Venture Capital Reform II: The Hidden Risks of Traditional Investment Screening

From Passive Selection to Active Discovery | Part II

A practice-based examination of project screening, concealed investment risks, and the changing conditions of technological value.

Research context and practical origins

This second article continues From Passive Selection to Active Discovery, a broader examination of how accelerating technological change calls for renewed thinking about venture investment theory, project discovery, professional judgment, selection criteria, and the timing and structure of capital commitments. Part I addressed the problem of discovering future high-value opportunities through a central distinction: visibility is not understanding. Part II examines how this distinction operates within investment screening, where familiar commercial indicators can substitute for understanding the underlying risks and technological value of the projects investors ultimately select.

This investigation began in practice rather than as a purely academic exercise. Over several months, while developing HAS-CORE, a lightweight AI safety infrastructure, I contacted investment and innovation-support organizations in Canada and internationally. The outreach included venture firms of different sizes and investment stages, early-stage and deep-technology investors, private capital, government grant programs, startup-support organizations, and research or laboratory validation channels. These institutions have different mandates and cannot be treated as one uniform system. Yet the encounters raised recurring questions about the order in which commercial readiness, team formation, external validation, and underlying technological value are examined.

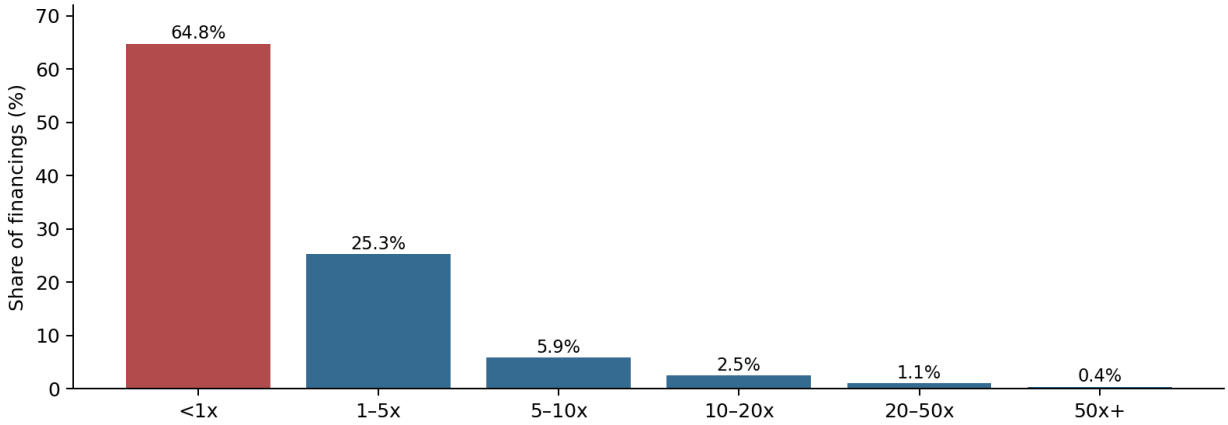
The challenge was concrete: why does a technology project with working components and internal test evidence encounter financing and validation requirements that themselves require capital and engineering resources? Rather than relying solely on my own experience, this study places that practical question alongside historical venture outcomes and the evidence limits of common selection conditions. The purpose is to identify a structural weakness in risk judgment, not to criticize the legitimate scale or diversification of investment portfolios.

1 Investment outcomes raise a structural question

Venture capital depends on finding exceptional future value under uncertainty. The question addressed here is not the scale of investment or the wisdom of diversification. Both are legitimate portfolio strategies. It is the criteria used to admit each individual project to the portfolio.

In a widely cited dataset of 21,640 financing outcomes from 2004–2013, 64.8% returned less than 1x gross invested capital. Just 4.0% returned 10x or more. This is an outcome distribution, not a year-by-year failure trend and not a fund-level net return.

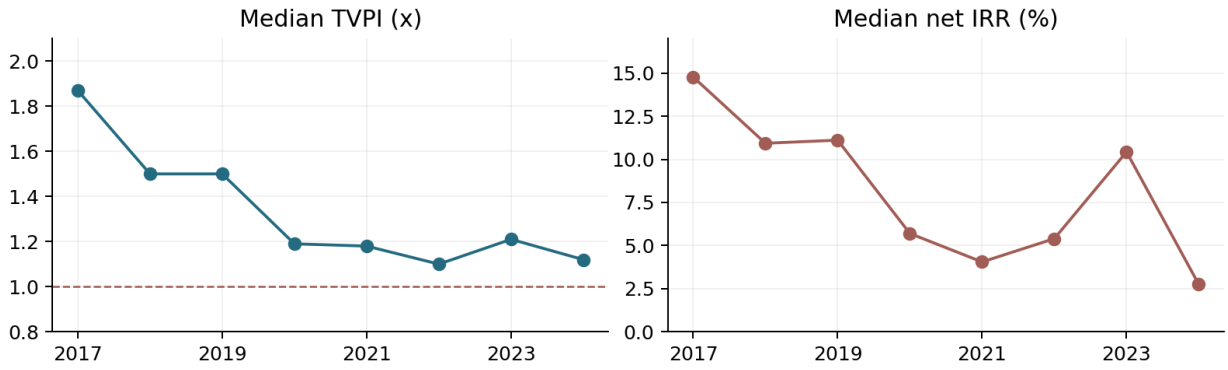
1 | Distribution of realized VC investment outcomes (2004–2013)



Source: Correlation Ventures, reproduced in AIMA Canada Risk Ratings Guidelines (2025), Figure 6. Financing-level gross realized multiples.

