Ikove™ STARTUP NURSERY

Q1 2022 INSIGHT

I. Macro Update

Despite an initial surge in COVID-19 cases and deaths in the beginning of the year, it is reassuring to see numbers for both decrease to more manageable levels. With the majority of the world vaccinated (upward of 64%), we see a loosening of COVID-19 restrictions across the board. While we are not completely out of the woods, it has been reassuring to see some economic recovery and a higher sense of normalcy returning to our daily lives.

Unfortunately, this returning sense of normalcy was quickly thrown off track by the Russian invasion of Ukraine on February 24, 2022, beginning Europe's first major war in many decades.

Claiming to seek a "demilitarization and denazification" of Ukraine after growing discussions around the acceptance of Ukraine into the EU and NATO, President Putin launched an offensive in Eastern Ukraine. Although stating that Russia was not moving forward with an occupation of the country of 40 million people, the situation quickly escalated into an all-out war. The invasion led to a fierce resistance on the part of the Ukrainian people, led by President Volodymyr Zelenskyy. The result is a massive humanitarian and economic crisis on a scale not seen in many years. Specifically, regarding the humanitarian aspects, the devastation has been enormous. This is the largest refugee crisis dating back to WWII as millions of Ukrainians flee to neighboring countries, and millions more are displaced and living in terrible conditions within Ukraine.

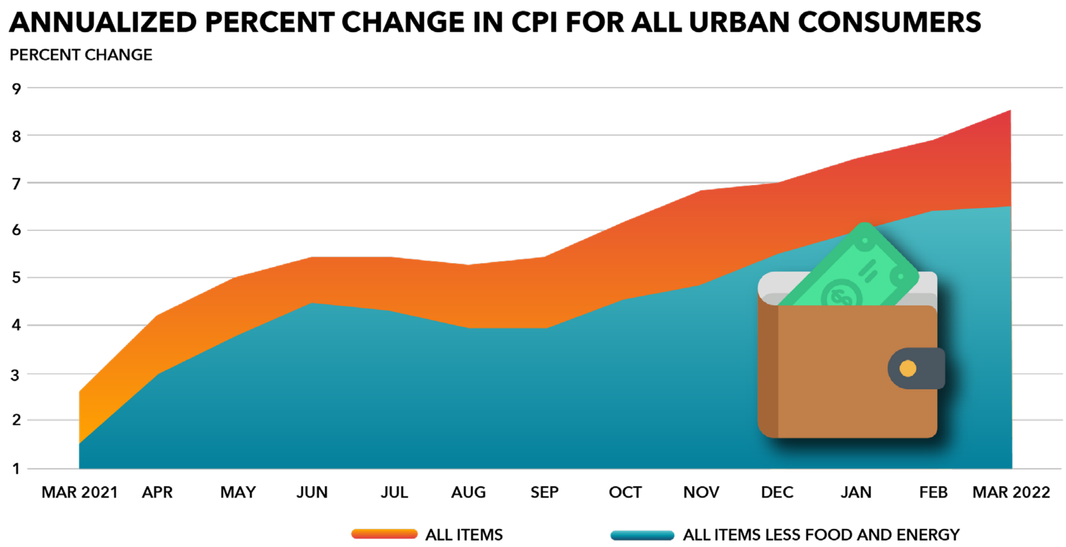
In addition to the major humanitarian crisis that has been triggered, the war has also led to economic instability.

From the economic perspective, Russia and Ukraine are essential players in the global trade of agriculture and energy. Being top producers of commodities such as wheat, corn and fertilizer, the conflict has added to the supply shocks, exacerbating the already difficult inflationary effects experienced by practically every country around the globe.

