

Q3 2022

INSIGHT

I. MACRO UPDATE

Heading into the fourth quarter of 2022, we continue to observe significant economic changes and political tensions.

At the forefront of everyone's mind are two main issues: the ongoing high level of inflation that has triggered very rapid increases in interest rates; and the Russia-Ukraine war that has created a multitude of issues spreading through the entire global economy.

The Consumer Price Indexes of most economies, which tracks the level of price inflation that consumers deal with daily continues to stay elevated. This has triggered a coordinated effort by almost all central banks to raise interest rates at the fastest pace seen in generations. This continued inflation has increased the likelihood of further aggressive interest rate hikes, with various central bankers speaking about the need for more outsized increases as long as the inflationary pressures in the global economy remain.

Although inflation remains at a very high level, at least in the US, the speed at which inflation is increasing seems to be slowing, with many hoping that we have seen inflation peak. Though it will take a while for interest rate increases to filter through the economy and have their full effect, if the speed at which inflation is rising seems to be moderating, this may be a small cause for relief to



consumers. In other areas, such as the EU and the UK, inflationary pressures remain even higher and do not seem to be relenting.

On the flip side of this inflation coin is the activity in interest rate markets, and how the central banks of the world plan to move forward after having already increased interest rates at such a fast pace.

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In the United States, the Federal Funds Rate has now risen to between 3-3.25%, with expectations in the market of the Fed Funds Rate rising closer to 5% and staying there for some time before easing. The Federal Reserve members have also projected similar expectations for rates rising to 4.6% at some point in 2023 before coming down in 2024 and further down in 2025. Even with the possibility that inflation has reached its peak in the US since

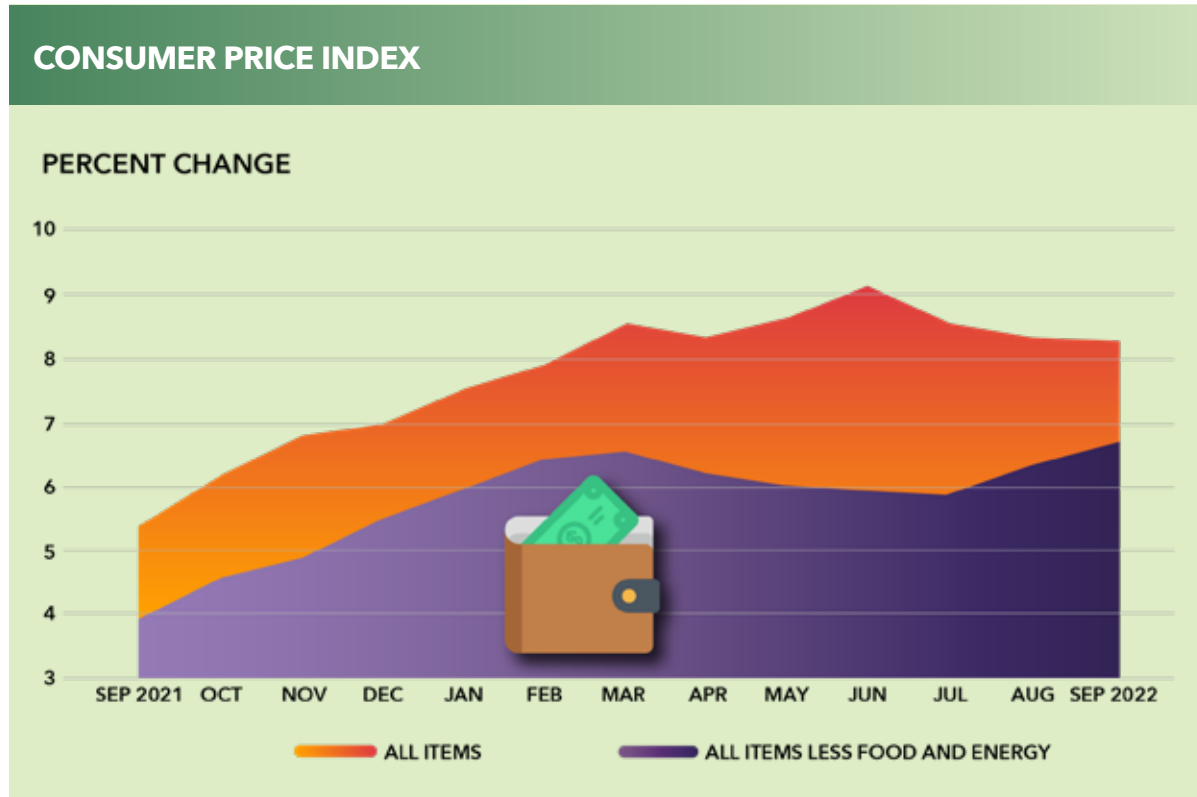
While the world is still navigating the most complex economic conditions experienced in decades, we believe that significant opportunities lie ahead.

