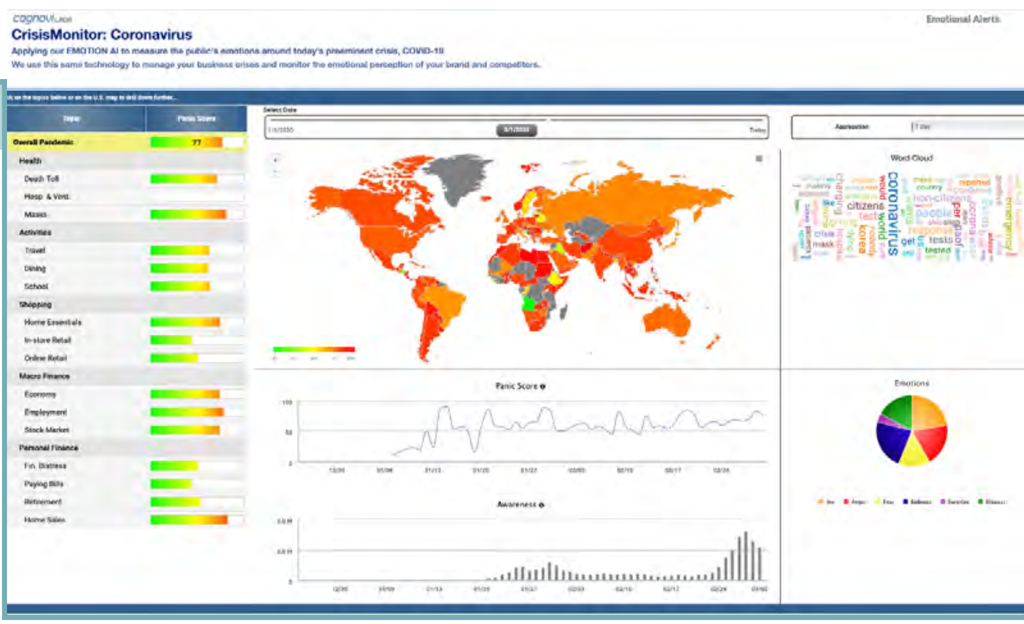
IKOVE
STARTUP NURSERY

Q2 2020 INSIGHT

I. Macro Update

Welcome to summer! We hope this letter finds you healthy and enjoying a much-needed summer break.

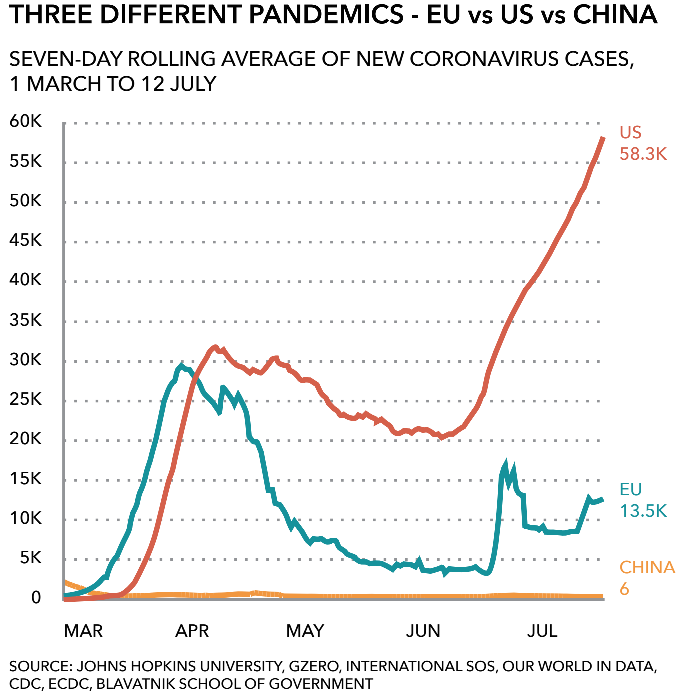
As we look back to Q2, we want to take a moment to reflect on deep social divides that have come to the fore with the pandemic and have become a centerpiece of discussion since the death of Mr. Floyd. Ikove is a firm founded by immigrants that focuses on merit and aims at providing equal opportunity for all employees, regardless of race, sexual orientation, and creeds. We stand shoulder to shoulder on the fight against racism and discrimination.