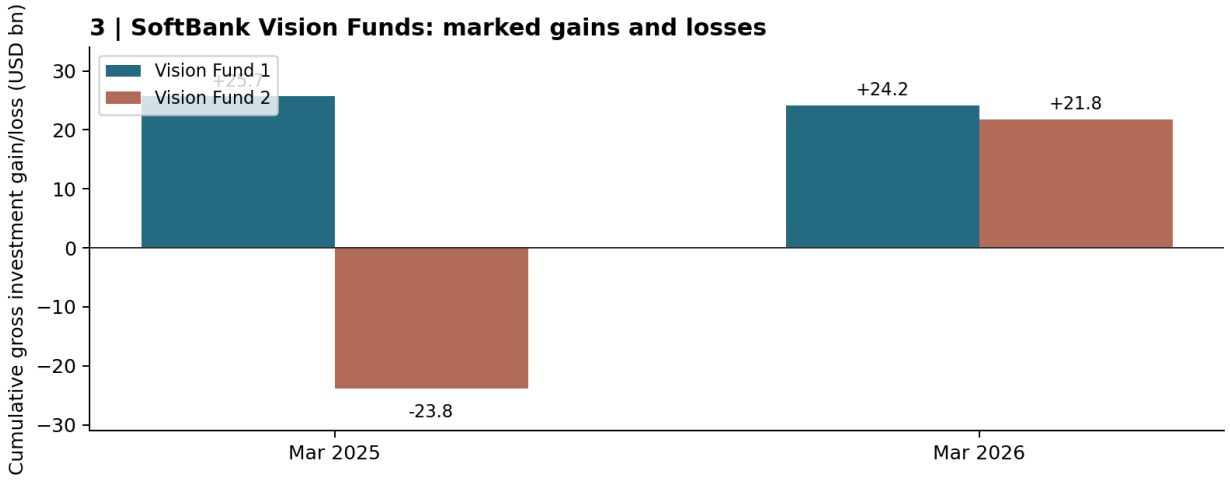
A more recent fund-vintage comparison adds a different perspective. Dakota Private Markets (September 2026) reported median TVPI of 1.87x and median net IRR of 14.77% for 2017-vintage funds, versus 1.12x and 2.75% for the 2024 vintage. This is not a monotonic series: the 2023 median net IRR rebounded to 10.43% and TVPI to 1.21x. For 2022, 2023 and 2024 vintages, median DPI was 0.16x, 0.09x and 0.01x, respectively. These newer funds have had less time to distribute capital, so their current marks cannot establish a rising final failure rate.

2 | VC vintage performance, measured September 2026



Source: Dakota Private Markets, published September 18, 2026. Unequal fund maturity means this is a vintage comparison, not an annual realized-loss series.

Individual major funds also show the scale of mark-to-market change. SoftBank Vision Fund 2 shifted from a reported cumulative gross loss of $23.8bn in March 2025 to a $21.8bn cumulative gross gain in March 2026. The latter included major valuation gains related to OpenAI. These are not investor net cash returns.



Sources: SoftBank Vision Fund performance update, March 2025; SoftBank consolidated FY2026 report. Gross figures include realized and unrealized investment changes.

The Information reported in May 2025 that Tiger Global's $12.7 billion PIP 15 megafund remained in the red at the end of 2024. The publicly accessible account establishes a reported loss-making position, but does not independently establish a precise annualized net return figure.

2 What screening criteria prove, and what they may hide

Screening signal	What it supports	What it does not settle
First customer	Evidence of initial adoption	Repeatability, independent demand, enduring technical advantage
Revenue	Evidence of transaction activity	Unit economics, profitability, structural fragility, displacement
Complete team	Capacity to execute today	Original technical capability and adaptation to change
Market-ready product	Evidence of deliverability	Whether its technical architecture remains competitive
Independent validation	Evidence within specified tests	Unexamined failure modes, operational adaptability, long-run relevance

Each condition has legitimate evidentiary value. The structural error occurs when limited evidence of commercial readiness is allowed to stand in for a comprehensive judgment about technical, competitive, financial and future-market risk. This is a failure of risk identification, not a criticism of diversified portfolios.

3 Questions raised by large investment losses

Why was a specific project selected? Which screening signals were considered sufficient? What supported the forecast of durable technical and commercial value? Which later losses arose from risks that the original assessment underweighted or did not test?

