Ikove™ STARTUP NURSERY Q2 2022 INSIGHT

I. Macro Update

As we progress through this tumultuous year, we continue to see similar themes play out and even intensify across the economic and political world.

The Russian invasion of Ukraine rages on. Large amounts of weapons and financial aid from the West continue to flow to Ukraine, along with an increasing number of sanctions placed on Russia. These sanctions range from financial and banking, to sanctions banning the purchase of Russian energy and other commodities. Following the events of the last couple years with COVID-19 leading to massive monetary and fiscal stimulus, this has increased the fragility of an already precarious economic and political situation worldwide, sharpening worries over inflationary pressures and the future of economic growth.

Europe significantly relies on Russian energy to support their economies. Countries such as Germany need this energy to power their factories and produce goods as they are a big steel manufacturer and exporter of machinery. To put this into perspective, the EU receives roughly 40% of its gas from Russia, which is used throughout the entire economy. High prices in commodities such as these represent a large risk to the European economy, and as that spills over, a risk to the global economy that is already in a difficult spot. Furthermore, many fear Russia may now be taking action to weaponize the flow of energy and may potentially halt that flow into Europe. Expanding on that, Russia and Ukraine are considered the "breadbasket of the world", and export large amounts of wheat, corn, and other commodities. For example, in 2019 Russia and Ukraine exported over a quarter of the world's wheat. With the flow of these goods hindered, the potential for further inflationary pressures and slower economic growth remains high.

> ***Inflation remains the most elevated in decades. The already high inflation levels prior to the Russia-Ukraine war prompted central banks around the world to raise interest rates.***

Other large economies such as Japan and India also rely heavily on Russian trade, showing the big role Russia plays in the global economy. However, not everyone is following the decisions to sanction Russia. So, despite the added difficulty for Russia to engage in global trade, current events show us that Russia might never be completely shut out from the global economy, causing many to wonder how long this might play out.

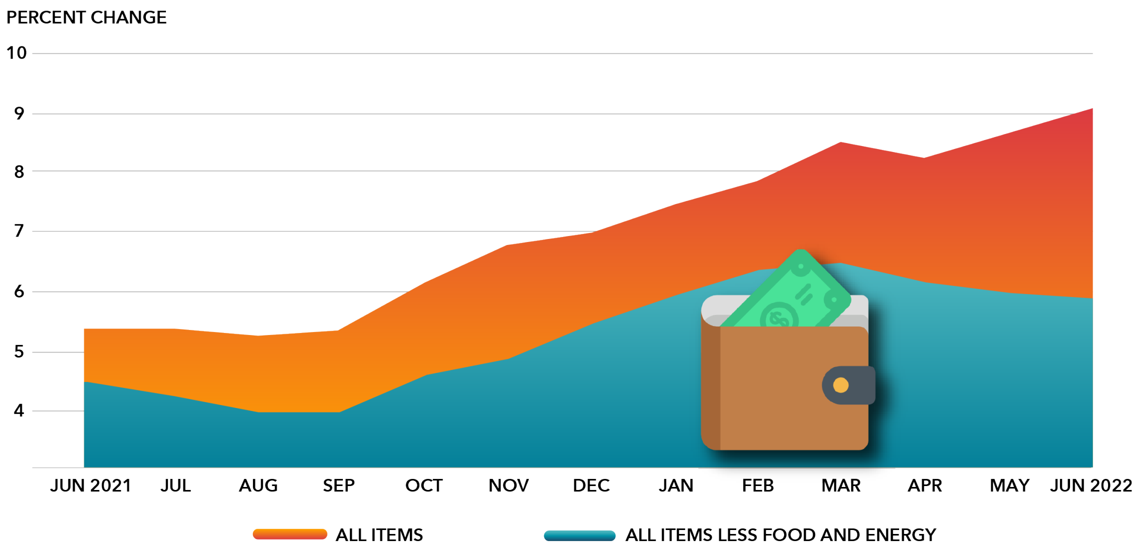
All these factors have created an unusual environment for central bankers and politicians to navigate. On the back of COVID-19, the resulting massive monetary and fiscal stimulus, and now the Russia-Ukraine war, inflation remains at the most elevated level in decades. The already high inflation levels prior to the Russia-Ukraine war prompted central banks around the world to commit to a path of raising interest rates. This is now underway, and despite fears of an economic slowdown and the ongoing political issues, record high inflation means central bankers have no choice but to continue on this upward path for interest rates even if it creates economic pain.