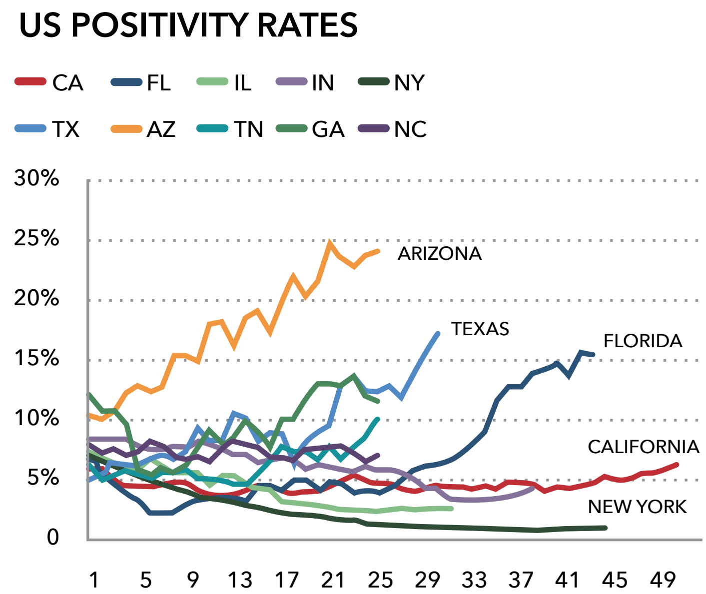


We continue to track the damage caused by COVID-19. Cognovi labs launched the **COVID-19 Panic Index** in order to track the real-time emotional impact of the crisis. Cognovi utilizes their emotion AI to measure the public's emotions around the Coronavirus. We welcome you to track it.

As the US continues to reopen, and states are caught in a transition, it is clear that the US did not manage the reopening process effectively as cases are soaring, while in Europe and China we are seeing return to normalcy.

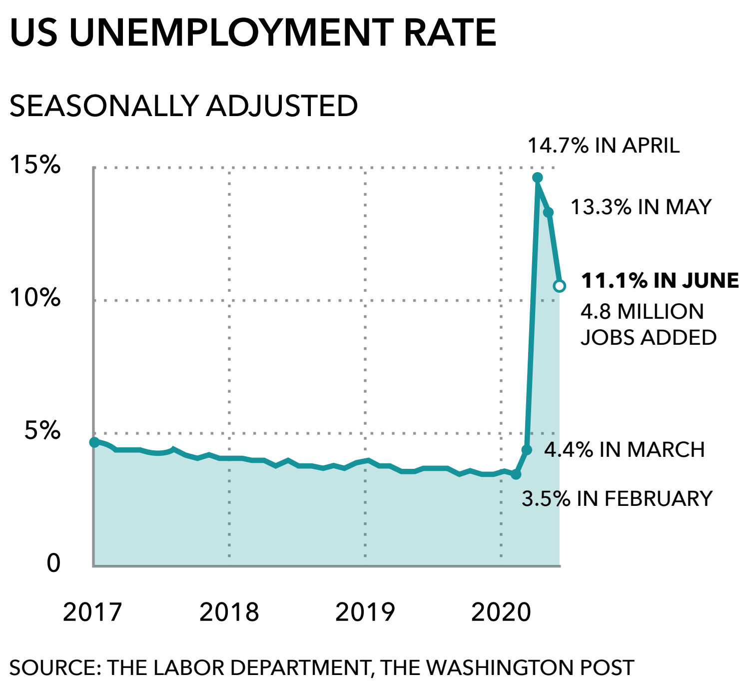
This second wave in the South and West is real. Positivity Rates (Number infected per 100 tests) in Florida, Texas, and Arizona, with a population of 57 million people, are between 15 percent-25 percent with other states catching up. In mid-March, Italy had a 19 percent positivity rate...





Many of those states will have no option than to slow down their reopening, which is already happening to some extent in California and Texas.

The US may be done with COVID, but COVID is not yet done with the US.