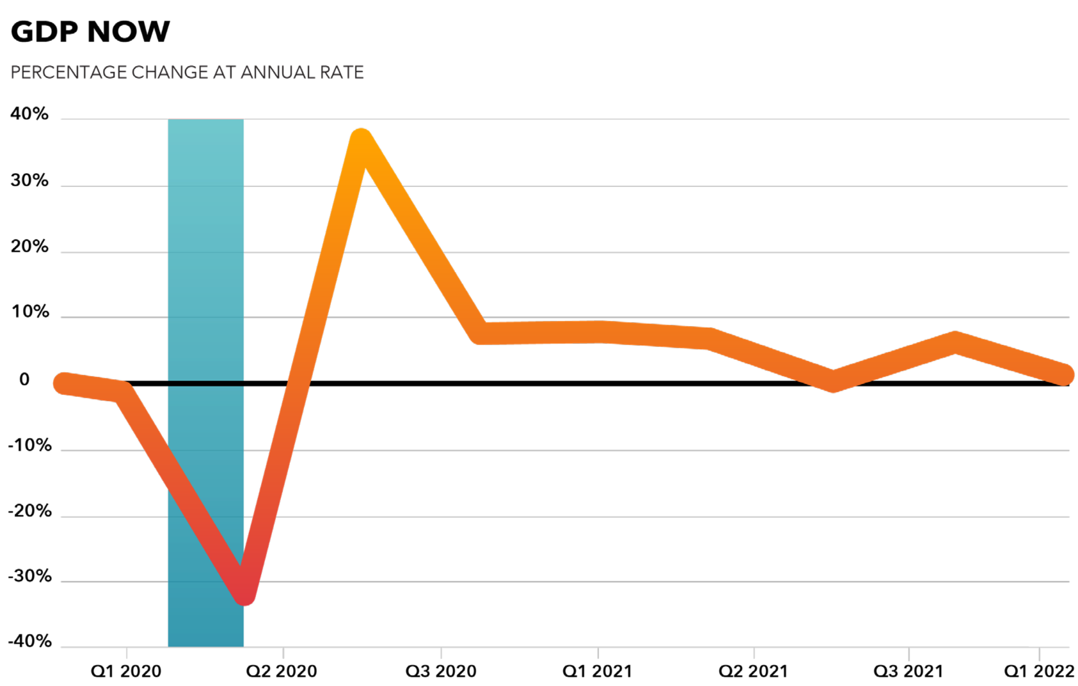
On top of this, energy prices have been surging, with WTI crude oil briefly going above $130 a barrel in March. Of particular concern is the energy dynamics in Europe. For example, in times of stability, countries such as Germany receive most of their natural gas from Russia (close to 60%), throwing into question the economic stability of Europe as a whole.

The issues currently in play have led central banks worldwide to take an even tougher stance on inflation. Many have begun hiking interest rates because of the high levels of inflation already seen from the large monetary stimulus introduced into the economy after the pandemic caused recession. Now, beyond following their planned path to hiking interest rates, there is indication that many central banks expect to hike rates earlier and more aggressively than previously planned. Some of this is already being seen.

The levels of inflation today are the highest experienced in over 40 years. Consumer prices in the US for March came in at 8.5% on an annual basis; far too high for central bank comfort. Therefore, despite the political tensions and lowering expectations of economic growth caused by current issues such as the war in Ukraine, central banks have had no choice but to start or continue raising interest rates. The Federal Reserve in the United States, for example, has indicated the possibility of hiking interest rates by 50 basis points, or 0.5%, at each of their May and June committee meetings (higher than the more typical rate move of 25 basis points), after they have already raised interest rates once following their March committee meeting. Additionally, they are also committed to an accelerated reduction of their balance sheet (selling off assets) at a level of $95 billion a month. Put simply, these are extreme policy decisions aimed at significantly reducing inflationary pressures.



This combination of issues has led some economists to move up expectations of a recession. Expectations for GDP growth in this first quarter and the remainder of the year had moved sharply lower, with the estimate for Q1 being just over 1% on an annualized basis. Actual results for GDP in Q1 showed a decline in economic activity of 1.4%, coming in far below estimates.



Shaded areas indicate US recessions Source: Federal Reserve Bank of Atlanta

Interestingly, amid all this, labor markets in both the US and Europe are proving very strong with low unemployment rates and record levels of job openings contributing to rising wages, and in turn contributing further to inflation, although less directly. Consumer spending also remains healthy.

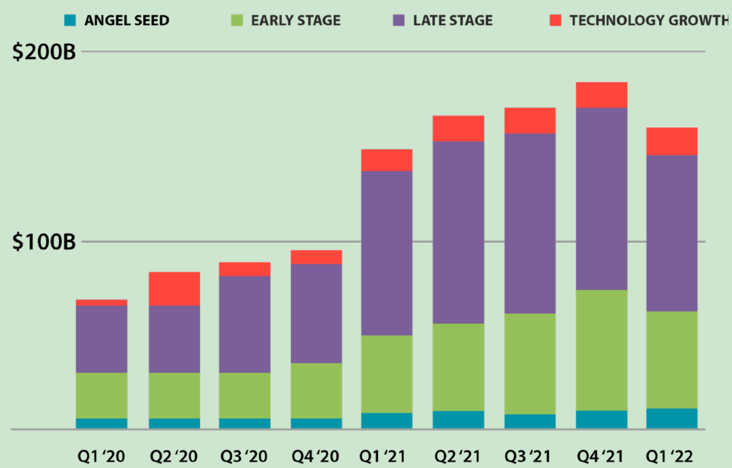
There is a stark contrast seen between a strong labor market and a generally healthy economy in the US, and significant turbulence to be seen going forward as the central banks battle inflation, and governments around the world deal with potential for lower economic growth and geopolitical tensions.

