

To Our Investors:

2016 was a prosperous year for our firm with many highlights.

- An additional distribution from Cleversafe
- The closing of a \$2.3m Series A round for Intensity Therapeutics
- Raising of Founding Capital for VCapital Management Co., LLC
- Recent addition of two new investment opportunities

Chicago continued to grow as a major center for venture capital investing during 2016, with a number of major exits during the year. Chicago had the highest rate of “home runs” over the past ten years of any major metropolitan area, with 45% of exits producing returns in excess of 10x. This growth supports our focus on Midwest based high technology investments.

“If you want to make money doing the most deals as a venture capitalist, Silicon Valley is the place to be. But if you want to make the most money on your deals, come to Chicago.”

- Crain’s Chicago Business

According to data from PitchBook, \$67.8b was invested in startups in 2016, down 15% from 2015. 2015 was the second highest total since 1995 according to PricewaterhouseCoopers and the National Venture Capital Association. Although the total invested in VC dropped this past year, it is promising that investing in the Midwest has moved from the seventh to the fifth largest region, trailing only Silicon Valley, LA/Orange County, New York and New England. During the fourth quarter of 2016, Illinois was the fourth largest state receiving investment dollars trailing only California, New York and Massachusetts according to business consulting group, The Montrose Group, LLC. Additionally, in 2016 venture capitalists raised \$40.6 billion, the biggest amount in at least a decade, according to PitchBook.

Venture Capital investing proved to be one of the few financial investment classes where good consistent returns could be achieved as bonds, private equity, hedge funds, and most real estate returns were weak in 2016.

BVC Cleversafe, LLC made an additional distribution from the \$45.5 million in proceeds from the sale of Cleversafe to IBM. These proceeds resulted from an investment of \$4.1 million in Cleversafe, resulting in a ten to one multiple on funds invested and an annual IRR of 47%. A last and final distribution from Cleversafe from the IBM holdback of funds is expected to be made in Q1 2017. Cleversafe was selected by the Illinois Venture Capital Association as the number one Chicago based venture capital portfolio company investment in 2016, and is considered by many as one of the top technology startup venture capital investments ever made in Chicago.

Intensity Therapeutics Inc. raised \$10 million in 2016 in a Series A financing. BVC Intensity, LLC and VCapital Intensity, LLC invested a total of \$2.3 million and assisted the company in raising additional capital from other sources.

Late in 2016 Intensity filed with the FDA an Investigational New Drug (“IND”) application requesting to begin Phase I/II human trials of its proprietary anti-cancer drug INT230-6. After review of the more than 4000-page dossier, the FDA notified the Company that the study may proceed. Intensity is expected to begin human trials in Q1 2017. The Intensity compound has demonstrated dramatic results in lab animals for several types of human cancers, extraordinary high remission rates, elimination of metastasis, and an immune response producing a vaccine like effect and protecting animals from return of the cancer following re-inoculation of cancer cells. These are very promising signs as testing now shifts into human subjects. It is likely after Intensity has generated clinical results following multiple treatments in several patients - in later half of 2017 (depending on the enrollment rate) - that the company will raise additional capital, with BVC and VCapital investors having an opportunity to invest.

VCapital Management Co., LLC (“VCapital”) was launched in 2016, with approximately \$1.4 million in startup capital raised to date. VCapital is positioned to expand nationally the BVC accredited investor approach to venture capital, which is expected to result in an increasing number of investment opportunities for BVC and VCapital investors. We expect that venture capital investments will continue to move to online investing, as have many other traditional investment classes. VCapital is an early entrant in this emerging field.

We reviewed over 900 deals in 2016, and are thrilled about the investment opportunities with simMachines and Synap, both of which are Chicago-based.

simMachines was one of ten companies chosen from 721 accepted into Microsoft’s Seattle-based accelerator program, and has created software that has been chosen over IBM Watson by Deloitte Europe. The founder, a PhD from the Kyutech Institute of Technology in Japan, has joined forces with Robert Zieserl who has 30+ years of experience in startups and investing. simMachines offers predictive analytics with actionable results. With the emergence of Big Data, predictive analytics based on artificial intelligence has become very important. However, no other company offers the feature of simMachines, which allows the user to see the variables that lead to the prediction and consequently alter them to improve their results. We are raising \$700k at an \$8m cap with a 20% discount and 5% coupon.

Link to simMachines report: http://bit.ly/vcapital_simmachines

Synap, our other new investment opportunity, fills a gap in the customer relationship management ecosystem by focusing on the post sales lifecycle. Up to 80% of the lifetime revenue from customers comes after the initial sale and Synap provides the software to support client service teams in nurturing and growing critical client relationships. Our confidence in this company is also heavily influenced by the capable management team lead by founder Jeremie Bacon. Jeremie founded Backstop Solutions which is a \$30m revenue per year company. He was able to gain a 10% market share in the financial segment to which his software was applicable. Now, he is taking on small to medium sized businesses, not limited to financial companies, with a total addressable market of \$5b. Previous investors include Baird Capital, KGC, Hyde Park Venture Partners and Hyde Park Angels. We are raising up to \$2m at a \$6m pre-money valuation.

Link to Synap report: http://bit.ly/vcapital_synap

We are pleased to announce the expansion of our team.

Ryan Kole, serial entrepreneur and recent MBA from The University of Chicago Booth School of Business joined VCapital at the end of January 2016. Serving as Vice-President of Investments, Ryan is responsible for screening investments, conducting due diligence, negotiating terms, and working with portfolio companies.

Steven Ross has a strong background working for venture capital and private equity firms in the Chicago area including GTCR. As Vice President Finance and Administration, Steven is bringing high quality professionalism to VCapital’s finance and administrative efforts.

Fred Tucker was formerly Executive Vice President and Assistant to the President of Motorola and VCapital Advisory Director. Fred has joined VCapital as an Executive Advisor. Fred’s long years of deep management experience having overseen every major division while at Motorola brings an extensive understanding of technology, management, and business operations to the VCapital team.

Tim Danis, Lloyd Shefsky, Steve Anixter, Jim Prieur, and Ken Freeman also joined VCapital as Advisory Directors. These directors bring extensive business management, legal, entrepreneurial, and marketing experience to the firm. Please see detailed bios on each director on our new website: www.vcapital.com

Look for our new book, “Building Wealth Through Venture Capital: A Practical Guide for Investors and the Entrepreneurs They Fund.” It will soon be offered online on VCapital. Additionally we are in discussions with a literary agent to market the book through major book publishers. The new book will be a timely marketing assist to the launch of the VCapital website as well as attracting both accredited investors and entrepreneurs to investing with and working with VCapital and BVC. Please be sure to register on our website for a copy of the book.

We continue to review a number of outstanding venture capital investment opportunities and plan in 2017 to review over 2,000 deals. We are also continuing our practice of being the catalyst behind the startup of new ventures and plan to offer several of these during 2017.

We appreciate very much your continuing support, and we will have 2016 financial statements to you in early 2017.

Please feel free to visit us at our new office at 820 West Jackson Blvd, Suite 400 in Chicago. We also now have an active Twitter feed with 769 followers. We just started it and it's growing monthly. Please follow us at @VCapital_invest. We look forward to a great and prosperous New Year.

Kind regards,

Len Batterson
Chairman and CEO

Jim Vaughan
Managing Principal