SILICON FOUNDERS

SF / 14

Venture Portfolio Construction

Diversification, Reserves, Liquidity and Evidence-Led Portfolio Decisions





SF PUBLICATIONS

SILICON FOUNDERS / VOLUME 14

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Reader note. This publication explains portfolio processes, not an optimal asset allocation for any reader. Investing in private ventures can result in permanent loss, prolonged illiquidity, dilution and unexpected follow-on funding needs. Dollar examples are entirely hypothetical and are not recommendations, promises of performance or Silicon Founders returns. Fund formation, discretionary asset management and securities solicitation may require authorization in the relevant jurisdiction.

About this book

A portfolio is not simply a list of companies one likes. It is an organized set of decisions about how much capital can be placed at risk, how that risk can be distributed, how future funding will be handled, what evidence justifies revising a position and when liquidity must remain available. At the venture stage, uncertainty compounds: operating results are sparse, exit routes are limited and valuations can rely heavily on non-observable inputs. An attractive investment in isolation can be unsuitable for an investor who already has similar exposures or cannot wait through a long holding period.

This book presents a practical framework for a small research-led venture portfolio. It distinguishes household wealth allocation from a venture sleeve, direct investments from fund interests, planned commitments from paid cash, gross paper values from cash distributions and diversification from false security. It introduces position and vintage controls, reserve strategy, concentration mapping, scenario math, valuations, liquidity planning, monitoring and governance. The intended outcome is a portfolio policy that makes choices visible and auditable, not a pretense that startup outcomes can be forecast with precision.

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1. Define the Role of Venture Capital in Total Wealth

Start with the entire balance sheet

A venture allocation cannot be considered responsibly without the investor's wider assets, liabilities, cash needs, insurance obligations, income stability and tolerance for loss. A person with a comfortable paper net worth may have little liquid capital. A large operating-business stake can create hidden concentration in the same sectors or regions as a planned startup portfolio. Reviewing net worth and liquidity separately prevents an investor from confusing the ability to buy securities with the ability to hold them through adverse conditions.

Asset allocation distributes capital among different asset classes, while diversification distributes risk within and across those classes. The SEC's investor education materials emphasize that a suitable allocation depends on time horizon and risk tolerance [R1]. Those educational principles do not provide a standardized percentage for private venture investment. A venture sleeve should be an explicitly discretionary risk budget that can absorb loss without forcing the investor to sell essential assets or neglect obligations.

Separate direct investments from pooled funds

A direct startup investment offers company-level control over diligence but usually brings more sourcing, legal and monitoring effort. A venture fund may supply manager expertise and wider access, but it introduces fund economics, fees, carried interest, manager risk, capital calls, distribution timing and exposure that must be inspected through to underlying companies where data permits. An interest in a fund is not automatically liquid or diversified enough for every investor.

Before selecting a vehicle, answer: who makes binding decisions, which laws apply, what information can be obtained, what fees are charged, what exit pathways exist and how calls for additional capital will be financed? Do not blend household investments, business treasury and third-party client funds into one unsegregated ledger. Each has distinct authority, tax and regulatory implications.

Chapter deliverable: A total-wealth exposure map and a defined venture risk-budget statement. **Decision gate:** Do not allocate money needed for foreseeable essential obligations.

2. Write a Portfolio Policy and Investment Thesis

Translate ambition into written constraints

A useful investment policy statement names objectives, eligible instruments, exclusions, geography, stage, holding horizon, position limits, concentration limits, reserve philosophy, liquidity requirements, decision authority and reporting cadence. The policy should say what happens if the investor discovers conflicting evidence, receives an urgent follow-on request or encounters a new country with unverified legal requirements. It should not be a list of aspirational returns.

An investable thesis has narrower criteria than "technology is growing." It states which customer problems are understood, where an analyst can obtain primary evidence, what business models are preferred, which deal sizes are operationally feasible and where the team lacks expertise. For a small portfolio, a thesis that requires complex science diligence and global regulatory coverage may be unrealistic without specialist support. Rejecting a deal because it falls outside the mandate is disciplined rather than unambitious.

