2022 ANNUAL REPORT

HARRIS INVESTMENT GROUP

DECEMBER 2022

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LETTER TO INVESTOR PARTNERS

Dear Investor Partners,

2022 was a landmark year in many ways for Harris Investment Group. It was the first year of running our closed-fund model with having previously closed two funds in 2021 (Fund I & SOF). 2022 was the first year of managing over $150M in investor capital. It was the year when our team grew to more than 10 people. It was the year when we purchased a new commercial office building to accommodate our growth.

However, the biggest events of 2022 weren't limited to the growth of our firm. The most notable occurred on the world stage with unprecedented events in geopolitics, record -breaking inflation and increasing interest rates. Each of these have and will continue to affect all of us in meaningful ways as we move into 2023.

The collection of domestic and international events highlight the importance of who you have chosen to be stewards of your investment capital. After all, anyone can make a buck in a bull market; the true test of an asset manager is how they choose to respond, and not respond, in times of market uncertainty.

How are we changing? We have and will continue to adapt our acquisition models. We are adjusting key input variables such as expected rent growth and exit cap rates. For our existing real estate fund portfolios we are prioritizing only the highest ROI renovations. We are increasing our reserve accounts so we will be prepared for any unexpected cash needs.

What isn't changing? Digging for extremely compelling value-add opportunities - we haven't put our pencils down. Like any true value investor, we are capitalizing on buying opportunities. Investment risk is determined by the asset price and we continue to see risk profiles improve as cap rates begin to slowly expand. We have already reaped the benefits of making investments at discounted prices in 2022 and will continue to do so into 2023.

Finally, we aren't changing what we are buying. We are fortunate to be investors in an asset class, asset type, and strategy (Real estate, multifamily, and value-add respectively) that performs exceptionally well, regardless of the market cycle. We remain optimistic about the future of our existing fund portfolios and the opportunities for future funds as we move into 2023 and beyond.

We are truly grateful for the trust that our investors have placed in us to manage their hard-earned capital. We don't take this stewardship lightly and will continue to strive for excellence as we execute our funds and direct investments going forward.

Sincerely,

Jason Harris
Founder & Chief Executive Officer

Our MISSION: Accelerate wealth creation for our investor partners through high-growth alternative investments.

FIRM HOLDINGS

$150M

ASSETS UNDER MANAGEMENT

$375M

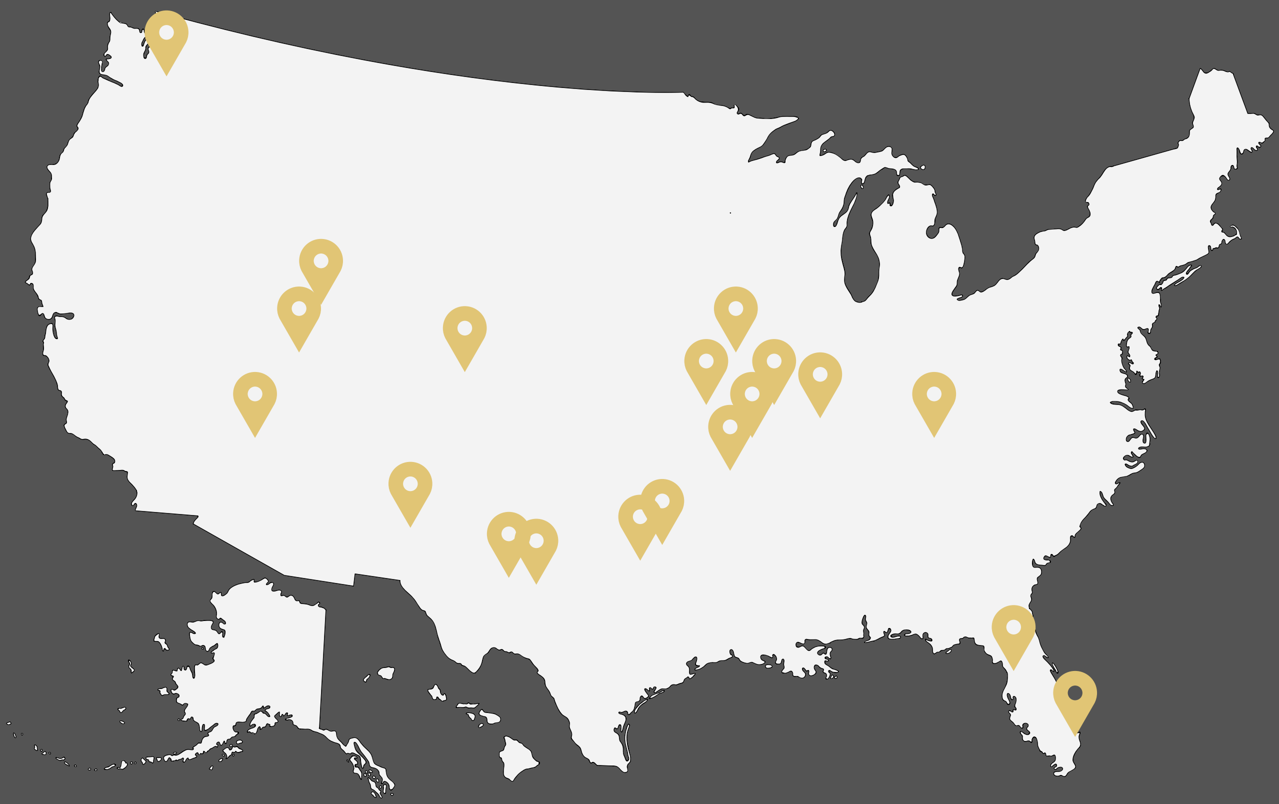
RE HOLDINGS VALUE

2,600

MULTIFAMILY UNITS

340

GAS STATION PUMPS



2022 FIRM HIGHLIGHTS

2022 was a year full of exciting changes for the firm. Coming off the heels of our largest capital raise in 2021, the Harris Investment Group team focused on improving our operations and processes.

