees, equity, referrals or success payments from the same company, identify the arrangement, disclose conflicts appropriately and obtain required approvals. An investor should not imply control over customers or institutions with whom no binding relationship exists.

Deliverable: Deal rights map, modeled cap table and post-investment support plan. **Decision gate:** Closing requires authority, legal compliance, verified documents and actual funding evidence.

CHAPTER 08

8. Measuring Portfolio Results and Reporting Honestly

Use the right metric for the right question

A portfolio report should distinguish invested cost, estimated current fair value, realized distributions, remaining value, unfunded commitments and expenses. The terms **DPI**, **RVPI** and **TVPI** are widely used private-capital metrics: distributions to paid-in capital, residual value to paid-in capital, and total value to paid-in capital. Define the exact calculation basis, currency, reporting date and fee treatment before presenting them. They are descriptive ratios, not promises of return.

Consider an illustrative portfolio with $4 million paid in, $1 million distributed, and $5 million estimated remaining value. On these fictional assumptions, DPI is 1 / 4 = 0.25x, RVPI is 5 / 4 = 1.25x and TVPI is (1 + 5) / 4 = 1.50x. However, most of the apparent value remains unrealized and the numbers say nothing by themselves about the timing of cash flows or net investor returns. A private valuation is not the same as cash in the bank.

Cash timing changes the story

Internal rate of return (IRR) is sensitive to the timing of cash flows, including subscription and distribution dates. A cash-on-cash multiple ignores timing. Both may be useful, but neither replaces a detailed cash-flow schedule, net performance calculation or disclosure of methodology. Financial modeling should be reproducible and reviewed by competent people. Do not compare a gross asset-level multiple with a net LP-level IRR as if they were interchangeable.

For unrealized holdings, valuation practices require judgment. IPEV's 2025 guidelines provide best-practice recommendations for private-capital fair value reporting [R7]. The valuation report should include significant drivers, recent transaction evidence, calibration and a record of material changes. An earlier financing announcement cannot justify carrying value indefinitely if performance or market conditions change.

Report integrity and transparency

An investor or owner report should show both positive and negative changes, company status and cash needs. Use consistent definitions over time, disclose corrections and avoid cherry-picked portfolios. Where information is confidential, provide authorized aggregate or redacted reporting rather than exposing sensitive records. ILPA's principles emphasize transparent information and responsible governance for GP-LP relationships [R3].

Deliverable: Quarterly reporting template distinguishing cost, cash distributions, unrealized value, exposures, exceptions and material assumptions. **Decision gate:** Never describe estimates as realized returns or hypothetical scenarios as past performance.

CHAPTER 09

9. Liquidity, Exits, Failure and Organizational Learning

Exit is a process, not an assumed destination

Possible venture liquidity events include a strategic sale, secondary transaction, public market listing, a recapitalization or other legally permitted transfer. Many companies will not reach these outcomes on the expected timeline. Share-transfer restrictions, information rights, sale approvals and local securities law may affect the ability to sell. The existence of an apparent buyer does not establish that a transaction can close.

Exit preparation begins before a buyer appears: reconcile ownership records, IP rights, financial statements, customer contracts and governance. An acquisition can fail because a core asset is not owned, a customer contract cannot transfer, the financial record is inconsistent or a regulatory permission is absent. These are operating disciplines as much as exit disciplines.

Failure is part of investment analysis

A venture can fail despite a serious and competent team. Technology may not work commercially; procurement may be too slow; customers may not retain; financing may disappear; a competitor may gain distribution. An investor should understand limited liability, legal claims and the ranking of debts and equity under actual law. An honest write-down or company closure is not automatically evidence of misconduct.

When evidence deteriorates, avoid using additional funding merely to postpone recognition of the problem. Write a fresh memo that ignores sunk cost. Compare rescue capital with other opportunities and evaluate whether operations can be wound down responsibly. Human consequences matter: customers, employees, investors, vendors and data subjects require accurate communications and proper legal treatment.

Improve the portfolio decision process

After an exit or failure, conduct a learning review: Which hypothesis was right? Which evidence was misleading? Were the costs of diligence proportionate? Did we overpay for a popular sector? Did we miss a contractual or security risk? Were follow-on decisions based on milestones or sunk cost? Update the methodology and sourcing priorities accordingly.

A responsible organization values the accuracy of its decision records more than how its public success stories look. This is especially important for a company building a long-term institutional reputation through research, partnerships and education.

Deliverable: Investment post-mortem with thesis-versus-actual comparison and corrections to the decision rubric. **Decision gate:** Any winding down, transfer, write-off or legal filing requires the appropriate authority and specialist input.