Include a decision-rights matrix

Decide who may research opportunities, inspect data rooms, make nonbinding inquiries, commission expert diligence, negotiate indicative terms, approve binding instruments and transmit funds. An analyst or AI system can summarize claims, normalize the evidence index and flag missing documents. Final price authority, signing, asset transfers, securities solicitation and KYC remain controlled functions. An investment committee should record conflicts of interest, reservations and the specific matters delegated.

A fictional policy may permit research on companies in two industries while requiring an investment professional to review securities laws before any transaction. In the same example, the system may refuse all opportunities with unexplained cap tables or suspected fraud, regardless of attractive sales projections. The value of policy is not only the deals it approves; it also prevents emotional and time-pressured exceptions.

Chapter deliverable: A two-page investment policy and delegation matrix. **Decision gate:** Every capital commitment must have an authorized approver.

3. Understand Diversification and Correlated Risk

More company names do not always mean more diversification

Ten startups selling to the same regulated buyer, dependent on the same funding cycle and using the same external platform can fail together. Correlation may come from sector demand, currency, country regulation, valuation environment, cloud provider, buyer concentration or the next financing market. Diversification across logos without examining these shared exposures can provide an illusion of safety. The SEC's diversification material distinguishes between and within asset-class diversification [R1].

Build an exposure matrix across sector, business model, geography, stage, vintage, customer type, technology dependency and funding requirements. Not every dimension needs an optimized quota; the aim is to reveal clusters. Weight exposures by **capital at risk** and, separately, by estimated current fair value. The two views may differ materially. A portfolio that appears diversified by original cost can become concentrated after one company's carrying value rises.

Avoid a false safety rule

No fixed number of venture positions guarantees diversification. Even a larger pool retains systemic risks such as recession, capital scarcity and regulatory change. The correct number depends on the investor's capital, minimum practical check size, access to diligence, reserves and ability to monitor. Holding too many tiny positions can create

administrative cost without meaningful influence or decision quality. Holding too few can create severe single-name risk.

A practical stress test asks what happens if all startups requiring the same next financing window fail to raise, or if one dominant corporate customer halts purchases. Another examines currency mismatch: an investor holds UAE-dirham liabilities but startup cash calls are denominated in foreign currencies. Neither scenario implies that diversification is useless. It implies that diversification must address the exposures that actually cause losses.

Chapter deliverable: Look-through exposure heatmap across at least six risk dimensions. **Decision gate:** Avoid concentration hidden by different company names.

4. Set Position Sizes and Follow-On Reserves

Every initial check creates possible future needs

Position sizing is a risk-control decision, not a contest for ownership percentage. The investor must consider the likelihood of total loss, the amount that could be required in later rounds, contractual rights, concentration, fees and the time capital may be inaccessible. A venture can raise multiple rounds before exit; maintaining ownership may require additional checks. Pro-rata rights are meaningful only when the investor can exercise them under actual terms and funding constraints.

In a fictional $200,000 program, an investor budgets $120,000 for initial investments, $60,000 for potential follow-on funding and $20,000 for legal, due diligence and operating costs. These are **illustrative budget categories**, not a suitable allocation for a particular person. If ten initial checks are $12,000 each, all initial capital is committed before any follow-ons. The $60,000 reserve may remain uninvested, be used selectively, or prove inadequate. A disciplined ledger records commitments and cash payments separately.

Decide when to exercise or decline follow-on rights

A follow-on decision should not merely protect a historical valuation mark. Reassess the thesis with fresh evidence, valuation and dilution, customer retention, burn, governance changes, legal terms and portfolio concentration. A weaker company can seek new financing for reasons unrelated to an attractive opportunity. Conversely, withholding a follow-on solely because the investor has already gained on paper can also be a mistake. Make the decision on today's evidence and opportunity cost.

Write two policies: one for routine pro-rata participation and one for exceptional rescue financing. The latter requires extra scrutiny of seniority, collateral, insider conflicts, dilution, board approval and ability to attract independent capital. The reserve account should not be spent to avoid admitting that an earlier thesis failed. Under no circumstances should a reserve recommendation create an obligation to send funds without a separate approval.

Chapter deliverable: Initial-check and reserve ledger with a follow-on review memo. **Decision gate:** Re-underwrite every subsequent investment.