An outcome alone does not establish the cause of the selection error. Examining contemporaneous investment theses, screening records and subsequent operating evidence is necessary before blaming a given loss on a specific criterion. Yet the distinction between visible maturity and true investment safety is real, and it warrants direct scrutiny.

4 HAS-CORE: a live investment judgment challenge

HAS-CORE, which I founded and continue to develop, illustrates the early-stage validation and financing dilemma identified in Part I: independent evaluation and engineering require resources, while access to those resources can depend on milestones they are needed to achieve. The project is used here to test the distinction between commercial maturity and underlying technological value. It is a lightweight, modular AI safety infrastructure designed to address major risk categories across the AI lifecycle, from pre-training preparation through deployment, runtime monitoring and output control. Its nine core modules cover the principal risk categories targeted in the present design; implementation and internal verification maturity vary by module, and independent integrated-system performance remains to be established.

Its design emphasizes upstream structural and behavioral risk detection, CPU-first deployment, local privacy-preserving processing, application-specific monitoring baselines calibrated with customers, and customer-authorized intervention without dedicated safety-model training. Implemented module results should not be confused with independently validated system-wide performance.

The next stage requires independent laboratory evaluation, professional engineering integration, and testing in real operational environments. These are genuine execution risks. They also present a concrete question to investors: does the present absence of a fully staffed team, commercial product and system-level validation determine the technological value of the work already completed?

I invite investors to examine the available technical evidence and ask where the project's intrinsic risks lie, what future value it might create, and how those risks could change if specialist resources and independent evaluation became available.

5 Re-examining project selection

A well-designed selection process must distinguish current commercial achievements from future competitive value. A project can pass widely used screening conditions and still carry severe technological and structural risks. Conversely, an original project may lack those milestones while already possessing technical substance deserving serious examination.

The question is not how widely a fund should invest. It is whether the screening mechanism applied to each candidate identifies the right risks. Capital and specialist resources can reduce some engineering, validation, and market-entry risks, while revealing or enlarging others as a project scales. Investment assessment therefore cannot stop at a snapshot of present readiness; it must consider how the project's risk profile and value may change through investment itself. I have developed a practical reform approach; implementation details are reserved for professional consultation.

6 Invitation to early collaboration

I welcome confidential advisory discussions and structured evaluation partnerships with underperforming venture funds, family offices, independent private capital owners, individuals exploring venture investing, and newly established VC firms. The aim is to assess existing selection frameworks and the gap between visible indicators, actual risk and prospective technological value.

A venture investor's decisive capability is not merely to accept uncertainty, but to recognize what its existing filters fail to measure.

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Sources and interpretation notes

Data captions: Correlation Ventures: 21,640 U.S. financing outcomes, 2004–2013, 0–1x 64.8%, 1–5x 25.3%, 5–10x 5.9%, 10–20x 2.5%, 20–50x 1.1%, above 50x 0.4%. Dakota (2017 to 2024 vintage endpoints): median TVPI 1.87x to

1.12x and median net IRR 14.77% to 2.75%. SoftBank VF2 cumulative gross result: −$23.8bn (March 2025) to +$21.8bn (March 2026), with substantial OpenAI-related fair-value gains.

Correlation Ventures original chart (Fenwick & West, Q3 2014 VC Terms Survey, p. 4): https://assets.fenwick.com/legacy/FenwickDocuments/Q3%2014%20VC%20Terms%20Survey.pdf

Correlation Ventures distribution (via AIMA Canada, 2025): https://www.aima.org/static/e52e64bc-f7f8-4686-a6784a0b1a145908/AIMA-Canada-Risk-Ratings-Guidelines-6th-edition-Final-Mar-25.pdf

Dakota, VC fund performance by vintage, September 18, 2026: https://www.dakota.com/resources/blog/venture-capital-fund-performance-by-vintage-year-2026-benchmarks

SoftBank March 2025 presentation: https://group.softbank/media/Project/sbg/sbg/pdf/ir/presentations/2024/investor-svf_q4fy2024_01_en.pdf

SoftBank March 2026 financial results: https://links.sgx.com/FileOpen/Consolidated%20financial%20report%20for%20the%20fiscal%20year%20ended%20March%2031%202026.ashx?App=Announcement&FileID=888587

The Information, Tiger Global PIP 15, May 11, 2025: https://www.theinformation.com/articles/openai-stake-cushioned-tiger-globals-megafund-losses

Interpretation: historical financing-level realized multiples, vintage-level median fund marks, cumulative gross investment gains or losses, and fund-level net returns are different measurements. They must not be combined as one profit figure or treated as proof of a monotonically rising venture failure rate. The data raise a question about risk selection; establishing that particular criteria caused particular losses requires decision-time records and subsequent operating evidence. The Correlation sample covers exited U.S. financings from 2004–2013, not current fund-level net performance. The Dakota vintages are at different stages of maturity. SoftBank figures include unrealized fair-value changes and are gross of relevant charges.