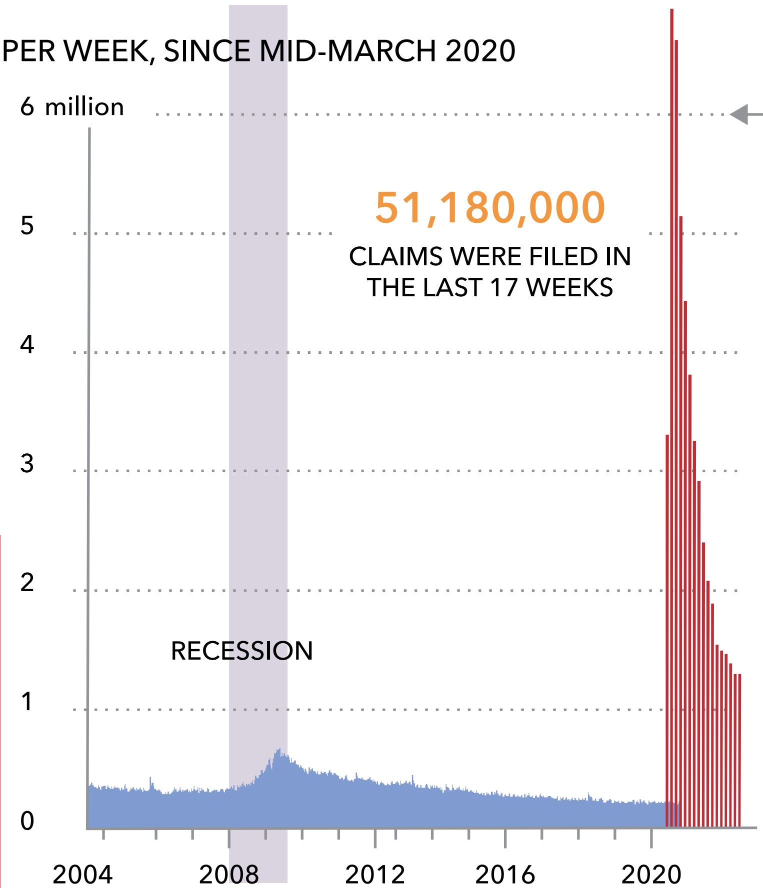


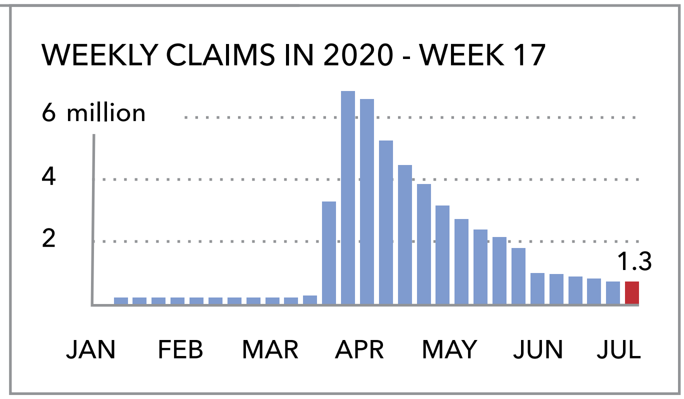
At the same time, we have seen signs of economic recovery. May unemployment numbers caused quite a stir, where market expected unemployment to hit close to 20 percent, but with the addition of 2.5 million jobs, provided a much-needed boost and closed at 13 percent. June numbers continued on a positive trend, with the economy adding 4.8 million jobs and the unemployment rate falling to 11.1 percent. The official unemployment number however remains one of the highest seen in the US since the Great Depression.

Fillings for unemployment insurance continue to maintain a very high level, the chart below tracks new filings since the start of the pandemic, with a staggering 51 million claims filed. Recent numbers continue to hover at 1.3 million weekly claims. The US has experienced 17 straight weeks of filings above 1 million, a sign that recovery has not taken hold for many Americans.

INITIAL UNEMPLOYMENT INSURANCE CLAIMS

PER WEEK, SINCE MID-MARCH 2020



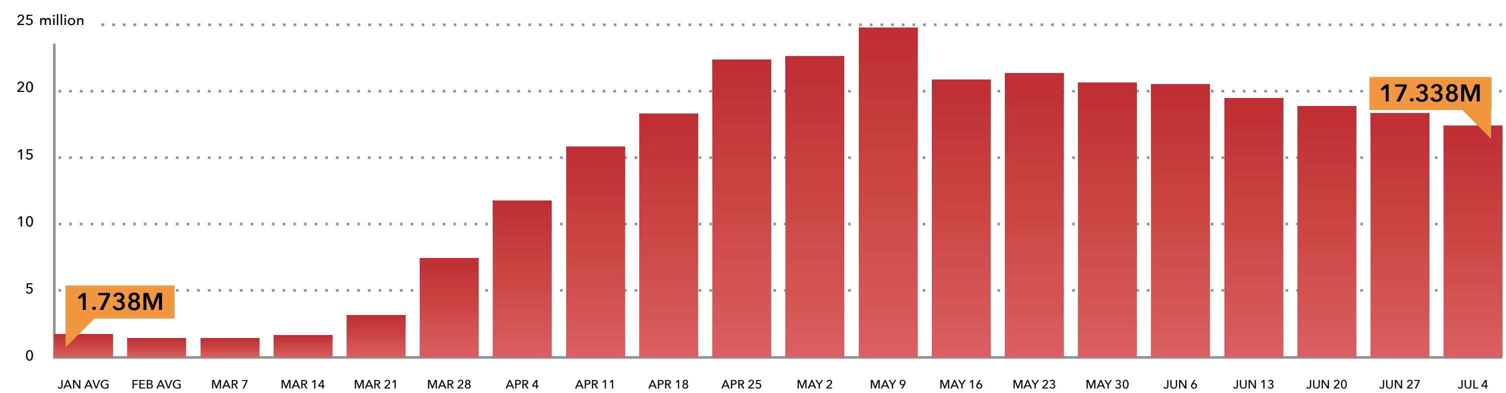


SOURCE: DEPARTMENT OF LABOR - SEASONALLY ADJUSTED

Weekly unemployment claims only show a part of the picture. When looking at on-going claims, we are able to capture a better picture of the true state of unemployment. As we can see from the chart below, ongoing claims have stabilized at around 17 million. For comparison, back in early 2020, that number was around 1.7 million, so the state of unemployment continues to be quite worrisome.