We began the process of onboarding a new investor portal software to facilitate a more institutional investor experience. The work primarily involved our Investor Relations team who worked in tandem with a third-party software group to migrate all investor and client data on to a secure online platform. Rather than waiting for a migration to be released all at one time, access to the platform was released to investors in segments through the year, by funds and direct investments. While the Investor Portal is now live to all of our real estate investors, iterations to the platform are on-going to continually enhance the investor experience.

2022 marked the year of our first in-person annual investor conference. This conference was held in SLC, Utah with a purpose of facilitating quality, face-to-face time with our investor partners. In addition to the fun activities and great food, the general session included speakers from the firm, industry experts, and investment partners. We intentionally set the bar high, making it an event our investors wouldn't want to miss in the future.

Similar to 2021, fundraising for Fund II began in the Spring, allowing the team to capitalize on some early opportunities. We were pleased to receive more off-market deals in the Dallas-Forth Worth market, a market that has seen nothing but positive indicators for future growth. The firm was able to double-down on the DFW market by purchasing a few new assets throughout the year, ending with 700 units now under management in DFW.

Texas wasn't the only state that surprised us with exciting opportunities. In the late Spring we were excited to find a 292-unit apartment community in Louisville, Kentucky. Typical to attractive assets on the market, the competition was fierce and unfortunately we were outbid by a $25M all-cash offer. Toward the end of Q2 the broker reached back out to us to let us know the deal had fallen through and now wanted to work with HIG due to our strong track record. We echoed their desire to work together, albeit at a reduced price due to the changes in the interest rate environment. Ultimately we were able to secure and close on the Maplewood Apartments asset at a $23.2M price, representing a $1.8M discount from the original price.

$50M

in capital raised throughout the year 2022

Throughout the year our Asset Management team worked diligently to start our newly acquired assets in 2021 moving along in their specific value-add business plans. While we met unexpected challenges along the way, we also saw significant progress with the majority of the firm assets which we know will pay meaningful dividends in the years to come.

Moving into Q2, we continued to work on expanding our Acquisitions, Asset Management, and Investor Relations teams, focusing on people that would not only provide meaningful value in their roles but also better the culture of the firm collectively. In the Summer we were fortunate in acquiring top-talent for each of these teams, making the firm stronger and more capable in accomplishing its mission of accelerating wealth creation for the firm's investor partners.

Maintaining an emphasis on tax efficiency, we rolled our the Real Estate Professional (REP) program to all investors who wanted to materially participate alongside the firm in property operations. During 2022 the program included a property visit, many webinars, and the release of the interior/exterior design program, allowing investors an opportunity to play a role in the value-add strategy by submitting design proposals through an online 3d-modeling design platform. We value the participation from our investor partners and look to expand the program in 2023.

By late 2021 we knew that 2022 would include the hunt for a new office space. While it took some real effort securing the space that was right for the firm, Jason Harris successfully negotiated the purchase of a 7-story commercial office in downtown Provo, Utah. What was known around town as the "Wells Fargo building", is now the "Harris Financial Center" and is expected to be home to the firm for the foreseeable future. Outside of having enough space to facilitate growth of the team, we are excited about what the additional space will allow for by way of investor events, content creation, and other activities that will facilitate our firm's mission.

Later in the year the entire Harris Investment Group team, and their families, took a few days to give back and visit a children's orphanage in Guadalupe, Mexico. The trip was sponsored by A Child's Hope, a charity focused on uplifting children throughout the world and The Kinwell Foundation, Jason & Carrie Harris's charitable foundation that works on providing tools to youth in need through scholarships and empowerment programs. The time at the orphanage was spent on what they needed the most, which included building, painting, and cleaning, but the time spent with the kids was unanimously considered the most rewarding.

As the firm moved through the 3rd and 4th quarters of the year, we experienced the surge of end-of-the-year closings and capital placement. By December 31st, we were pleased to have raised another successful fund, Fund II, made up of $25M in equity capital and another $25M in direct & co-investments, outside and alongside the fund.

The Harris Financial Center and Headquarters for Harris Investment Group, located in Provo, UT.

The Harris Investment Group team and their families at the Rancho de Los Ninos orphanage, located in Guadalupe, Mexico.

