HOW TO BUILD AND PRESENT THE **FOLLOW-ON FUNDING** AND **CAPITAL DEPLOYMENT CASE**

Follow-On Capital, Portfolio Value Creation and Corporate Integration

WHERE THIS IS USED

- CVC funds and portfolio companies
- Venture Studio ventures at follow-on
- Corporate venture and innovation portfolios
- Foundry-as-a-Service engagements

AUDIENCE

- Investment Committee members
- Close Owner / Fund CFO
- EIR / General Manager
- Executive Sponsor / Venture Board

PHASE

Phase Four: Scale & Optimize
Section J — Follow-On Capital, Portfolio Value Creation & Corporate Integration
Follows Section I (Growth & Unit Economics)

EXECUTIVE SUMMARY

The scaling roadmap from Guide I3, together with the proven growth evidence from Guide I1 and the scale-worthy economics from Guide I2, answers whether the venture can scale profitably. The follow-on capital case answers a different and harder question: should the fund deploy the next tranche, how much, against which milestones, and what happens if those milestones are missed.

This guide turns the scaling roadmap and the live H2 dashboard into a follow-on investment memo and a capital-deployment decision framework the Investment Committee can act on. It covers the tranche-release structure that maps capital to scaling milestones, the invest, continue, or stop decision at scale, and the Decision Record that formally authorizes the next deployment.

The four outputs of this guide are: a follow-on investment memo grounded in the I-series evidence and the live dashboard; a tranche-release structure that ties each tranche to a specific scaling gate; an explicit invest, continue, or stop recommendation with its stop conditions; and a Decision Record drafted for the Investment Committee that authorizes, conditions, or declines the deployment.

THE CORE PROBLEM

The first investment was underwritten on a thesis and a pilot. The follow-on is underwritten on performance — and that changes the discipline entirely. The temptation is to re-invest on momentum, relationship, or the desire to protect the original check, rather than on whether the venture cleared the milestones the last tranche was supposed to buy.

Follow-on capital is the fund's scarcest and highest-conviction resource. A follow-on process without milestone linkage, tranche structure, and a real stop option is how portfolios accumulate zombie ventures and how a CVC's returns quietly erode.

The six most consistent failure patterns in the follow-on decision:

- **Momentum re-investment.** Capital deploys because the venture feels like it is going well, not because named milestones were cleared with evidence.
- **Sunk-cost escalation.** More money follows a struggling venture to protect the original investment, converting a small loss into a large one.
- **Unstructured tranche.** The full amount is released at once, removing the fund's ability to stop on evidence part-way through.
- **Milestone drift.** The milestones the last tranche was meant to buy were never defined precisely, so success is unfalsifiable and every outcome can be narrated as progress.
- **No real stop path.** The memo only contemplates investing; continue and stop are not genuine options, so the Investment Committee meeting is theater rather than a decision.
- **Memo detached from the dashboard.** The case is a narrative assembled for the meeting instead of a view over the live H2 data the committee already trusts, so the two disagree and credibility is lost.

The real issue:

The follow-on decision protects the fund as much as it funds the venture. Deploying the fund's scarcest capital without a milestone-linked, tranche-structured, stop-capable decision does not accelerate a winner — it removes the discipline that keeps the portfolio honest. A follow-on case that cannot say clearly what the capital buys, and under what conditions the fund will stop, is not an investment case; it is a request to abandon governance at exactly the moment the stakes are highest.

PREREQUISITES

Must Be Complete Before Starting:

- **Guide I3 completed** — the scaling roadmap exists with staged decision gates and a runway reconciliation in the downside scenario
- **Guides I1 and I2 completed** — the growth evidence package and the economics evidence package are assembled and current
- **Guide H2 live** — the dashboard carries the CVC Portfolio category with IRR, NAV, TVPI, DPI, tranche milestone status, and the follow-on trigger
- **Guide H1 completed** — the first tranche was released, the Expectations Alignment Record is signed, and the tranche milestone conditions are on record

Team Readiness:

- Close Owner confirmed to own the recommendation into the Investment Committee
- CVC Analyst available to assemble the evidence package in the H1 standard format
- Fund CFO available to confirm the IFRS 13 fair value and the returns math
- An Investment Committee slot scheduled with the item framed as a decision, not an update

EXPECTED OUTPUT/ SUCCESS CRITERIA

You have completed this guide when the following are true:

- A follow-on investment memo grounded in the I-series evidence and reconciled to the live H2 data
- A tranche-release structure that maps each capital tranche to a specific scaling milestone and gate
- An explicit invest, continue, or stop recommendation with the reasoning and the stop conditions stated
- The returns impact modeled — the effect on IRR, TVPI, NAV, and DPI — in base and downside scenarios
- A Decision Record drafted for the Investment Committee that authorizes, conditions, or declines the deployment
- The follow-on trigger status on the H2 dashboard reconciled to the recommendation

STEP-BY-STEP INSTRUCTIONS

STEP 1 CONFIRM THE MILESTONES THE LAST TRANCHE WAS MEANT TO BUY

The follow-on decision begins with an honest reckoning of the previous one. Pull the milestone conditions attached to the last tranche from the H1 Expectations Alignment Record and mark each one achieved or not achieved. There is no "on track" and no "in progress" — a milestone is either met with evidence or it is not, and a follow-on case built on unmet milestones must say so plainly.

1.1 **Retrieve the tranche milestone conditions** — From the H1 Expectations Alignment Record and the IC approval that released the last tranche, list the exact conditions that capital was meant to buy. These are the terms of the previous deal and the baseline for this one.

1.2 **Mark each milestone achieved or not achieved, with evidence** — For each condition, attach the evidence from the H2 dashboard and the I-series packages. Binary status only. A milestone marked achieved without evidence is the single fastest way to lose Investment Committee trust.

1.3 **State the variance honestly** — Where a milestone was missed, state by how much and why. A follow-on case that acknowledges a miss and explains it is far stronger than one that buries it — the committee will find it regardless.

AI PROMPT — Tranche Milestone Reconciliation

```
I am reconciling a venture's performance against the milestones the
last capital tranche was meant to buy. From the H1 Expectations
Alignment Record, the tranche milestone conditions were: [paste].
Current evidence from the H2 dashboard and the I1, I2, and I3
packages: [paste]. Produce a milestone reconciliation table marking
each condition achieved or not achieved with the supporting evidence,
state the variance and cause for any miss in plain language, and flag
the milestones an Investment Committee will scrutinize most closely.
```

STEP 2 ASSEMBLE THE FOLLOW-ON EVIDENCE PACKAGE

The follow-on memo is a synthesis of evidence the venture has already produced, assembled in the H1 standard format so the Investment Committee reads it the same way every time. The CVC Analyst assembles it; the Close Owner reviews it. Nothing in the package should be new analysis invented for the meeting — it should be the live evidence, organized.

Evidence Source	What It Provides	Owner
Guide I1 growth package	Repeatable, founder-independent motion and channel scorecard	Growth Operator / EIR
Guide I2 economics package	Scale-worthy unit economics, cohort curves, scale-worthy verdict	Finance Lead
Guide I3 scaling roadmap	Sequenced bets, capacity plan, gates, runway reconciliation	EIR / GM
H2 dashboard (live)	Current financial, commercial, and CVC portfolio metrics	CVC Analyst
H1 milestone reconciliation	Achieved / not-achieved status of the last tranche	Close Owner

2.1 **Assemble in the H1 standard evidence format** — Use the same package structure the fund used at first tranche so the committee's review is fast and comparable across ventures. Consistency of format is what lets the committee focus on the decision rather than the document.

2.2 **Reconcile every number to the live dashboard** — Every figure in the package must match the H2 dashboard. If the memo and the dashboard disagree, the memo loses — fix the source, do not footnote the difference.

STEP 3 MODEL THE RETURNS IMPACT OF THE DEPLOYMENT

The Investment Committee is allocating fund capital, so the case must speak in fund-return terms, not only venture terms. Model what the deployment does to the fund's position: the effect on IRR, TVPI, NAV, and DPI, the ownership and dilution math, and the fair value the Fund CFO will carry — in both a base and a downside scenario.