PEOPLE COLLECTING UNEMPLOYMENT BENEFITS

CONTINUING JOBLESS CLAIMS FILED THROUGH STATE PROGRAMS - UNADJUSTED



SOURCE: FEDERAL RESERVE ECONOMIC DATA, DEPARTMENT OF LABOR

US unemployment is in a state of flux. Recent unemployment numbers point to a robust recovery, however, the unemployment survey was completed in mid-June, and with new spikes of COVID-19 throughout the South and West since that time, it is unclear if that progress will continue.

Equity markets globally had a phenomenal second quarter, a mirror image of Q1, led by tech, and primarily driven by stunning fiscal and monetary support. We also saw volatility subside, albeit at elevated levels. Oil also staged a solid come back bringing some normalcy after May (WTI) contract dropped to -$37.63, following a collapse in demand due to COVID-19 and oversupply. Fixed-income trading continues to provide the perfect environment for investment banks trading desk as recent earning have shown.

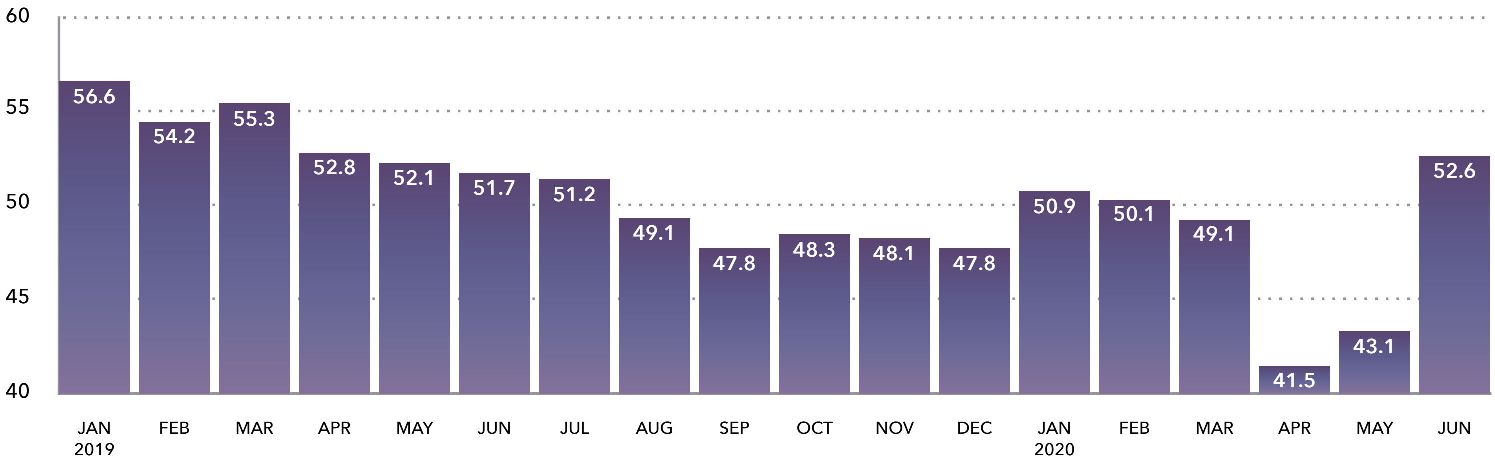
INDICES		STOCK MARKET INDEX PERFORMANCE			
		YTD*	Q2 2020	Q1 2020	2019
US	DJIA	-9.87%	21.60%	-23.47%	23.76%
	S&P500	-4.45%	24.11%	-20.34%	30.43%
	NASDAQ	11.28%	34.85%	-14.82%	37.89%
	RUSSELL 2000	-13.99%	27.81%	-31.20%	23.95%
ASIA	NIKKEI 225	-4.42%	19.28%	-18.88%	20.36%
	SHANGHAI	-2.66%	8.79%	-10.31%	22.11%
	HSI	-13.53%	4.54%	-16.45%	9.16%
EUROPE	DAX	-6.97%	28.10%	-24.92%	26.45%
	FTSE 100	-18.20%	8.78%	-24.80%	12.10%
	CAC	-17.96%	15.87%	-26.93%	28.78%
BRAZIL	BOVESPA	-17.81%	30.19%	-36.86%	31.95%
VOLATILITY	VIX	126.08%	-46.97%	74.86%	-49.96%
COMMODITIES	GOLD	17.39%	11.60%	4.91%	18.16%
	WTI CRUDE OIL	-36.41%	90.61%	-67.21%	33.32%
BONDS	US10Y YIELD	-65.69%	7.05%	-63.32%	-27.64%
CURRENCIES	EUR/USD	0.14%	1.90%	-1.70%	-2.54%
	GBP/USD	-6.47%	-0.12%	-6.65%	2.85%
	USD/JPY	-0.65%	0.48%	-0.59%	-0.69%
	USD/BRL	36.06%	5.02%	29.27%	3.50%

* AS OF JUNE 30, 2020

Another strong indication of economic rebound is June PMI which came in at 52.6, indicting the economy is in recovery, rebounding from the large drop to 41.5 in April. PMI still trailing pre-COVID numbers.