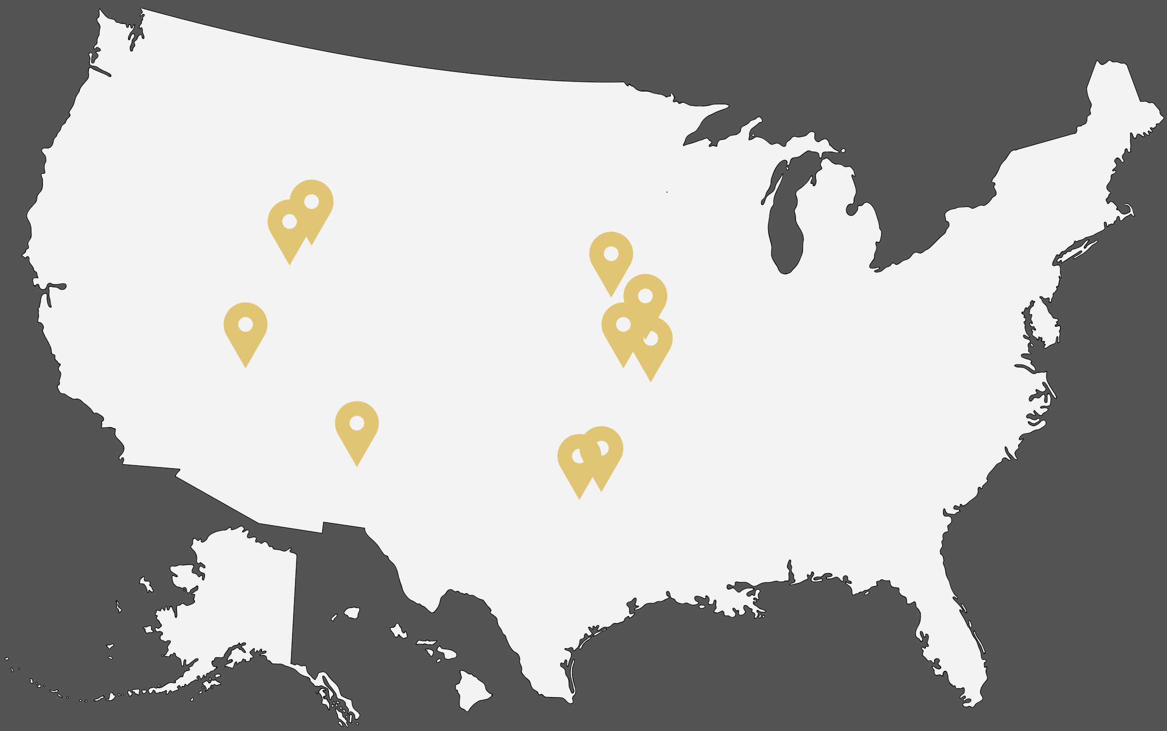
FUND I

$23M	8.5%
FUND EQUITY	CALENDAR YEAR DISTRIBUTIONS
963	**12**
MULTIFAMILY UNITS	NUMBER OF ASSETS

KANSAS CITY, KS
KANSAS CITY, MO
JOPLIN, MO

FORT WORTH, TX
DALLAS, TX
HAMPTON, IA

WHITE HILLS, AZ
GARDEN CITY, UT
ROY, UT



FUND I

With the large majority of Fund I assets closing in November and December of 2021, 2022 represented the first full year of ownership for most of the properties. This first year generally represents the 1st and 2nd phase of our renovation period. At HIG, we break down our value-add process into a basic 4-phase timeline:

1. Property Takeover & Exterior Renovations
2. Interior Renovations
3. Renovations Complete
4. Property Stabilized

Though supply-chain and labor shortage pressures manifested themselves in various ways across all our properties, we got to work with implementing our value-add plans for each of the multifamily assets. In aggregate the Fund I portfolio is currently on target in Phase 2, though a couple properties that were acquired in early 2021 have sold or are stabilized in Phase 4. Now, with the first year complete we can take an accounting of where the fund portfolio has won and lagged its targets.

SUCCESSES

Fund I is on target or is exceeding expectations in a few different areas. One of the most notable successes took place in Q2 when we were able to sell the Roy multifamily property. Due to its small size we were able to renovate and sell this property within 13 months post takeover. This produced a 95% internal rate of return and 2.25x multiple on invested capital. This early disposition was an early win for the fund, especially considering the market volatility during the early Summer.

Riverside Heights, a 108-unit apartment complex located in Kansas City, MO, is another property that was acquired earlier in 2021 that also performed above our initial targets. With renovations now complete and having moved into phase 4, our stabilization phase, we moved to capture the equity built up in the property through forced appreciation. This allowed for a 2% of fund equity distributed for the distribution for Q3. We will continue to hold the property and benefit from its cash flow until the the time is most opportune to sell.

95%

Internal rate of return (IRR) for Roy Apartments

2.25x

Multiple on invested capital (MOIC) from the sale of Roy Apartments after a 13-month investment duration

In addition to the Roy and Riverside Heights properties other fund properties are on target and are seeing meaningful progress with interior renovations, including Fox Creek, Eagle Manor, and Marabella.

One of the biggest winners for Fund I in 2022 was rent growth overall. Rent growth is a key component to our value-add strategy and as we look to force appreciation in our fund assets. In 2022 we drove meaningful levels of rent growth for Fund I properties. For example, Eagle Manor, Indian Creek, Marabella, Village O & Parkway Terrace, and Fox Creek have all seen a 25% or more increase in post-renovated rental rates in 2022 which will ultimately play a

significant role in their appraisal values when the assets are sold in the future.

SETBACKS

Apart from the many wins Fund I had in 2022, there were also a couple setbacks that deserve attention.

As mentioned previously, supply-chain and labor shortages played a role throughout the year and impacted some properties more than others. Within the Fund I portfolio, Indian Creek, Marabella, and the Village O & Parkway Terrace properties were the most impacted in terms of renovation pace. While none of these properties are far enough behind to the point that we are concerned, they are behind the originally targeted pace. We always work to complete renovations as soon as we can, as our IRR performance target is time sensitive. Within a portfolio of properties, invariably some will lag expectations, others will be on target, and others will exceed them. Our objective is to complete the renovation work as soon as we can, across as many properties as we can so we can deliver the highest level of return to our investor partners.

We were disappointed in Q3 to learn that the first year depreciation loss benefit was 89% of investor capital, short of the 100% target. While the remaining 11% will be passed along on the 2022 Schedule K-1, this is still disappointing as our depreciation target is one of our primary objectives along with total IRR performance. In working with our tax firm, Richey May, we have more confidence in accomplishing our depreciation loss targets as we raise more funds in the future.