3.1 **Model the returns effect in base and downside** — Project the effect of the deployment on IRR, TVPI, and NAV under the I3 base and downside scenarios. The downside is the one the committee will focus on: what does this tranche do to fund returns if the venture only reaches the downside case?

3.2 **State the ownership, dilution, and instrument** — Specify how much the tranche buys, at what valuation, in what instrument, and the resulting ownership and dilution. Ambiguity here is where follow-on deals go wrong months later.

3.3 **Confirm the IFRS 13 fair value with the Fund CFO** — The Fund CFO records the revised fair value at deployment. Confirm the mark before the meeting so the returns math in the memo and the fund's books agree.

AI PROMPT — Follow-On Returns Impact

```
I am modeling the returns impact of a follow-on capital deployment
for an Investment Committee. Proposed tranche: [amount, valuation,
instrument]. Current fund position and the venture's contribution to
IRR, TVPI, NAV, and DPI: [paste]. I1/I2/I3 base and downside
scenarios: [paste]. Model the effect of the deployment on fund IRR,
TVPI, and NAV in both scenarios, compute the resulting ownership and
dilution, and state the revised IFRS 13 fair value to confirm with
the Fund CFO. Highlight the scenario and assumption the committee is
most likely to challenge.
```

STEP 4 STRUCTURE THE TRANCHE RELEASE AGAINST SCALING MILESTONES

Capital is released in tranches tied to the scaling gates from Guide I3, not in a single lump. Each tranche has a release condition — the gate that must clear to unlock it — and a stop condition — the evidence that halts further deployment. This structure is what preserves the fund's option to stop on evidence, which is the whole point of tranching.

Tranche	Amount	Milestone Gate (from I3)	Release Condition	Stop Condition
Tranche A	[amount]	Q1–Q2 scaling gates	Top channel holds CAC and payback at 2× volume	Economics break at volume
Tranche B	[amount]	Q3 scaling gate	Second channel clears the scale-worthy bar	No second engine emerges
Tranche C	[amount]	Q4 scaling gate	Retention stable at higher volume; runway holds	Retention decays; runway breached

4.1 **Tie each tranche to a specific I3 gate** — The release condition for each tranche is one of the roadmap's decision gates. This makes the deal legible: the committee funds the gates, and the evidence releases the next tranche.

4.2 **Write the stop condition for every tranche** — Each tranche must state what would stop it. A tranche with no stop condition is an unstructured commitment wearing the language of discipline.

STEP 5 FRAME THE INVEST, CONTINUE, OR STOP DECISION

A credible follow-on memo presents three honest options, not one recommendation with two straw men. Define each option, the conditions under which it is the right call, and its consequences, so the Investment Committee is making a decision rather than ratifying a foregone conclusion.

Option	When It Is Right	What It Means	Consequence
Invest	Milestones cleared; economics scale-worthy; roadmap funded	Deploy the next tranche against the I3 gates	Capital and attention concentrate here
Continue	Progress real but a gate is not yet cleared	No new capital; hold and re-test at the next gate	Venture continues on current runway; re-decision later
Stop	Milestones missed with no credible path; economics fail	Halt deployment; move to wind-down or exit	Capital preserved for the rest of the portfolio

5.1 **State the recommendation and the reasoning** — Recommend one option and give the evidence-based reasoning. The recommendation is a view, not a foregone conclusion, and it is strengthened by taking the other two options seriously.

5.2 **Make stop a real option** — Where stop is warranted, say so. A fund that can stop is a fund whose invest decisions carry weight. The stop path connects to the ownership and wind-down decision in Guide L3.