INSTITUTE OF SUPPLY MANAGEMENT (ISM) MANUFACTURING PMI

JANUARY 2019 TO JUNE 2020

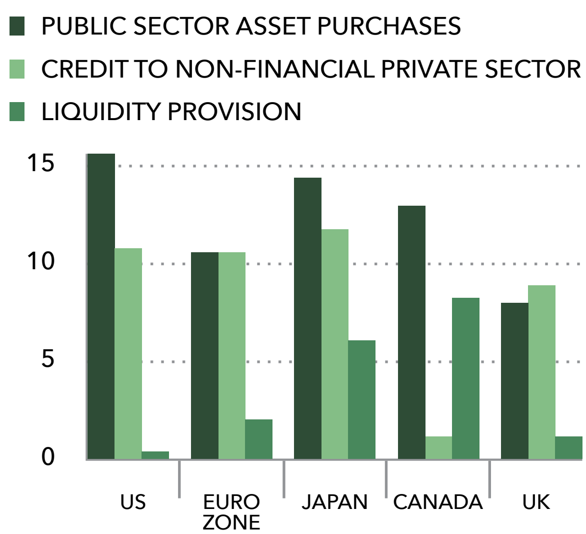


This crisis has brought a new level of

state support of what were once capitalist economies. Morgan Stanley notes that the central banks of the G4 countries – US, Japan, Europe, and the UK – will collectively expand their balance sheets by 28 percent of gross domestic over this cycle. The equivalent number during the 2008 financial crisis was 7 percent. Fiscal deficits are soaring too: across the G4 and China, they will hit 17 percent of GDP in 2020. (for a full description of the US programs please check our Q1 letter).

THE MONETARY POLICY RESPONSE HAS BEEN ENORMOUS

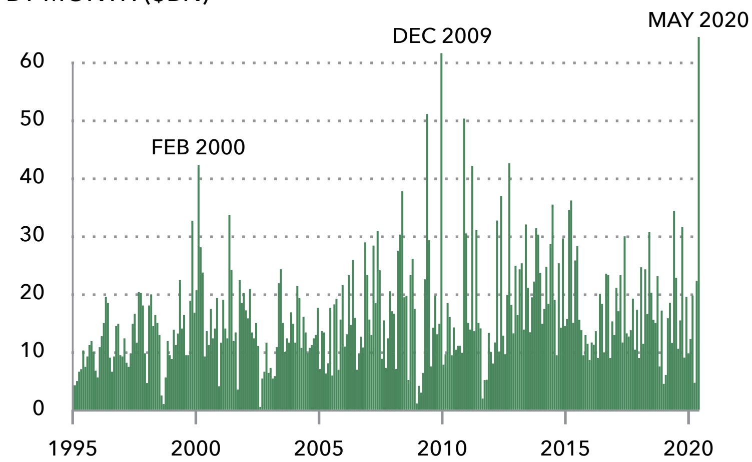
% OF GDP



SOURCE: BANK FOR INTERNATIONAL SETTLEMENTS

BUSY MAY SETS RECORD IN US EQUITY CAPITAL MARKET DEAL ACTIVITY

TOTAL US EQUITY CAPITAL MARKET PROCEEDS RAISED BY MONTH ($BN)*



*TOTALS INCLUDE BROADEST MEASURE SPANNING INITIAL PUBLIC OFFERINGS, SECONDARY OFFERINGS, AND BLOCK TRADES

SOURCE: REFINITIV

Another great indication of market

recovery was the record-breaking deal activity in May. Companies took advantage of the strong capital market window to raise funds to shore up their balance sheets.

The Federal Reserve took a key action in mid-June by expanding its foray into corporate credit. It will now buy individual corporate bonds on top of the exchange-traded funds it was already purchasing.

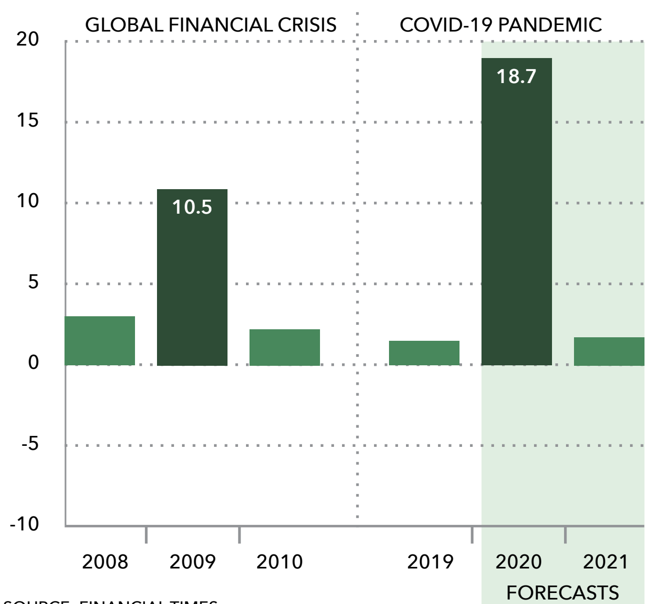
As part of a continuing effort to support market functioning and ease credit conditions, the Fed added functions to its Secondary Market Corporate Credit Facility. The program may buy up to $750 billion worth of corporate credit. This ability is largely considered a watershed moment for the financial markets, to help support the financial impact of COVID-19.