Lastly, the Bear Lake Development project met unexpected delays in project approvals by the the city council. Originally our expectation was to receive final plat approval in the Summer so we could begin horizontal construction in the Fall of 2022. Unfortunately, it wasn't until the late Fall before we received final plat approval, at which point it was too cold to begin construction. While the project remains arguably the most viable of all the properties in the fund, we are disappointed that construction was pushed back 6 months from Fall 2022 to Spring 2023.

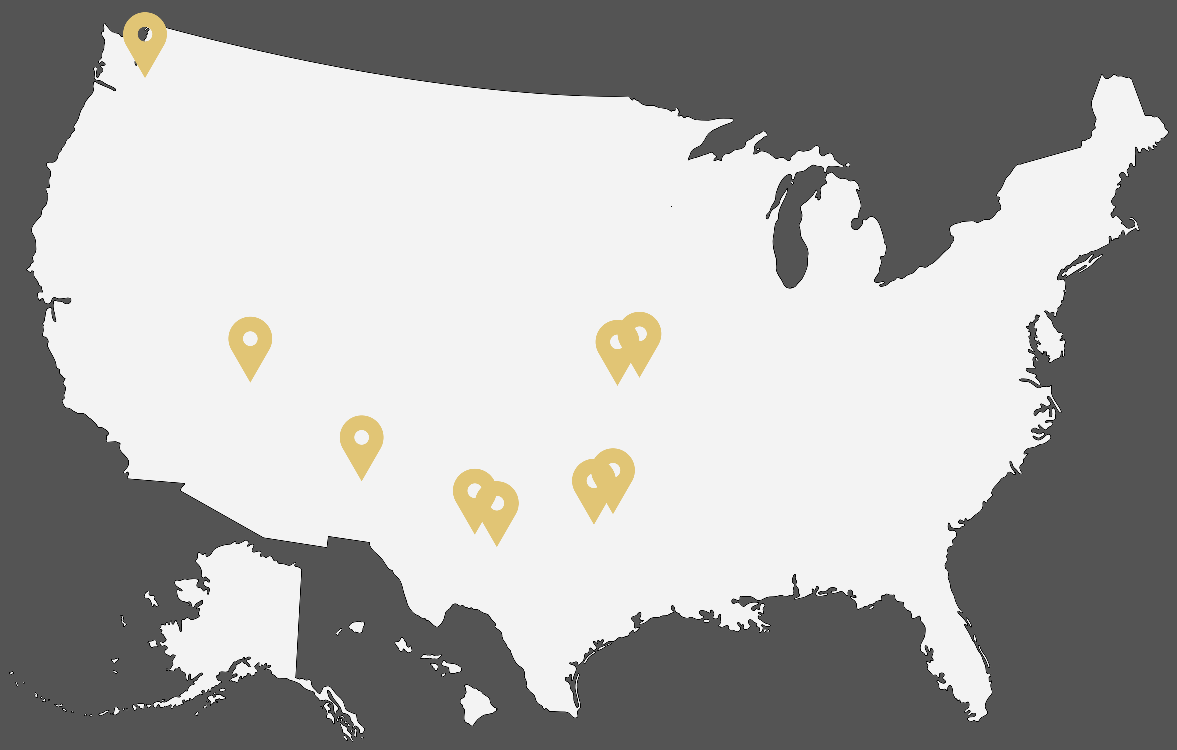
OUTLOOK

The firm's performance outlook for Fund I remains the same with guidance to a gross IRR target of 20%. Despite the current volatile macroeconomic climate, we believe the fund portfolio is strong with additional upside to be realized in the next 2 years. While the level of severity of the impending recession is unknown, we maintain that the assets we purchased at great entry-prices, and the forced appreciation we drive through our value-add strategy, not only provides a margin of safety in times of economic duress, but will allow our fund to hit our performance targets.

SPECIAL OPPORTUNITY FUND

$43M FUND EQUITY	**2%** CALENDAR YEAR DISTRIBUTIONS
196 MULTIFAMILY UNITS	**8** NUMBER OF ASSETS

KANSAS CITY, KS
KANSAS CITY, MO
WHITE HILLS, AZ
MIDLAND, TX
SAN ANGELO, TX
ODESSA, TX
ALMOGORDO, NM
LAKE STEVENS, WA



SPECIAL OPPORTUNITY FUND

238%

First year depreciation loss benefit achieved as a percentage of equity contributed

The Special Opportunity Fund (SOF) is appropriately named, as the asset mix of the fund portfolio differs than our main fund strategy as deployed in Fund I & II where 75% is allocated to multifamily assets and 25% is reserved for gas station assets. SOF offered the inverse of this ratio with 75% reserved for gas station assets and the remaining 25% for multifamily. The purpose of this unique asset mix was to accomplish the fund's primary objective: maximum first-year depreciation loss benefit. Secondarily, and similar to other existing funds, the fund's other objective is growth of investor capital which is achieved mostly through the multifamily portfolio and our value-add strategy.

Due to fact that the gas station assets are triple net lease arrangements, management of the gas station assets falls primarily on the shoulders of our operators. For this reason, there is generally less updates on gas stations from a management perspective. However, between the portfolio's gas stations and the two multifamily properties in the fund there have been a few notable developments throughout the year.