5. Construct Vintage, Sector and Geographic Exposure

Spread discovery across meaningful decision periods

"Vintage" can mean a fund's establishment year or, for direct investing, the period in which capital is first deployed. The term should be defined before reporting. A portfolio funded entirely during a single euphoric pricing period may face a common repricing shock. Spacing decisions over time may reduce exposure to one entry environment, but it does not guarantee better returns. Deal availability and quality should control deployment; an arbitrary calendar quota can pressure analysts into weak opportunities.

Keep pipeline and deployed capital distinct. An approved opportunity may not close; a signed instrument may not be fully funded; a drawn capital call may finance fees rather than a portfolio company. For direct deals, date each subscription, payment, ownership change and contractual commitment. For fund interests, distinguish committed capital, paid-in capital, uncalled commitments and distributions. This supports genuine cash forecasting.

Geographic reach introduces operational complexity

Cross-border startup portfolios create tax, beneficial ownership, sanctions, foreign exchange, data and securities-law questions. Geographic diversification can be useful, but a portfolio should not add countries simply for a balanced map. Look for credible local legal knowledge, verifiable entity registration, currency-transfer paths, clear governance rights and the practical capacity to enforce agreements. A structure that looks inexpensive at entry can be costly to maintain.

Sector limits should similarly reflect the investor's capability. Expertise in education technology may improve diligence, but it also creates correlation if the investor owns operating education businesses. A separate owner-level map should show direct holdings, indirect fund exposures, strategic partnerships and economic dependencies without implying any legal ownership links that do not exist.

Chapter deliverable: Deployment calendar and geographic/legal-readiness checklist. **Decision gate:** Do not trade operational feasibility for cosmetic diversification.

6. Model Losses, Power-Law Outcomes and Dilution

Model scenarios transparently

Venture results can be highly uneven: several positions may fail while a small number account for most proceeds. This pattern is often described as a power-law-like distribution. It is not a guarantee that a sufficiently large portfolio will find a winning company. Scenario analysis can explore the implications, but it must not assign an unearned probability to exceptional outcomes.

Consider ten fictional $12,000 initial investments, for $120,000 total invested cost. Six positions return zero, three return 1.5x each ($18,000 x 3 = $54,000) and one returns 12x ($144,000). Total **gross proceeds** would be $198,000, equal to **1.65x the $120,000 invested cost** before fees, expenses, tax, currency effects and the time value of money. If

the investor had separately budgeted $60,000 in reserves and $20,000 in costs, do not claim 1.65x on the full $200,000 program. If those other budgets were fully spent, the economics would be different.

Time, dilution and terms change every multiple

A multiple says nothing by itself about speed. Returning 1.65x after two years differs from returning 1.65x after twelve years. Without dated cash flows, an IRR number would be invented. Ownership dilution also matters: an initial 10% holding that is diluted by 20% relative to the holder's stake becomes 8%, before considering conversion or preference terms. Investor proceeds may differ further because preferred shares, debt, transaction expenses and liquidation preferences are paid according to enforceable terms, not a simplified ownership table.

Run a zero-recovery scenario and a delayed-exit scenario in addition to the attractive case. Separate realized distributions from unrealized carrying values. For a portfolio of private assets, an honest report that says "illiquid, values estimated, cash not received" is more useful than a marketing-style dashboard showing a smooth upward line.

Chapter deliverable: Sensitivity worksheet with dated cash flows, dilution and waterfall assumptions. **Decision gate:** Do not present modeled MOIC as realized performance.

7. Value Illiquid Holdings with Discipline

A financing price is evidence, not an automatic mark

Valuation of an unquoted minority interest may consider a recent financing, comparable transactions, operating performance and rights attaching to the instrument. A financing price can be informative, but it may reflect preferred-share protections unavailable to a holder of common equity. It may also become stale after changes in market conditions or company performance. IFRS 13 defines fair value within an orderly market-participant transaction framework when the applicable accounting standards require or permit it [R4]. This guide does not determine which accounting framework applies to a reader.

Keep the model, observed inputs, material assumptions, valuation date, reviewer and uncertainty range. If a company will not provide current reporting, record the limitation instead of assuming last round's price remains achievable. Valuation committees should review conflicts when portfolio managers are rewarded for high marks. An internally estimated value is not an offer from a buyer and may never be realized.