In the second quarter of this year, 10-year US treasury interest rates rose an additional 60 basis points (0.6%). This same theme is seen across most economies. The latest US CPI release for the month of June showed inflation reaching a level of 9.1%, the largest 12-month increase since 1981, and higher than expected by most economists, further reinforcing the decision by central banks to raise interest rates.

Interestingly,

despite the weakness and uncertainty seen globally, the US is proving to be very resilient, with a surprisingly strong labor market. Unemployment sits at the low level of 3.6%. Robust job growth is still being seen, with shortage of workers of almost two job openings for every unemployed person in the United States. However, cracks are starting to show in the form of decreased spending and in asset classes such as real estate, seeing falling activity. The U.S. Bureau of Economic Analysis announced numbers for economic activity, showing GDP in Q2 decreasing at an annualized rate of 0.9%. After a decrease in GDP of 1.6% in Q1, the situation today meets the technical definition for a recession of two consecutive quarters of negative GDP growth.

ANNUALIZED PERCENT CHANGE IN CPI FOR ALL URBAN CONSUMERS



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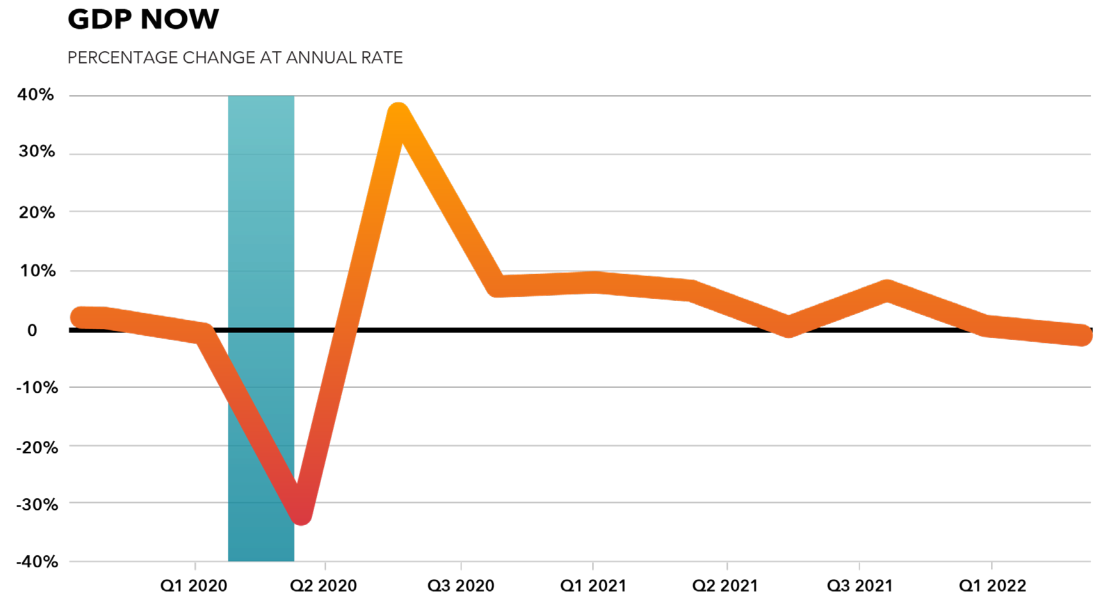
The big question, as always, is: *what does all this mean going forward?* We are seeing record levels of inflation, prompting the need to raise interest rates to slow demand. We also are experiencing continued supply chain disruptions in the form of social restrictions and shutdowns in China due to COVID-19 cases spiking and high transport costs. The war worsens the supply chain issues, prompting additional or continued inflationary pressures while also having a dampening effect on global economic growth. The global economy is in a vulnerable situation as inflation is likely to stay high in the immediate term, forcing central banks to continue raising interest rates into an environment of slowing growth. Many fear the dreaded stagflation, where inflation remains elevated with no real economic growth, or even recession.