SUCCESSES

Unsurprisingly, the biggest success of the year was exceeding our depreciation loss target, the primary objective for the fund. With our conservative modeling, investors were guided to a 200% depreciation target for the tax year 2021. Working with our third-party cost segregation partners, HIG was pleased to exceed our target and deliver 238%. This represented a huge win for all investor partners of the fund. By way of example, assuming an investor could use the losses to offset ordinary income, invested $1M, and had an effective tax rate of 35%, the additional 38% that was achieved delivered $133k in tax savings.

The fund has also seen success with our multifamily properties. We are encouraged by the progress of both Fox Creek and Somerset Villas. We have completed exterior renovations on both properties and are moving into interior renovations. Located in Kansas City, Missouri and Kansas City, Kansas both properties have also benefited from rent growth at rates above our original pro forma. We look forward to completing interior renovations in early 2023 and continue to increase occupancy at the new rent rate levels.

SETBACKS

The firm remained largely immune to the unprecedented interest rate hikes throughout the year with one exception being the West Texas gas station portfolio. The property was closed with floating-rate debt due to the fact that the loan product allowed us to close on the property before the end of 2021, which was critical to hit our first-year depreciation target of 200%. Using fixed-rate debt or variable debt with an interest rate cap is our standard procedure but we deviated to a floating-rate product so the property could close in time. Ultimately, though the closing did allow us to accomplish our primary target of a 200% depreciation loss benefit, it did result in

PHASE 1 → **PHASE 2** → **PHASE 3** → **PHASE 4**

*We categorize the fund's progress as "Phase 2" though the SOF incorporates a unique asset rotation strategy that doesn't follow our typical 4-phase timeline and will include the addition of new multifamily assets in 2023 & 2024.

increasing our debt service to a level that compromised the fund's cash flow. The Q1 and Q2 distributions, in May and August respectively, were distributed but the firm ultimately decided to suspend the Q3 and Q4 distributions and determined that guidance on future distributions will be considered on a quarter-by-quarter basis temporarily. As of this writing, a 2% yield has been delivered through the Q1 and Q2 distributions which is short of the 4% target. Continued guidance on near term distributions, and what the outlook will look like after the gas station assets have been rolled into newly acquired multifamily assets (which will be the start of our value-add strategy) will be forthcoming.

OUTLOOK

Despite the interest rate headwinds we remain optimistic in being able to resume our quarterly distributions soon and, in the long-term, achieve our 15% IRR target. To best understand what 2023 will entail for the SOF, it is helpful to review the fund's unique strategy.

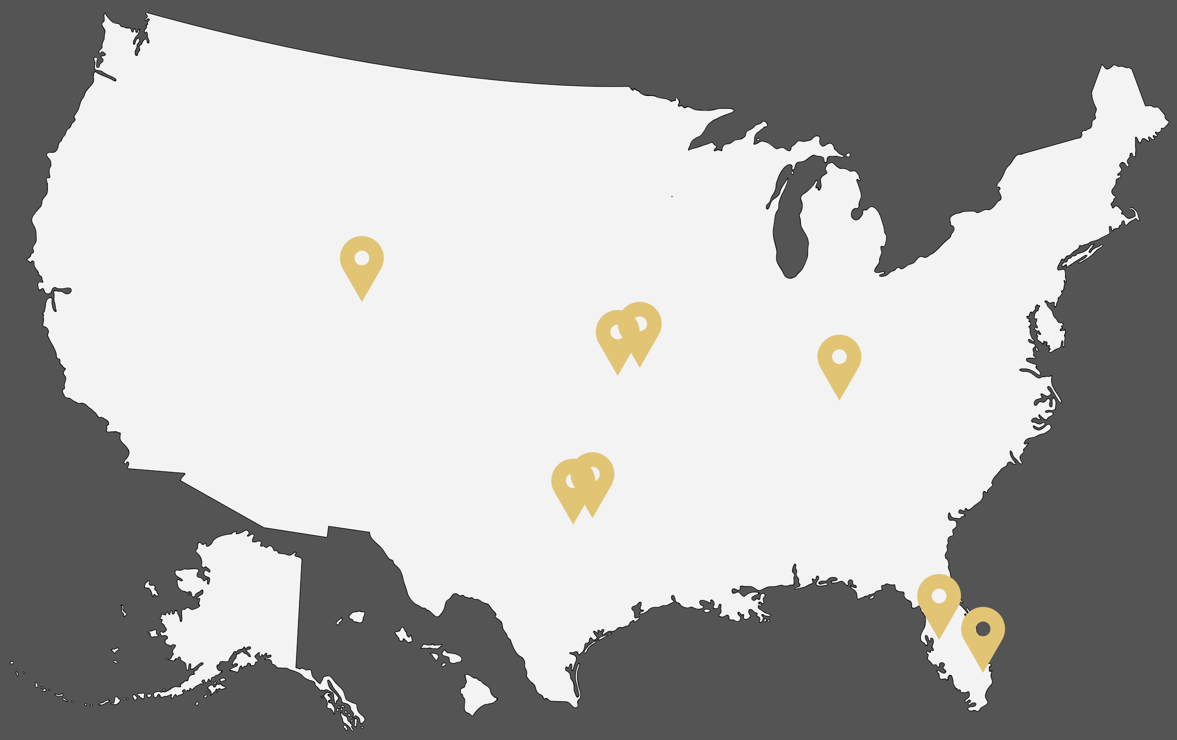
The SOF is running a two-part strategy within its 5-year fund term for the fund's gas stations: 1) Utilize gas stations to capitalize on bonus depreciation for years 1-2, then 2) roll those assets into multifamily properties for the remaining fund duration. The first part has been accomplished. The fund is now moving into the 2nd part of the strategy where we will be selling the gas station assets and rolling the proceeds into multifamily properties. This asset rotation into multifamily where we will force property appreciation through our value-add strategy will allow the fund to achieve its IRR performance target.