Report gross, net, paid and distributed values separately

A direct investor may discuss invested capital, current estimated value, realized distributions and remaining commitments. A fund investor may use paid-in capital, distributions, residual value and fund-level fees. Terms such as **MOIC**, **DPI**, **RVPI** and **TVPI** require precise definitions and consistent denominators. The Institutional Limited Partners Association has created performance and reporting templates to improve comparability and transparency, including contribution, distribution and fee information [R3]. A personal spreadsheet need not be described as compliant with an industry standard without review.

For a fictional fund, $100,000 paid in, $30,000 distributed and $90,000 current residual value imply simple DPI = 0.30x, RVPI = 0.90x and TVPI = 1.20x, **assuming values are measured consistently at the same investor level and after the relevant expenses**. That example does not show when cash was returned, whether commitments remain or what an actual secondary sale might fetch. The numerator definitions must be documented in real reporting.

Chapter deliverable: Valuation log separating cost, realized cash and estimated residual value. **Decision gate:** No unsupported upward marks or claims of realized gain.

8. Monitor Cash Flows, Fees and Portfolio Evidence

Treat unfunded commitments as future obligations

A venture portfolio with no imminent distributions can still generate future cash calls. Prepare a calendar of expected calls, legal payments, tax responsibilities, currency conversions and portfolio support costs. Track actual bank cash separately from management projections. When a call arrives unexpectedly, decide whether funds are available without selling unrelated assets at a bad time. A committed amount and an already-paid amount must never be added together as if both were invested capital.

For fund interests, fee economics depend on legal documents. Management fees may be based on commitments or invested capital at different stages; carried interest, preferred returns, catch-up mechanics, fund expenses and recycling provisions can change investor proceeds. Read the fund's governing agreements and side letters. ILPA's reporting template encourages standardized disclosure of fees, expenses and carried interest, with updates intended for specified 2026 reporting circumstances [R2]. A headline gross return without cost disclosure is incomplete.

Choose a concise but honest dashboard

A quarterly report can include beginning and ending cash, new investments, follow-ons, realized distributions, residual marks, uncalled commitments, capital at risk, number of companies by stage, concentration, governance alerts and upcoming decisions. Where data is not available, label the field "not reported" rather than zero. Avoid constructing a smooth performance series from infrequent venture marks. Show the number of observations behind percentages.

Separate three clocks: company performance (monthly or quarterly), financing milestones (event-driven) and portfolio/wealth review (quarterly or annually). Too-frequent valuation updates may create noise and wasted work; too-infrequent cash reviews can miss genuine obligations. Use staged information requests with portfolio companies so monitoring does not overwhelm a small team.

Chapter deliverable: Quarterly performance, fee and cash-call dashboard. **Decision gate:** No cash commitments based on estimated values alone.

9. Review and Govern the Portfolio Over Time

Re-underwrite rather than defend old decisions

An investment memo captures why an original decision seemed reasonable; it should not become an object to defend. At each review, compare reality with the original critical assumptions. Ask which facts changed, whether ownership rights changed, what additional capital would achieve, and whether management has communicated setbacks promptly. Categorize deviations as expected startup volatility, thesis deterioration, execution failure or integrity concern. A struggling company can still deserve support; a high-profile company can still present unacceptable governance risk.

Governance requires a small number of clear processes: a restricted investment register, accessible source documents, conflict disclosures, a decision log, authorized signing rights, secure files and an incident escalation route. Do not store passports, bank credentials or sensitive KYC material in public application forms. If multiple people own interests, confirm who is entitled to information and who can authorize transfers or disposals. A well-designed process should work even when the founder is not monitoring every administrative step.

Set conditions for pauses and exits

Private investments may have no exit on demand. A policy can nonetheless define when to stop new deployment, decline a follow-on, seek a lawful secondary sale, request a governance meeting or obtain legal advice. Trigger examples include a breach of law, repeated refusal to supply material records, major key-person changes, a liquidity shortfall and excessive concentration. Taxes and transfer restrictions may make some apparent exits impractical; a transaction must be reviewed in its own context.

The goal is a durable capital allocation discipline. Venture investing is neither passive saving nor a substitute for an operating business. It requires tolerance for loss, strong records, patience and the freedom not to act. The best portfolio is not the one with the most exciting list of names; it is the one whose risks, obligations and decisions fit the actual owner and can be explained to another responsible reviewer.