CHAPTER 10

10. Building a Responsible Venture Operating System

Separate research, relationship development and capital authority

A lightweight operating system can have five linked registers: opportunities, evidence, decisions, portfolio monitoring and risks. Research and outreach may be delegated within approved permissions; legal conclusions, binding deal terms, prices, signatures and money movement must be controlled. A CRM is not an investment ledger. A public marketing page is not a securities offering document. Keep them separate even when the same software platform stores records.

Define a weekly review of eligible opportunities and overdue evidence, a monthly review of cash and material risks, and a quarterly thesis and portfolio review. Each review should produce a short decision record: what changed, what action was authorized, by whom and on which evidence. Do not claim ongoing automated monitoring exists unless the underlying tools are connected, scheduled and tested.

Let AI support analysis without making the decision

AI systems can summarize public sources, generate interview questions, draft issue registers, compare versions of term sheets and flag inconsistencies for humans to verify. They can also invent facts, misread financial statements or reveal confidential data when used carelessly. Apply access control, source links and human review. No automated score should send investor solicitations, approve securities transactions, bind a company or transfer funds.

Use a small number of key metrics: qualified opportunities; evidence completeness; time to initial screen; number of unresolved stop flags; decisions issued by authorized body; cash deployed by category; follow-on commitments; portfolio cash runway; verified distributions; and realized versus estimated value. Avoid dashboards that measure activity but never improve decisions.

Build trust through accurate public language

An organization may publish educational content, describe sectors of interest or invite businesses to apply for services without representing itself as a licensed financial intermediary or promising funding. Public materials should clearly describe actual services and verified relationships. Terms such as 'our investors,' 'approved portfolio,' 'fund under management' or 'guaranteed returns' require real substantiation and, where relevant, regulatory permissions. A prudent venture ecosystem makes research, commercial services and regulated finance visibly distinct.

Deliverable: A governance calendar, responsibilities map and verified reporting register. **Decision gate:** Establish lawful operating permissions before any investment management, fund marketing or capital solicitation activity.

REFERENCE MATERIAL

Appendix A. A Venture Investment Thesis Template

Mandate and purpose: What specific outcomes and portfolio risks are authorized? Who makes final decisions?

Sector and customer problem: Describe a buyer, a costly job and an evidence-backed market shift.

Geography, stage and instruments: List allowed and excluded jurisdictions, stages, security types and check ranges.

Source of potential advantage: Explain why the selected ventures may become commercially defensible and what could invalidate that idea.

Portfolio and reserves: Specify initial allocation, follow-on philosophy, position limits, maximum correlated exposure and cash limits.

Evidence gates: Define the first-screen minimum, deep-diligence trigger, legal stop issues and committee requirements.

Reporting and review: Identify owners, source systems, update frequency and actual decision authority.

REFERENCE MATERIAL

Appendix B. Example Portfolio and Reserve Model

All amounts in this appendix are purely fictional; no allocation or return is recommended.

Capital planning line	Hypothetical amount	Purpose
Total owner-approved risk budget	$5,000,000	Total maximum resources considered for this exercise
Initial investments	$3,000,000	Illustrative staged first-check allocation
Potential follow-on reserve	$1,500,000	Uncommitted planning reserve for possible future needs
Due diligence and contingency	$500,000	Illustrative advisory/operational buffer; treatment depends on entity
Committed or invested to date	$0	No investment is implied by this worksheet

Risk questions: How much can be lost? What capital calls could arise? Are reserves liquid and immediately available? Would a correlated downturn affect every holding? Is one company consuming disproportionate executive attention? Can a future follow-on be declined without breaching a contract?

Scenario method: Recalculate the proposed allocation for slower exits, higher reserve needs, a weaker funding environment and additional legal expenses. A model should report both remaining available cash and legally binding commitments.

REFERENCE MATERIAL

Appendix C. Monitoring, Metrics and Decision Records

Metric	Definition and caution	Update owner
Cash paid into investments	Actual amounts and dates transferred, not intentions	Finance
Realized distributions	Received and reconciled cash from investments	Finance
Unrealized holding value	Dated estimate with method and evidence; not cash	Investment reviewer
Portfolio runway	Company-reported or reconciled cash and burn basis	Portfolio owner
Follow-on capacity	Available authorized funds less binding commitments	Capital allocator
Material exceptions	Rights, security, legal, data, governance and financial issues	Specialist owner
Decision log	Proposal, alternatives, authorizer, action and review date	Committee secretary

Illustrative metrics example: With paid-in capital of $4m, distributions of $1m and residual estimated value of $5m, DPI = 0.25x, RVPI = 1.25x and TVPI = 1.50x. These are not a forecast, a realized profit measure or a Silicon Founders performance claim.