2023 will involve beginning the process of selling the gas station assets and moving the proceeds into multifamily. The sale process will be done on a laddered basis, starting with the assets that aren't contributing meaningfully to the fund's cash flow.

FUND II

$25M	**4%**
FUND EQUITY	2024 YEAR 2 YIELD TARGET
893	**9**
MULTIFAMILY UNITS	NUMBER OF ASSETS

KANSAS CITY, KS	DALLAS, TX	TAMPA, FL
KANSAS CITY, MO	FORT WORTH, TX	MIAMI, FL
LOUISVILLE, KY	LAMAR, CO	



FUND II

Fund II was opened for investor capital in the Spring of 2022 and closed at the end of the year. The Fund II strategy is what we internally call our "main fund", meaning the fund that incorporates our main growth strategy. This strategy, as also implemented in Fund I, includes an asset mix of ~75% multifamily and ~25% gas stations. As discussed in the previous section about Fund I, this unique asset allocation allows us to deliver high growth & tax depreciation targets. We often discuss with prospective investor partners that this asset allocation is a key differentiator for the firm; multifamily-focused funds and oil & gas-focused funds are fairly ubiquitous in the private equity space. Coupling the two together in a portfolio allows for a fund that can accomplish both growth and tax efficiency objectives.

The fund was opened in the Spring to take advantage of a number of attractive buying opportunities that we had received from our broker network. Through our due diligence process, one property stood out from the rest - Regency Apartments. Located in DFW, a market that we had other multifamily assets, Regency is a 71-unit, Class C, 2-story garden style apartment complex. The property's tenant demographic could be characterized as workforce housing and historically has had low tenant turnover. In addition to a sizable lender-subsidized renovation budget of ~$900k we were able to acquire the complex at a net purchase price of $7.65M.

The late Spring and early Summer was punctuated by increased levels of market volatility across all asset classes as the Fed showcased an escalating rate of interest rate hikes starting with 25bps in March, 50bps in May, and 75bps in June. Uncertain with how much rates would increased and how long the tightening would continue, a unique convergence of spooked buyers and unaffected sellers made up the multifamily real estate landscape. Buyers were revising their underwriting while sellers were unwilling to accept the market repricing. This dynamic created a lull in transaction activity for a couple months. Experiencing a lull like this can be frustrating considering our desire to build the fund portfolio before the end of the year (due to our focus on tax efficiency). On a positive note, this period highlighted one of the firm's strengths, namely, we do not force capital. We are patient and won't compromise and pay a premium to the market when it is clear what our entry price needs to be. Our entire strategy is fundamentally dependent on acquiring assets at price that is at a discount to the market. Invariably, this disciplined approach always bears fruit in the end. For Fund II, this lull in the market only lasted until mid-Summer when the fruits of our discipline began to be realized.

The markets had finally repriced and a number of deals that our Acquisitions team had submitted offers previously had come back to us. While the exact reason for each property varied, each deal included the scenario where the seller was motivated to sell quickly but the buyer was unable to perform. This new dynamic laid the groundwork for a flurry of acquisitions that would build out the fund.

Starting in late August through mid September, the fund was able to close on 3 multifamily properties, totaling 561 units and ~$50M in net purchase price. First we closed on Maplewood, a 292-unit, Class C multifamily apartment community made up of townhomes, duplexes and 4-plexes, located in Louisville, Kentucky. After the originally accepted offer at $25M fell through, the broker came back to us due to our

strong ability to close. We had loved the property before so were eager to move forward, but at new terms. Ultimately we were able to secure the property for $23.2M or $80k/unit, a $1.8 discount off the original price.

The next closing, Los Robles, happened only a few weeks later. The property is a 106-unit, Class C, garden style 2-story apartment complex located in Dallas, Texas. Similar to Maplewood, the Los Robles seller was also very motivated and agreed to a meaningful discount from the $10M original under contract price to $9.25M, representing an $87k/unit price point.

The following week we closed on Luna Blanca, a 163-unit, Class C, garden style 2-story apartment complex also located in Dallas, Texas. Originally under contract in Q4 of 2021 for ~$19.6M, the property proceeded to fall out of contract 2 times before we purchased it at $16.5M ($87k/unit), a ~$3M discount from the original price. Like Los Robles, Luna Blanca benefits from all of its units currently in classic condition, representing a significant value-add opportunity.

Including the acquisition of a Citgo gas station located in Miami Florida, which was purchased at an attractive 8.6% cap rate, this brought the fund asset count to five assets in the portfolio. For the Acquisitions team, the remaining time in Q3 and Q4 was devoted to closing on another multifamily property and gas station, specifically outside the existing markets for the purpose of increasing the fund's geographic diversification.

Our Acquisitions team was fortunate to secure two properties in Kansas City - one of the primary markets for our firm. The first property, Riverside View, is a smaller 44-unit, garden style 2-story apartment complex located in Missouri. Though it is a smaller property relative to the other fund assets, we expect the available value-add work on the property will yield meaningful performance for the fund. The second Kansas City property, (which is under contract to close in January) Suntree Apartments, is located on the Kansas side of the city and is much larger at 216 units but features the same layout as the other properties in the fund. The Suntree acquisition had a similar story to that of the other properties where the seller came back to us after their deal had fallen through with another buyer. Their predicament allowed our team to operate from a position of strength, resulting in a $14.7M purchase price, $68k/unit, which is very strong considering the Kansas City market.