Chapter deliverable: A quarterly portfolio decision packet and exception register. **Decision gate:** Capital moves remain human-controlled and legally reviewed.

Appendix A. Investment Policy Statement Template

Investor / entity: [recorded legal owner]

Investment objective and holding horizon: [statement, not target guarantee]

Liquidity requirement: [specific liabilities and reserve policy]

Eligible instruments and jurisdictions: [scope]

Research thesis and exclusions: [sector, stage, mandatory evidence]

Maximum single-name and correlated exposure: [approved limits]

Initial and follow-on funding policy: [authority, conditions]

Valuation and reporting standard: [method, dates, reviewer]

Conflict, fraud and regulatory stop flags: [independent review route]

Decision approvers and signatures: [actual authorized officers]

Appendix B. Portfolio Exposure and Commitment Register

Field	Meaning
Position ID / legal holder	Identifies ownership and avoids mixing entities
Company / instrument / stage	Actual economic exposure and security terms
Country, sector, vintage, buyer type	Common-risk dimensions
Approved initial commitment	Authorized maximum, not assumed cash paid
Cash funded to date	Amount actually transferred
Potential follow-on / uncalled amount	Future liquidity risk
Last valuation / method / date	Estimates separated from cash
Distribution received / date	Realized proceeds
Critical risk, alert, next action	Named owner and review date

Appendix C. Ten-Investment Scenario Exercise

Outcome	Count	Initial cost each	Gross proceeds each	Total gross proceeds
Total loss	6	$12,000	$0	$0
Partial success	3	$12,000	$18,000	$54,000
Exceptional success	1	$12,000	$144,000	$144,000
Total	10			$198,000

Total initial invested cost = 10 x $12,000 = **$120,000**. Gross multiple on these invested checks = $198,000 / $120,000 = **1.65x**. No dates are supplied, so **IRR cannot be calculated**. The hypothetical returns exclude $60,000 of possible follow-on reserves and $20,000 of operating/diligence budget; whether these amounts are deployed changes actual results. There is no claim that one position will necessarily return 12x.

Appendix D. Quarterly Portfolio Review Dashboard

Review metric	Reported fact	Source and cut-off
Paid-in capital / actual cash deployed	Amount and currency	Bank ledger and signed documents
Gross distributions received	Cash, not announcements	Reconciled receipts
Remaining unfunded commitments	Contingent obligations	Agreements and call schedule
Residual portfolio estimate	Method / uncertainty	Mark policy and company evidence
Sector / country / vintage concentration	Amount and denominator	Look-through position table
Major governance and legal alerts	Owner and response	Incident and decision logs
Next decisions	Follow-on / decline / further review	Named approver and deadline

Appendix E. Primary Sources and Terminology

Source check date: 31 October 2026. References are provided for education; standards and regulatory requirements can change.

- **[R1]** U.S. SEC Investor.gov, *Asset Allocation and Diversification*: https://www.investor.gov/introduction-investing/getting-started/asset-allocation
- **[R2]** Institutional Limited Partners Association, *ILPA Reporting Template* (including 2025 v2.0 materials and 2026 implementation scope): https://ilpa.org/industry-guidance/templates-standards-model-documents/ilpa-templates-hub/ilpa-reporting-template/
- **[R3]** Institutional Limited Partners Association, *ILPA Performance Template*: https://ilpa.org/industry-guidance/templates-standards-model-documents/ilpa-templates-hub/ilpa-performance-template/
- **[R4]** IFRS Foundation, *IFRS 13 Fair Value Measurement*: https://www.ifrs.org/issued-standards/list-of-standards/ifrs-13-fair-value-measurement/
- **[R5]** U.S. SEC Investor.gov, *Private Placements under Regulation D — Updated Investor Bulletin* (September 2026): https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/private-placements-under-regulation-d-updated-investor-bulletin

Terminology: MOIC = multiple on invested capital; DPI = distributions to paid-in capital; RVPI = residual value to paid-in capital; TVPI = total value to paid-in capital. These definitions depend on a consistent reporting perspective, valuation method and expense treatment. Illustrations do not constitute performance claims.