this does not seem to be the case in other economies such as the EU and the UK, the Federal Reserve is firmly committed to continue raising interest rates until there are obvious signs that financial conditions have tightened significantly with inflation coming back down to a more reasonable and manageable level.

Beyond this, the ongoing Russia-Ukraine war has only put additional pressure on an already difficult economic landscape. In a frightening move, the world witnessed the Nord Stream pipeline (offshore natural gas pipeline running from Russia to Germany) being sabotaged and blown up in what many believe was another act by Russia to further damage the European Union and by extension many other parts of the global economy (although, the question of responsibility for the sabotage remains unsolved).

A significant number of food products originate from the same area, with the Russia/Ukraine region considered one of the breadbaskets of the world. With supplies of those commodities (wheat, corn, soybeans, and more) also being reduced, this is another element adding to inflationary global pressures.

As a result of all these issues, expectations for economic growth have continued to move lower,



and tensions between various global governments have increased. Expectations for economic growth in the US during the third quarter are close to 2% after seeing decreases in GDP over the previous two quarters.

Growth in GDP globally for the full year 2022 is expected around 2.5% which is down from over 4% just a few months ago.

Economic hardships have given rise to other disputes. Not all governments agree on methods for dealing with events such as the Russia-Ukraine war, or inflation and economic growth. As differences have become more apparent, it has prompted a sort of deglobalization, with countries retreating into their borders and attempting to improve their economies, supply chains, and technological competitiveness.

An example of this can be seen with the United States banning the sale of advanced semiconductor chips to China as they compete on technology and attempt to undermine each other's economic development. There are also disputes related to the recognition of Taiwan as a sovereign government, which China does not recognize, while the US continues informal political relations with the island. A majority of the world's semiconductor chips are manufactured in Taiwan, making the island an important global player, with both the US and China attempting to establish dominance in the area in an effort of improving their domestic semiconductor industries.

Why these problems are becoming more acute now is unclear. As we observe how individual governments are dealing with turbulence today, diverging strategies for dealing with everything from COVID, to the Russia-Ukraine war, inflation, supply chains, and technological advancements,