The Senate is debating further

direct support to taxpayers on top of the original Cares Act. The House approved the legislation, but the bill has not passed in the Senate. It is unclear what will happen to key provisions like the additional $600 per week for individuals filing for unemployment that expires at the end of July.

GOVERNMENT DEBT AND DEFICITS ARE SET TO RISE MORE THAN DURING THE GLOBAL FINANCIAL CRISIS

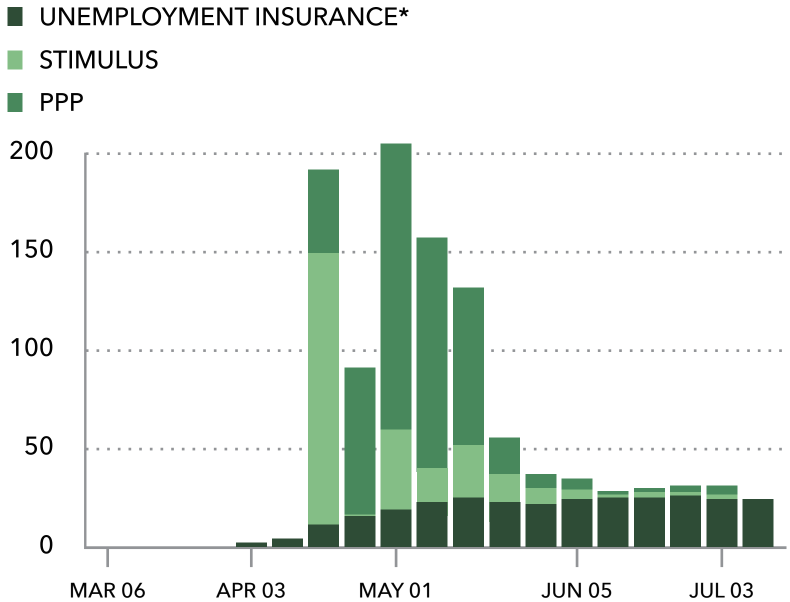
GLOBAL GOVERNMENT DEBT (% OF GDP)



SOURCE: FINANCIAL TIMES

US GOVERNMENT'S PANDEMIC RELIEF LEVEL OFF

WEEKLY DISBURSEMENTS ($BN)



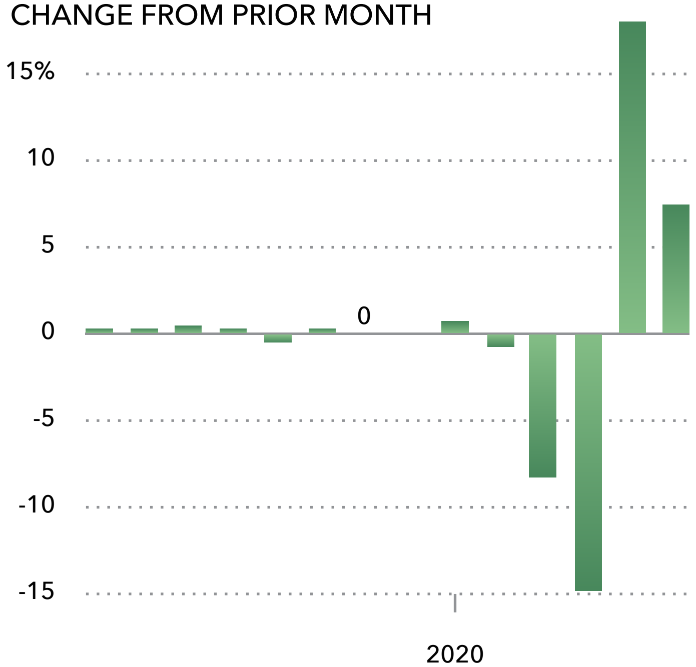
*INCLUDES REGULAR AND EMERGENCY, RELATIVE TO SAME WEEK LAST YEAR

SOURCE: US TREASURY, US CENSUS, SMALL BUSINESS ADMINISTRATION, EVERCORE ISI

Income replacement over the past several months has been generous: nearly 70 percent of Americans have received more from state-provided income during the crisis than when they worked (the median replacement rate is 134 percent, according to a **University of Chicago study**.) This has created genuine pent-up demand — and recent numbers show that it is now being released.