REFERENCE MATERIAL

Appendix D. A Founder Guide to Evaluating an Investor

- Verify the investor's real legal identity and who can make the investment decision.
- Ask whether the investor has available capital, what mandate applies, and whether future support is discretionary.
- Distinguish an introductory conversation, an expression of interest, an indicative term sheet and actual completed investment.
- Understand pre-money versus post-money, conversion instruments, preferences, control rights and option-pool effects.
- Ask about reporting frequency, value-added support and specific references, with permission.
- Identify any advisory fee, brokerage, referral commission or related-party conflict.
- Obtain professional review of proposed agreements and jurisdictional securities rules.
- Protect personal data, IP and confidential customer information during diligence.
- Record authorized closing steps and verify funds actually received.

REFERENCE MATERIAL

Appendix E. Glossary and Primary Source Register

GP: General partner or related fund management role, depending on structure. **LP:** Limited partner in a fund. **Investment adviser:** A person or entity whose regulated legal definition and duties depend on jurisdiction. **Investment period:** Defined portion of a fund's life during which new investments may be initiated under its governing agreement. **Capital call:** Request for committed capital under the relevant fund documents. **Reserves:** Resources planned for potential follow-on commitments or other uses. **DPI:** Cash distributions divided by paid-in capital under a stated convention. **RVPI:** Residual estimated value divided by paid-in capital. **TVPI:** Total value (distributions plus residual value) divided by paid-in capital. **IRR:** The money-weighted discount rate implied by dated cash flows; it can differ materially from a simple investment multiple and from time-weighted returns. **Pro rata:** Contractual entitlement, when applicable, to participate in later financings to maintain ownership. **Liquidity:** Practical ability to realize cash through a permissible transaction.

Primary reading sources (verified 30 October 2026):

- [R1] U.S. SEC, *Starting a Private Fund*. https://www.sec.gov/about/starting-private-fund
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- [R8] Institutional Limited Partners Association, *Due Diligence Questionnaire*. https://ilpa.org/resources-tools/resource-library/due-diligence-questionnaire/

Sources have different scope and jurisdictions. Their inclusion does not establish any affiliation with Silicon Founders. Verify the relevant versions and laws immediately before public release or acting on a transaction.

About Silicon Founders Publications

Silicon Founders Publications develops educational resources for global founders, investors and institutional partners. This book's scenarios do not claim that Silicon Founders operates an investment fund, has received commitments, manages capital, has made investments or achieved performance results.

PRACTICAL WORKSHEET / 01

Venture Investment Thesis Card

Use this page as a reusable internal working tool. Record dates, sources and accountable owners; do not invent entries.

Prepared by: _____ Date: _____

Mandate, stage, geography and excluded activities

_____

_____

Customer problem and source-backed sector change

_____

_____

What could falsify the investment hypothesis

_____

_____

Capital limits and shared risk factors

_____

_____

Review cadence, owner and authorization

_____

_____

PRACTICAL WORKSHEET / 02

Roles and Permissions Map

Use this page as a reusable internal working tool. Record dates, sources and accountable owners; do not invent entries.

Prepared by: _____ Date: _____

Actual legal entities and responsible humans

_____

_____

Research, advice, investing and fund roles kept separate

_____

_____

Regulatory permission questions and verified status

_____

_____

Conflicts, fees and information barriers

_____

_____

Who can authorize outreach, price and signatures

_____

_____

PRACTICAL WORKSHEET / 03

Opportunity Funnel and Diligence

Use this page as a reusable internal working tool. Record dates, sources and accountable owners; do not invent entries.

Prepared by: _____ Date: _____

Company, source and fit without invented relationships

_____

_____

Stage, mandate score and evidence quality

_____

_____

Commercial and technology validation questions

_____

_____

Stop flags and qualified reviewers

_____

_____

Next permitted action with owner and date

_____

_____

PRACTICAL WORKSHEET / 04

Portfolio Exposure and Reserve Plan

Use this page as a reusable internal working tool. Record dates, sources and accountable owners; do not invent entries.

Prepared by: _____ Date: _____

Available cash, legally committed funds and liabilities

_____

_____

Initial check amounts and potential follow-on exposure

_____

_____

Correlated sector, vendor and geographical risks

_____

_____

Downside scenario and liquidity contingency

_____

_____

Next capital authority review

_____

_____

PRACTICAL WORKSHEET / 05

Quarterly Portfolio Review

Use this page as a reusable internal working tool. Record dates, sources and accountable owners; do not invent entries.

Prepared by: _____ Date: _____

Paid-in capital and realized cash distributions

_____

_____

Residual valuation methodology and uncertainty

_____

_____

DPI, RVPI, TVPI with exact reporting basis

_____

_____

Company operational milestones and exceptions

_____

_____

Authorized decision and corrective actions

_____

_____