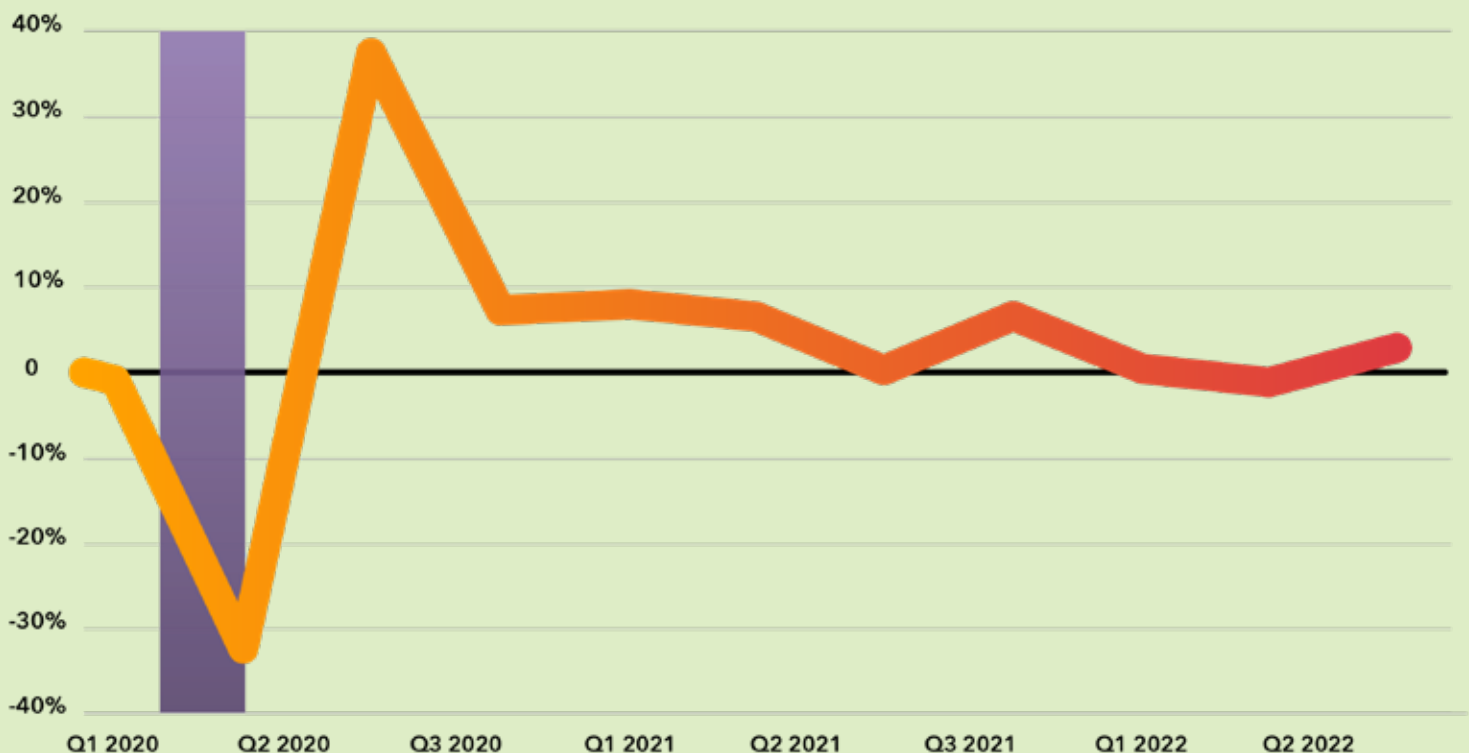
may be at the heart of the disagreements. In the case of the US and China, China has continued relations with Russia despite disapproval from the US and others, as well as the Chinese strategy for managing the issues they are facing today related to COVID, economic growth, and technology development has led to much misunderstanding between the top two economies of the world.

In response to the described economic pressures and political tensions, the United States government passed two important bills in Q3 2022:

The Inflation Reduction Act –is aimed at reducing inflation through spending in large part on climate-related initiatives, allowing Medicare to negotiate drug prices, as well as a reduction in the federal deficit through the implementation of a 15% corporate minimum tax for companies of a certain size. While the

GDP NOW

PERCENTAGE CHANGE AT ANNUAL RATE



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

claims on inflation reduction remain debatable, the benefits to humanity from this new law are quite clear, as the country prioritizes the development of clean energy and reducing emissions over the coming decades.

The CHIPS and Science Act—aimed at providing economic support and federal funding to boost the production of American-made semiconductors, tackle supply chain vulnerabilities and make more goods domestically, revitalize scientific research and technological leadership, and strengthen economic and national security.

While the world is still navigating the most complex economic conditions experienced in decades, we do believe significant opportunities lie ahead. With the focus in the US on bolstering entrepreneurial activities, with federal funding being provided for technology development (specifically in certain deep technology areas like semiconductors, EVs, clean energy, and more), our expertise in identifying disruptive technology that

we can build into an efficiently managed and cost-effective business places us in a favorable position as we deal with this difficult economic and political situation, and eventually shift into a more healthy environment.