In rounding out the portfolio, we were able to add two additional gas stations to the fund to complement the existing Citgo gas station. The first station is located in Lamar, Colorado and is currently being converted to a TravelAmerica Center, a well-known name brand. The second station is a Mobil gas station located outside Tampa, Florida. We negotiated some of the highest annual escalators we have ever obtained, using the inflation dynamic in the market as rationale. Both gas stations are solid income producing assets and were acquired at above an 8% cap rate and include proven operators that we are excited to work with.

In summary, outside of cash reserves, the fund asset allocation for the investment portfolio ended inside our target range with 72% in multifamily and 28% in gas stations assets. We are excited to begin the work on the individual value-add plans for each property and are confident that these properties will reach our performance expectations.

JESSE YEATS
Head of Investor Relations
& Capital Raising

SYNDICATIONS & CO-INVESTMENTS

$45M	**9**
ASSETS UNDER MANAGEMENT	NUMBER OF MARKETS
836	**22**
MULTIFAMILY UNITS	NUMBER OF ASSETS

KANSAS CITY, MO
SALT LAKE CITY, UT
OGDEN, UT

PROVO, UT
FORT WORTH, TX
DALLAS, TX

LOUISVILLE, KY
TAMPA, FL
MIAMI, FL

SYNDICATIONS & CO-INVESTMENTS

At Harris Investment Group we provide direct investment opportunities in addition to our traditional private equity fund model. In running both strategies within the firm, there is a unique fiduciary nuance in that funds gets priority allocation for any investment we consider while the fund is open. This fiduciary responsibility ensures that any deal we receive is made available to the fund portfolio and its investors and isn't directed somewhere else. As such, we separate our syndications from our funds as they can't be done concurrently. For 2022 this meant delaying opening the fund for the first couple of months, allowing the firm to support investor partners looking to invest 1031 money.

SYNDICATIONS

In Q1 the firm was able to close on three additional multifamily properties located in DFW- Avalon, Park Row, and Tuscany Apartments. All three matched our typical property profile giving the team high conviction that we can drive meaningful forced appreciation. Following our standard model, we will execute our value-add strategy with all three properties and are excited about the additional exposure to the DFW market.

CO-INVESTMENTS

Turning our attention to opening Fund II, Harris Investment Group shifted from syndications to identifying properties for the fund. Due to the size of the properties we identified for the fund, co-investment opportunities became available for most of the fund properties. Co-investments work very well in our model, as the individual fund properties generally require more equity that the fund can absorb while maintaining proper levels of concentration. This allows the firm to determine appropriate levels of fund exposure per property while also being able to provide co-investment opportunities.

Apart from Regency and Riverside View which are owned 100% by the fund, we were able to accept co-investments by individual investors on the other Fund II properties. We will continue to offer co-investment opportunities so our investor base can invest alongside our funds.

$25M

in equity raised in syndication & co-investment capital during 2022

Tuscany Apartments, a 70-unit, Class C garden-style apartment building located in Arlington, Texas

Park Row Apartments, a 40-unit, Class C garden-style apartment building located in Arlington, Texas

Avalon Apartments, a 75-unit, Class C garden-style apartment building located in Arlington, Texas

VENTURE FUND

$500K INVESTED CAPITAL	**Open** FUND STATUS
3 SERIES A INVESTMENTS	**1** SERIES C INVESTMENTS

AIKON®

CHAIN REACTION

ucrop.it

MOON

VENTURE FUND

The markets have put us in a strong position. Ecosystem funds sponsored by large Layer-1 protocols have been hit and are reigning in their investment activity (in part because their funding money was in a cryptocurrency which fell 90%+). VC firms who were dabbling in the space are now out. There are however large blockchain VC firms who do have a lot of money (e.g Andreesen Horowitz, Sequoia, Paradigm), but many of them are reevaluating their investment activity given their large focus on cryptocurrencies. Although there has been carnage in this space, the largest cryptocurrencies (Bitcoin, Ethereum) have been relatively stable for a while now, and positive movement from these tokens would undoubtedly bring those investors back quickly.

Today we have multiple opportunities at very attractive valuations which we feel are solving real-world problems and have the potential to generate outsized returns. We look forward to deploying more capital in 1H 2023 in order to capture these opportunities, which exist at valuations we have not seen since the global financial crisis of 2008. Markets are cyclical, but it's normally a new cadre of companies which lead the charge in the next cycle. We believe the opportunity to find some of those companies are in front of us today. Rather than discuss those opportunities, I'll spend the remainder of the letter going over investments which we made in 2022, and show the progress they have had in spite of the market turmoil. We would have hoped for more investments, but in falling markets it is tough for investors/companies to see eye-to-eye on valuation… the company points to valuations realized "yesterday", and the investor points out the risks ahead with the changing market. Instead of forcing capital to work we waited patiently, also in part to ensure we were comfortable putting more capital to work with the new market dynamics, which we can confidently say today that we are not just comfortable, but excited by the investment opportunities.

UCrop.it

Ucrop.it has created software which tracks the history of crops from seed to harvest. With the desire of consumer product group buyers being able to trace the history of the products they are selling, whether it be to verify the ingredients and fertilizers utilized, or if crops have been harvested in a sustainable fashion, there is a rising demand for traceability of agricultural ingredients. Ucrop.it started in Argentina and is now entering its third year of utilizing its production-ready application to track those crop stories.