SALES SWING

US RETAIL SALES, SEASONALLY ADJUSTED PERCENT CHANGE FROM PRIOR MONTH



SOURCE: COMMERCE DEPARTMENT VIA ST. LOUIS FED

In May, consumer spending grew by 8.2 percent, even while personal income dropped by 4.2 percent. Retail sales grew by a record 17.7 percent in May followed by a 7.5 percent increase In June. Most of the rebound in spending is attributed to the $1,200 stimulus checks and the extra $600 a week in unemployment benefits, which represents around $20 billion per week to shore up unemployed Americans. Without key support, it is unclear consumers will spend as freely, as high unemployment persists and GDP numbers for Q2 are set to be the worst on record.

One of the key reasons the first round of economic support was so effective was the bipartisan nature of the support. The current haggling in Washington can delay the follow-up support needed to soften the massive blow to the economy.

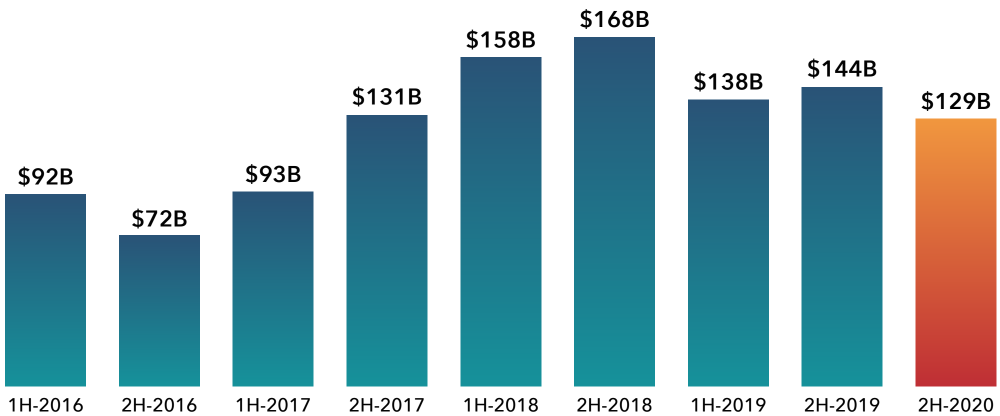
II. Venture Activity

Venture activity

remained on track in Q2, with global deals coming in at a better than expected $129 billion. This number is down from the 2018 peak of $168 billion, and around 7 percent below Q1 2019, but remained robust in light of the global pandemic.

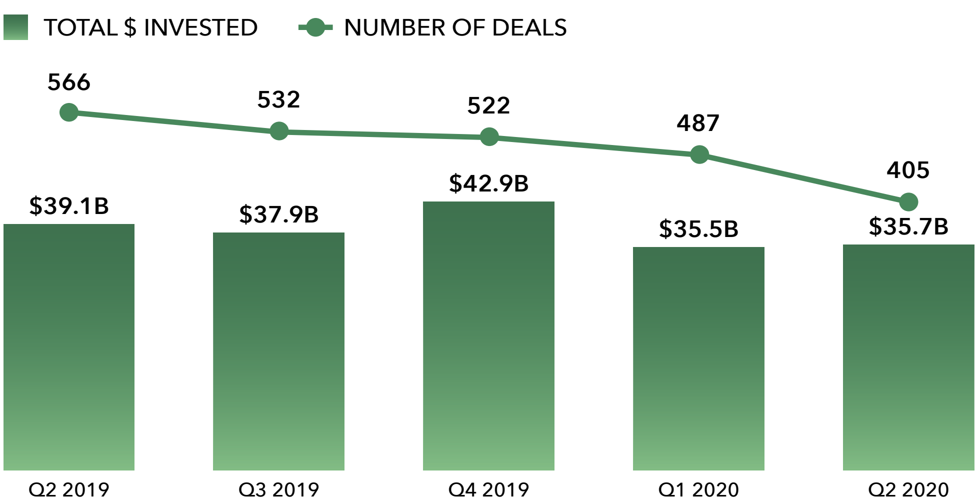
GLOBAL VENTURE DOLLARS HALF YEAR THROUGH Q2 2020

