Dear xxxx;

In the first quarter of 2018 the markets experienced real volatility for the first time since 2016. While the VIX is commonly called “the fear index”, it is actually an index that uses options to measure the expected future volatility of the US Markets. During 2017 the VIX was rangebound at historic lows near 11, marking the least volatile year in decades. After a slow start to 2018, in February the VIX spiked to an intraday high of 50.30. This coincided with the first significant market drop in months. Beginning with its all-time high of 2872.87 reached on January 26th, the S&P 500 dropped 340.59 points or 11.86% over the next two weeks.

The S&P 500 bounced back from the lows in late February only to retest them during the last few days of the quarter. Currently, the S&P 500 is 233 points or 8.1% below its all-time highs. The market’s daily movements during the last six weeks have remained choppy causing the VIX to idle between 16-26; twice as volatile as last year.

The original market drop was caused by news that most people would consider good or positive. Wages are finally picking up. The market took this to mean that inflation is going to reach its target and the Fed will be inclined to raise rates four times this year. The second market spasm was due to fears of a trade war caused by Trump when he placed $60bn of tariffs on Chinese goods. GA Pincus Funds believes the S&P will remain frothy until the start of the next earnings season. We believe this earnings season will be exceptional as companies will report higher than expected earnings. Some companies’ earnings will be inflated by as much as 10% because these companies have used repatriated dollars to purchase shares at stock prices 10% lower than had been expected when they announced their share buybacks. These companies have taken advantage of the market dip to buy back additional shares of their own stock at lower prices.

We expect earnings season will propel the S&P back through its January highs up to 3000 by the end of the summer. However, we also believe these new highs will be short-lived.

Expected Cause of the next Recession

As everyone knows, markets do not go up forever. We believe the next major market downturn will be caused by the past “successes” of the private equity industry. In a leveraged buyout a private equity company purchases a target firm by borrowing the cash necessary for the acquisition using the target company’s assets as collateral. Once acquired, the target company often can’t pay back its original debt, so it issues additional junk (high yielding) debt to cover both the management fees it owes to its private equity owners as well as the cash required for day-to-day operations. Eventually, the debt becomes too much of a burden, the assets are sold, and the company files for bankruptcy.

This cycle of leveraged buyout target companies going bankrupt is becoming increasingly more common. Recent LBO bankruptcy examples include: Toys’R’Us, iHeartRadio, Payless, Gymboree, Vitamin World. These bankruptcies are just a part of doing business for private equity companies as they get paid back through management fees and through the liquidation of the company’s assets. However, the bankruptcies are devastating for the employees of the target companies.

We believe there are a slew of LBO target companies that are just barely staying afloat at today's interest rates. However, as interest rates are increased by 0.75%-1.00% in 2018, this will cause a dramatic increase in the number of LBO bankruptcies. The uptick in bankruptcies will lead to an increase in the number of defaults in the junk bond market. Junk bond ETFs will drop, and banks that have junk bonds on their books will be forced to mark them down. At the same time, these bankruptcies coupled with advances in technology (Cashierless stores, robo-customer service, etc) will hinder the ability of these recently fired employees to find new jobs.

At this point, you will have the following:

- Higher unemployment rate
- 10-year Treasury above 3.5%
- Increase in junk bond defaults
- Increase in bad debt on bank balance sheets

We expect all of this will come together to cause the next market recession. However, this doesn't all happen at once, it will take time. As mentioned, we predict the market will surpass previous highs during the next 3-5 months due to the recently passed Tax Cuts & Jobs Act. Beginning in the fall of 2018 we believe the market will begin to turn south.

As clients, we encourage you to reach out to us to learn how we are safeguarding your 2017 gains and protecting your account against downside risks.

Technology Improvements & Reporting Changes

Since early 2017 GA Pincus Funds has been working with T.M. Roesch & Associates to develop a robust technology suite aimed at streamlining the services we offer while also supporting the continued growth of our company. The last phase of our software buildout involves automating the creation and distribution of quarterly reports. As the year progresses we will be making some changes to our reports. These changes are aimed at making the reports more concise and user-friendly.

<u>Dividends:</u>

TD Ameritrade delays the posting of dividend payments by 24 hours. Originally, GA Pincus Funds adjusted our quarter-end statements to include dividends that were paid but not yet posted. Going forward, our statements will no longer be adjusted, instead they will show the same values as TD Ameritrade.

<u>Benchmark:</u>

Many of our clients' portfolios have soared in conjunction with the current bull market. As we assist our clients in taking their profits off the table, we lower our clients' risk tolerance by converting their profits to cash or other non-correlated asset classes. When we make these allocation changes we are effectively changing our client's benchmarks. These portfolio changes eliminate our ability to blend benchmarks for our clients. Instead of comparing your performance to a single blended benchmark, we will provide a selection of benchmarks for your use.

<u>Management Fee:</u>

Effective at the end of the 2nd Quarter, GA Pincus Funds will adjust the way it calculates management fees. The fee will not change, but the calculation methodology will become more transparent and more accurate. Currently, we take the closing value of your account at the end of the quarter and multiply it by one quarter of one percent (.0025). Starting at the end of the second quarter, we will calculate the closing value of your account each day and multiply it by one percent (0.01) and multiply that value by (1/365). At the end of each quarter we will sum up all the days' management fees to calculate your quarterly management fee. We will then deduct that fee from your account. This change is not a fee increase. The new methodology is simply calculated daily instead of quarterly.

<u>Performance:</u>

Q1, 2018:
3/31 Account Value: $16,274.51
Account Performance: +9.75%

Since Inception:
3/31 Account Value: $16,274.51
Account Performance: +8.50%

Based on the 3/31 closing value of your account**, $16,274.51,** we have withdrawn **$40.69** for our fee. This is calculated as 0.0025 * Your 3/31 Closing AUM.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, as long as your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

I am always available to answer any questions you may have.

Best wishes for a happy and healthy 2nd Quarter of 2018,

Gabriel

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