Ucrop.it has paying clients from multiple facets of the industry, from seed companies who want to incentivize farmers to use authentic goods, to lenders who have a need to monitor crop growth on farms they have lent to, to end buyers that want to attach a history of the crop production in order to generate higher revenues on their product (think along the lines of organic products); Ucrop.it has paying client in all of these areas. Ucrop.it has expanded within multiple countries in Latin America and is utilizing this recent round of financing to create a stronger foothold in Brazil and enter the US farming market.

Their website can be reached by clicking here.

Moon Technologies

Moon is a company which we have been following for quite a while. The company allows for holders of cryptocurrency to utilize their crypto assets to pay for goods in USD/fiat at e-commerce sites. Moon handles the conversion of the cryptocurrency, converting this into Visa gift cards, which are then used on e-commerce websites. The e-commerce sites only see USD/fiat and are unaware of any ties to cryptocurrency that this money may have had. Currently Moon is linked to Coinbase, and the Lightning network to access crypto funds to move onto these virtual gift cards, which can be used online and anywhere Visa is accepted.

When Yugen first invested in Moon in 2021, the company had just launched their product with a goal of $50,000 USD in transaction volume. In November 2022, Moon had card sales of just over $7 million USD for the month. Although QoQ growth is strong across all metrics, the most exciting news for the company is that in Q4 Moon became profitable, which is extremely encouraging. Despite a tough backdrop in the crypto market, during Q4 (compared to Q3) there was a ~40% increase in card sales and transaction volume. Although the value of cryptocurrencies have obviously declined greatly in 2022, adoption continues to grow for Moon. International volume remains strong. November 2022 was the best month ever for Moon, given holiday transactions… and we expect more months in 2023 to become the new "best month ever."

You can learn more about Moon Technologies by looking at their website here.

Chain Reaction

Chain Reaction is based in Israel, founded by senior members of Mellanox, a semiconductor company which sold to Nvidia in 2019 for $7 billion USD. The current focus is on a bitcoin mining semiconductor chip which holds 9-figure revenue prospects. Although this is exciting, it's actually the next product they are just now starting to develop, a homomorphic encryption chip, which could really create a profound impact in the computing market (and to revenues for the company). The Harris Yugen Fund was able to access a sliver of their last round, which was oversubscribed, given the previous investments of Yugen Partners.

During the 2nd half of 2022, Chain Reaction had a successful tape-out of their semiconductor chip, a major feat. The chip was produced by TSMC. Testing on these chips show performance that slightly exceeds their initial expectations. This is a big win for the company. With this success, we should see the first production batch to be realized in late Q1 2023, which will lead to sales for the company. As a reminder, early customers have all put down deposits for their orders, but actually having a physical product will now allow for a stronger push on the sales side, as actual performance aspects can be reviewed, and chips can be tested by prospective clients.

Although this is very positive news, the backdrop of the Bitcoin mining market is clearly a dark cloud which Chain Reaction, and the industry, must deal with. There is no denying the pain in this space, with Bitcoin mining companies having financial issues and Bitcoin mining rigs available for sale on the secondary market with older, but viable, components for mining. On the bright side, it is common for early customers to test out a chip on a limited amount of machines, and therefore possible to think that Chain Reaction sales will not be as impacted as the broader market. Additionally, we have mentioned before that it is not trivial the fact that Chain Reaction will have an industry-leading chip that is NOT developed by a Chinese firm, which should help sales. Ultimately, we need to see how Bitcoin performs during the year, as we acknowledge this will impact sales.

The website for Chain Reaction can be accessed by clicking here.

Aikon

Aikon is a digital wallet company, which offers white-labeled solutions for companies to host data and digital assets. As blockchain technology continues to grow, one of the strengths of blockchain technology, decentralization, is a double-edged sword as decentralization also creates a hinderance. This is due to the need to store private keys in order to access blockchains/wallets, with the accompanying reality that losing said keys results in the loss of any assets stored by the user on the specific blockchain. As user growth within the blockchain space hopefully grows, so too will the users need to store multiple sets of private keys, which could become unwieldy, and siloed.

Aikon aims to solve this problem by utilizing existing OAuth infrastructure to validate a user, coupled with utilizing a simple user-created PIN which encrypts the private keys on the ORE (Open Rights Exchange) network, a layer-1 protocol developed by Aikon which stores users' private keys. ORE aims to be a single sign-on for blockchain identities, which will allow users to have one sign-on which can be utilized across multiple digital asset blockchains. By utilizing Web 2.0 sign-on information (e-mail address sign-on, or social media login information), Aikon is able to bridge the gap between Web 2.0 and Web 3.0, in a user-friendly manner.

Although Aikon has multiple, successful client relations, the company signed an agreement in December which has a minimum payout that would cover, on its own, well more than half of the operating expenses of Aikon… it is a major deal. Although we are not able to reveal the client name, this company is building a global stock exchange, where users can access stocks of companies in the majority of developed markets, in a regulatory-compliant way. The company is utilizing blockchain technology for transactions and sees Aikon's technology as a way to onboard clients, creating a profile/sign-on solution which is intuitive and user-friendly, with an associated digital wallet that will showcase the assets of the clients to the customers. We look forward to seeing this client utilize Aikon's offering, and this leading to other major clients to be added during 2023.

Aikon's website can be accessed here.

Given the state of the market, with companies reigning in valuations, we see a current landscape that provides ample opportunities to deploy capital. Given such, we will utilize H1 to raise more capital for the Harris Yugen Venture Fund. There are multiple investment opportunities we have today which we would like to capitalize on, which we feel will broaden the exposure of the Fund and provide further upside potential for investors.

MATT DENNING
Chief Investment Officer


HARRIS
INVESTMENT GROUP