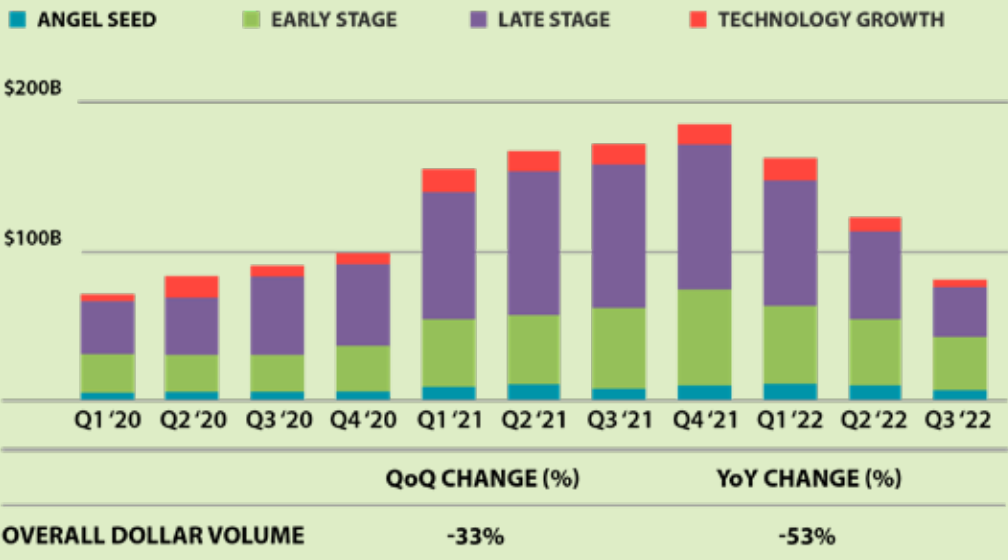
Part of the current difficulty is the rapidly declining level of funding going to the venture capital asset class. We are confident that our business model will allow us to continue identifying technology and launching businesses cost-effectively. As we can provide a common set of services (marketing, legal, research, finance, funding, etc.) via the core Startup Nursery team to the entire portfolio of companies, we are able to eliminate large costs for companies as they get off the ground, allowing them to focus almost entirely on further development of the technology and growing the business.

More details on funding for venture capital are provided next.

GLOBAL VENTURE FUNDING ACTIVITY

Funding for the venture capital asset class has continued its decline, as was expected. Against the backdrop of the current economic situation and ongoing political uncertainties, investors have lightened their exposure to risky assets such as publicly traded equities or interests in startups and other private companies.

GLOBAL VENTURE DOLLAR VOLUME THROUGH Q3 2022



crunchbase news

In Q3 of 2022, venture funding totaled \$81 billion, down 53% year-over-year.

Going by investment stage in the venture capital asset class, funding levels came in as follows:

- **Late-stage funding** came in at a total of \$40 billion, which is down 63% year-over-year. This funding stage declined the most significantly, accounting for a large amount of the total decline in VC funding.
- **Early-stage funding** totaled \$34 billion in Q3 2022, posting a 39% decline year-over-year.

- **Seed-stage funding** amounted to \$7.4 billion in the latest quarter, resulting in a less than 7% decline year-over-year.

It is not clear whether this trend will continue into the coming quarters. Significant headwinds remain, but with the record levels of funds raised by VCs in 2021, there will be pressure to put that money to work going forward.

II. LOOKING AHEAD

As we look forward, we acknowledge the difficulties being dealt with worldwide and remain cautious in the face of those headwinds.

Our cost-effective business model gives us confidence in our ability to continue conducting the activity of licensing technology and launching business around those technologies. Combined with a large amount of federal funding flowing to those institutions we work closely with, we believe that there will be myriad opportunities for launching businesses going forward.

Although conditions are likely to remain difficult in the near term as central banks around the world deal with the highest inflation in decades along with the political tensions we are seeing, we are confident that given our conservative operating model we can make it through these tough times and come out even stronger as global conditions improve.

As always, we thank you for your unwavering support.

We are confident that we can make it through these tough times and come out even stronger.



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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