AI PROMPT — Invest / Continue / Stop Framing

```
I am framing an invest, continue, or stop decision for an Investment
Committee on a follow-on tranche. Milestone reconciliation: [paste].
Scale-worthy verdict and economics: [paste]. Roadmap and runway:
[paste]. For each of the three options, write the conditions under
which it is the right decision, what it means operationally, and its
consequence for the venture and the fund. Then state a recommended
option with evidence-based reasoning, and define the specific
conditions that would make stop the correct call.
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STEP 6 WRITE THE FOLLOW-ON INVESTMENT MEMO AS A VIEW OVER THE DASHBOARD

The memo is not a fresh narrative — it is a structured view over the live H2 data plus the decision framing from the previous steps. Written this way, it reconciles to the dashboard by construction and reads consistently against every other follow-on case the committee sees.

6.1 **Follow a fixed memo structure** — Thesis revisited; milestone reconciliation; growth, economics, and roadmap evidence; returns impact; tranche structure with release and stop conditions; risks; and the ask. A fixed structure makes the memo comparable and fast to review.

6.2 **Lead with the ask as a decision** — Following the H3 discipline, open the memo with the decision the committee must make — the invest, continue, or stop recommendation and the tranche it authorizes — not with a build-up to it.

6.3 State the risks and the single biggest one — Name the risks honestly and identify the one most likely to impair the deployment. Bringing the committee the hardest risk unprompted is what earns the authority to make the ask.

AI PROMPT — Follow-On Investment Memo Draft

```
I am drafting a follow-on investment memo for an Investment Committee,
written as a view over live H2 data. Inputs: revisited thesis,
milestone reconciliation, I1/I2/I3 evidence, returns impact, tranche
structure with release and stop conditions, and the
invest/continue/stop recommendation: [paste each]. Draft the memo with
a fixed structure that opens with the ask as a decision, presents the
evidence reconciled to the dashboard, and closes with risks and the
single biggest risk to the deployment. Keep it to the length a
committee will actually read and flag anything that does not reconcile
to the dashboard.
```

STEP 7 PRESENT TO THE INVESTMENT COMMITTEE AND RECORD THE DECISION

The meeting exists to make a decision and record it. Pre-brief the members, open with the three decisions rather than the presentation, and capture the outcome in a Decision Record that authorizes, conditions, or declines the deployment. The Decision Record — not the discussion — is the governance output that releases capital.

7.1 **Pre-brief and open with the decision** — Circulate the memo ahead of time and surface any negative result in the pre-brief, following the H3 protocol. Open the meeting with the invest, continue, or stop decision, not with a walkthrough.

7.2 **Record the Decision Record before the meeting closes** — Capture the decision, the conditions attached, the tranche authorized with its release and stop conditions, and the named owners — read back and confirmed before anyone leaves. A decision not recorded before the close is a decision that will be re-litigated.

7.3 Apply the dual-track split — For a Venture Studio build-and-launch venture funded through the CVC mechanism, the EIR presents through the Venture Board and the Close Owner carries the recommendation into the Investment Committee. For an independent CVC portfolio company, the portfolio company's board approves the raise and the Close Owner represents the fund's follow-on decision at the committee, with the Fund CFO recording the revised IFRS 13 fair value. In both tracks the Decision Record is the authorizing instrument, and the split should already be reflected in the H1 Expectations Alignment Record.

AI PROMPT — Decision Record for Capital Deployment