As a result of these global developments, uncertainty is high, with consumer sentiment being affected. Consequently, financial markets have proven extremely volatile in this first quarter of the year, with most markets sitting below their highs. We have seen some of these effects extend to the world of venture and alter the amount of funding flowing to startups.

Global Venture Funding Activity

The first quarter of 2022 resulted in a total of $160 billion in funding flowing to startups, according to Crunchbase. This number is 13% below the level of funding observed in Q4 2021, but still a 7% rise from Q1 2021, indicating slightly more caution from investors. This reduction is only natural given the global political and economic backdrop. The amount of stimulus introduced into financial markets in 2020 and 2021 led to unprecedented levels of funding flowing into venture activity, culminating with $669 billion dollars of funding in 2021. With the reversal of central bank policy bringing back in some of the liquidity to rein in inflation, a reduction in funding going to startups is expected. Amid these developments are, however, some pleasant observations as they relate to the prospects for Ikove Capital.

GLOBAL VENTURE DOLLAR VOLUME THROUGH Q1 2022



	QoQ CHANGE (%)	YoY CHANGE (%)
OVERALL DOLLAR VOLUME	-13%	7%

crunchbase news

By category we can see that:

- **Seed funding** came in at $10.3 billion. This is the only category of funding that grew quarter over quarter, and year over year; a positive development for Ikove Capital given our founder level, very early-stage focus.
- **Early-stage funding** ended with $51.9 billion in funding. This number is down by 18% compared with Q4 2021 but is still the third highest quarter in the last year. Compared with the same quarter a year ago, funding was up by 21%.
- **Late-stage funding** was observed at $97.9 billion for the first quarter of 2022, representing a drop of 12% compared to Q4 2021.

The highlight in these numbers for Ikove is how well seed funding held up. In fact, despite Q1 funding levels falling short relative to Q4 of 2021, Q1 2022 still saw impressive support for startups across the board when compared to Q1 2021. This leads us to believe that while levels of funding are somewhat lower compared to last quarter, we do not see funding falling below pre-2021 amounts.

II. Looking Ahead

As we look forward, Ikove remains confident in its ability to perform strongly according to its mandate of licensing exciting and disruptive technology and forming companies on the foundation of those technologies. We continue to see our relationships improve with key personnel in some of the most well-respected research institutions and universities around the world.

Despite the significant uncertainty being seen around the globe today, we do believe that these stresses will eventually be resolved paving the way to a bright future ahead. The economy in the US remains strong and will be somewhat more insulated from the negative developments occurring in the world today. This will allow us to move forward in our main region of activity with confidence in what is to come.

Furthermore, although we have seen a drop in venture funding as a whole, seed funding has remained resilient throughout. Given our focus on founding companies and building them up from zero to one, this development reinforces what we believe to be a key driver of value for our investors – being founders. The interest in being founders remains strong and continues to prove the power of our model.

As always, we thank you for your unwavering support.

Ikove remains confident in its ability to perform strongly according to its mandate

Flavio Lobato
Co-Founder and Principal, Ikove Capital

Flavio Lobato is Principal and Founder of Ikove Venture Partners, a Venture Development investment company focused on commercializing life changing technologies in partnership with leading research institutions. He is also Founder and CIO of the Startup Nursery Fund (SUN Fund), Ikove's proprietary investment fund, annualizing at over 40% since launch in 2019.

Flavio is an investment expert with over 25 years of experience in alternative investments and traditional markets, having worked at Goldman Sachs & Co., Credit Suisse | First Boston, Liongate Capital and Swiss Capital Group.

Over the last decade, Flavio has re-focused his career away from Wall Street and become a successful serial entrepreneur where he helped launch and fund over twenty successful startups having direct involvement on Boards and acting as a close advisor and coach to CEOs and management teams.

Flavio is CEO and Chairman of Circular Wave Drive, a speed reducer technology company focusing on revolutionizing robotics.

Mr. Lobato received his MBA from Harvard Business School with honors, and his undergraduate in International Finance and Marketing from the University of Miami, cum laude. He is a student advisor to the Harvard Innovation Lab (I-Lab) and is co-head of Fintech for the Harvard Angels of NYC.

Flavio has written extensively about venture capital and financial markets. A sample of his writings can be found here: https://www.ikovecapital.com/News/Insights/

Flavio is fluent in English, Portuguese, Spanish, and conversational French.

THANK YOU

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