SEED, VENTURE, CORPORATE VENTURE, AND PRIVATE EQUITY FOR VENTURE-BACKED FIRMS INCLUDED



SOURCE: CRUNCHBASE NEWS

GLOBAL LATE-STAGE INVESTMENT THROUGH Q2 2020

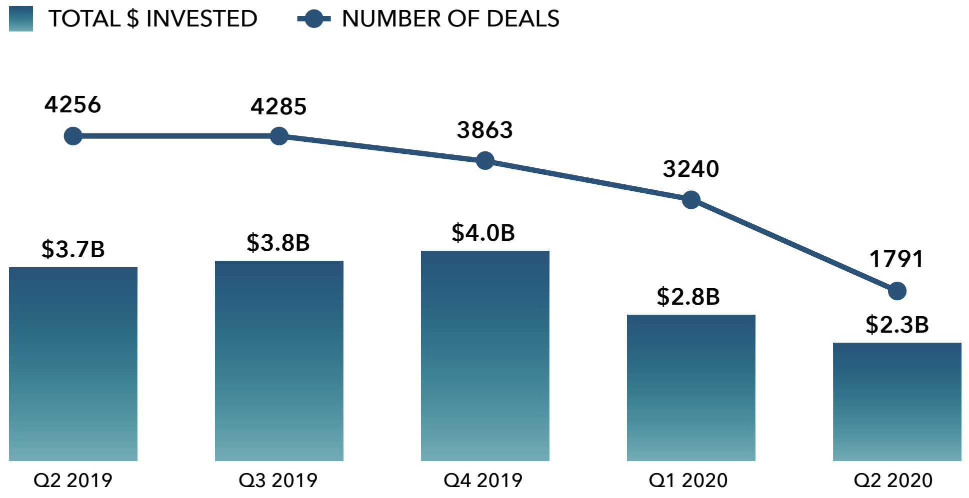


SOURCE: CRUNCHBASE NEWS

Unicorn hunting

continues to be the main focus of VC investors. Around 80 Unicorns raised funds in Q2, with a total late-stage deal flow of $35.7 billion, representing close to 30 percent of all global funding and very much in line with the $39 billion in Q2 2019.

GLOBAL SEED AND ANGEL INVESTMENT THROUGH Q2 2020



SOURCE: CRUNCHBASE NEWS

At the same time, Seed Stage funding continues to falter. Global Seed Stage and Angel investments fell to $2.3 billion, down 38 percent from $3.7 billion in Q2 2019. Seed Stage deal volume also fell substantially (58 percent) from same time last year, making it increasingly difficult for early-stage companies to access much-needed funding.

It is clear that the pandemic has exacerbated the trend by VCs to back large Unicorns with a focus on franchise names. At the same time, the need for innovation is really lacking, and a worrisome trend toward concentrated bets on the next big thing.

Cutting early-stage deal flow by 60 percent will certainly impact the ability of the industry to allow early-stage companies to grow and mature, and making such concentrated bets in early-stage technologies will certainly hinder the necessary optionality of having diversified bets in emerging technologies.

As traditional VCs move further away from early-stage into Unicorn hunting, the work of the Startup Nursery, nurturing DeepTech and working side by side with the portfolio to navigate The Valley of Death is needed more than ever, to help bring to market the next generation of technologies that deserve to be shared with humanity.

III. Looking Ahead

As we enter Q3, we face a situation where the Pandemic is re-accelerating in the US, with equity markets at loft levels, and a lot of uncertainty regarding future stimulus. We continue to keep a very tight rein on expenditures and maintain low cash burn rates across the Nursery and Portfolio.

We remain cautiously optimistic that a vaccine will be developed by year end or early 2021 so the US, and rest of the world can come back to some type of normalcy. But even with a vaccine, the timeline needed to vaccinate in scale means that we will be dealing with this Pandemic for a while.

Regarding the resurgence in the US, it is clear that without the full support of the population, we could see continued strong growth in cases in several states. It is hard to expect full lockdowns to return, once the economic impact is around 3 percent of GDP per month, but unless something changes, the impact in cases and potential death rate can climb to the 200k in the US by the fall.

We expect Q2 GDP to be awful, -30 percent, followed by economic rebound in Q3 and begin to accelerate towards Q4 and early 2021. The leadership in Washington must continue with much needed financial support to shore up the 17 million unemployed and the loss in revenue in businesses. As mentioned earlier, the bright spot so far has been a unified Congress and Senate acting swiftly in the face of this catastrophe, but a second round of support will be a necessity to avoid economic pain.

The key point, unlike 2008, is for money to continue to flow towards non-financial corporates and households as a bridge to recovery. Overall, economies are still healthy and financial leverage is under control. There is no reason to expect 2008-like bad loan losses or deleveraging given the extent of the support, but financial institutions have begun to set aside significant capital to account for write downs.

One benefit of the lockdowns has been the increase in digitalization, leading to greater productivity and allowing for quality businesses to refocus and get better.   We are taking full advantage of these trends.

Stay safe and have a wonderful summer. Thank you again for your continued support and trust.

Flavio Lobato

Co-Founder and Principal, Ikove Capital

Flavio Lobato is Principal and Founder of Ikove Capital Partners, a Venture Development investment company focused on commercializing life changing technologies in partnership with leading research institutions.

Previously, Flavio was an Executive Director at Liongate Capital Management, a multi billion alternative investment manager based in London and New York which was sold to Principal Global Investors. Additionally, Flavio was a Founder, and CIO of Swiss Capital Asset Management in Lugano, managing over $1.5 billion in hedge fund investments for institutional clients. Flavio was a VP at Goldman Sachs & Co. and a Director at Credit Suisse First Boston.

Flavio received his MBA from Harvard Business School with honors, and his undergraduate degree in International Finance and Marketing from the University of Miami, cum laude. Flavio is Co-Head of Fintech for Harvard Angels of NYC. He serves as Chairman or on the Board for several high profile startups. He is a guest author at Venture-Beat, VC-List, Forbes and Alpha Week and has been featured in several podcasts.

THANK YOU

IKOVE
STARTUP NURSERY