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

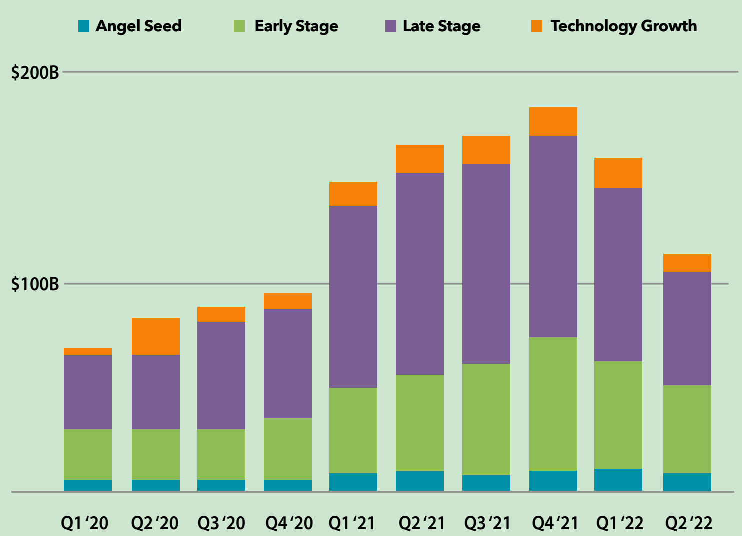
Because of these recession fears, we see significant fluctuations in currencies globally.

As can be expected, these factors have filtered through to affect financial markets significantly. Public markets have declined markedly, with indexes such as the S&P 500 falling over 21% in the first half of 2022. Similarly, markets have fallen in other regions of the world. Private markets have also taken a hit.

Global Venture Funding Activity

The trend of falling investment in the venture capital asset class has continued in Q2, with funding levels falling more dramatically, particularly as investors reconsidered later-stage investments. The theme of unicorn chasing over the last few years led to ever higher valuations, with earlier stage investments representing an increasingly small piece of the pie. These earlier stages now prove more resilient than later stages. Economic downturns have a lighter effect on companies in this stage due to funding being less tied to revenues. As valuations drop, funding early-stage investments actually represents a significant opportunity for investors.

GLOBAL VENTURE DOLLAR VOLUME THROUGH Q2 2022



In Q2 2022, startups raised $120 billion in funding from investors globally. This amount is 26% lower than funding in Q1 2022 and 27% below the amount raised in Q2 2021 but still exceeded funding raised in every quarter of 2020. By category we can see that:

- **Late-stage funding** totaled $66.7 billion; this amount represents a 31% decline quarter-over-quarter, and a 38% decline year-over-year. This stage of investment was the most negatively impacted.
- **Early-stage funding** amounted to $44 billion; this represents an 18% decline quarter-over-quarter, and a 9% decline year-over-year. Despite the drop in funding, the number of deals in this stage remain more robust**.**
- **Seed stage funding** came in just over $9 billion; although this represents an 18% drop quarter-over-quarter, it also represents a 9% rise in funding year-over-year.

In the US, we can see this strength at the earlier stages of investment, with angel and seed investments amounting to $4.2 billion over 1260 deals in the second quarter of this year. This brings the total amount of funding in 2022 to $10.5 billion over 2906 deals in the angel and seed category. This is interesting because despite the slowdown in funding for the asset class as a whole, angel and seed funding levels are tracking 2021 record highs and might surpass them.

II. Looking Ahead

We will keep a cautious eye on the economic changes and political events happening around us that affect the decisions we make in conducting our business.

We are, however, confident about our outlook for the future. Even during these difficult times, we continue to find amazing technology ripe for commercialization and are able launch companies on the foundation of those technologies. We have a very active pipeline and our relationships continue to expand, providing us with a growing flow of opportunities to evaluate for potential license and company launch.

We believe the remainder of the year will be successful with the launch of several more companies creating value for humanity and our investors.

As always, we thank you for your unwavering support.

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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.

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