```
I am producing the Decision Record for an Investment Committee follow-
on decision. The recommendation presented was [invest/continue/stop]
with tranche structure [paste] and conditions [paste]. Draft a Decision
Record that states the decision made, the capital tranche authorized
with its release and stop conditions, the conditions attached to the
authorization, the named owners and dates, and the re-decision point.
Write it so it can be read back and confirmed in the meeting and
distributed within three business days, and note how the follow-on
trigger status on the H2 dashboard should be updated to match.
```

TROUBLESHOOTING

Symptom	Likely Cause	Fix
The committee cannot tell whether the last tranche succeeded	Milestones were reported as on track rather than achieved or not achieved	Apply Step 1.2. Mark every milestone binary with evidence from the dashboard and I-series packages, and state the variance for any miss.
The memo and the dashboard show different numbers	The memo was built as a standalone narrative, not a view over H2 data	Rebuild per Step 6 as a view over the live dashboard. Reconcile every figure to H2 and fix the source rather than footnoting the difference.
The full follow-on is being requested as one release	No tranche structure tied to the scaling gates	Structure the release per Step 4. Tie each tranche to an I3 gate with a release condition and a stop condition so the fund keeps its option to stop.
Stop is not a genuine option in the memo	The case was written to justify investing, with continue and stop as straw men	Reframe per Step 5 with three honest options and real conditions for each. A fund that cannot stop cannot invest with conviction.
More capital keeps following a struggling venture	Sunk-cost escalation; the original check is being protected	Return to Step 1 and Step 5. Decide on forward evidence, not past spend. If milestones are missed with no credible path, stop is the disciplined call and connects to Guide L3.
The returns impact is contested in the meeting	The fair value or returns math was not confirmed with the Fund CFO beforehand	Confirm the IFRS 13 fair value and returns math per Step 3.3 before the meeting so the memo and the fund's books agree.
The decision is re-litigated after the meeting	The Decision Record was written after the meeting, not before it closed	Produce and read back the Decision Record before the meeting closes per Step 7.2, then distribute within three business days.

VALIDATION STEPS

Confirm each of the following before taking the follow-on case to the Investment Committee:

- Every last-tranche milestone is marked achieved or not achieved with evidence, and variances are stated
- The evidence package is assembled in the H1 standard format and reconciles to the live H2 dashboard
- The returns impact on IRR, TVPI, NAV, and DPI is modeled in base and downside scenarios
- Ownership, dilution, instrument, and the IFRS 13 fair value are confirmed with the Fund CFO
- Each capital tranche is tied to a specific I3 gate with a release condition and a stop condition
- The invest, continue, and stop options are framed honestly with conditions and consequences for each
- The memo opens with the ask as a decision and closes with risks and the single biggest risk
- The Investment Committee item is scheduled as a decision, with a pre-brief circulated
- A Decision Record is drafted, ready to be read back and confirmed before the meeting closes

NEXT STEPS

With the follow-on authorized, proceed to Guide J2 to realize the strategic value that justifies the venture's place in the corporate portfolio — the value case there strengthens every future follow-on decision made here.

Feed the deployment, its milestones, and its follow-on trigger status into Guide J3, which monitors the portfolio and fires the escalation path if a downside signal trips against the tranche milestones set in this guide.

Where the decision was stop, connect directly to Guide L3, which structures the long-term ownership outcome — wind-down, spin-out, spin-in, or wholly-owned — for a venture the fund will not continue to back.

MASTER CHECKLIST

A. MILESTONE RECONCILIATION

☐ Last-tranche milestone conditions retrieved from the H1 Expectations Alignment Record
☐ Each milestone marked achieved or not achieved with evidence — no on-track language
☐ Variance and cause stated for every missed milestone

B. EVIDENCE PACKAGE

☐ I1 growth, I2 economics, and I3 roadmap packages assembled
☐ Package built in the H1 standard evidence format
☐ Every figure reconciled to the live H2 dashboard

C. RETURNS IMPACT

☐ Effect on IRR, TVPI, NAV, and DPI modeled in base and downside
☐ Ownership, dilution, instrument, and valuation stated
☐ IFRS 13 fair value confirmed with the Fund CFO

D. TRANCHE STRUCTURE

☐ Each tranche tied to a specific I3 scaling gate
☐ A release condition defined for every tranche
☐ A stop condition defined for every tranche

E. DECISION FRAMING

☐ Invest, continue, and stop each defined with conditions and consequences
☐ A recommendation stated with evidence-based reasoning
☐ Stop treated as a real option, linked to Guide L3 where warranted

F. MEMO AND MEETING

☐ Memo written as a view over H2 with a fixed structure
☐ Memo opens with the ask as a decision and names the single biggest risk
☐ Item scheduled as a decision with a pre-brief circulated

G. DECISION RECORD

- ☐ Decision Record drafted authorizing, conditioning, or declining the deployment
- ☐ Tranche, release and stop conditions, owners, and re-decision point captured
- ☐ Dual-track path confirmed; H2 follow-on trigger status updated to match

H. FINAL CHECK

- ☐ The case says exactly what the capital buys and under what conditions the fund will stop
- ☐ The memo reconciles to the live dashboard by construction
- ☐ The decision is captured in a Decision Record before the meeting closes

If the milestones were missed with no credible path
→ The disciplined decision is stop. Protect the portfolio.