Dear xxxx;

Wow! What a quarter! If every quarter were as good as the last three months, I would have the easiest job in the world. Unfortunately for both you and me it is unlikely that future quarters will be as profitable as Q1, 2019. The four major indices that compose the public financial markets began 2019 with a bang. The four major indices which track US Stocks (-7.36%), International Stocks (-16.45%), Commodities (-13.82%), and Fixed Income (0.01%), have crushed it thus far this year. To put this another way, when looking at the performance of the public investment universe in the first quarter of 2019, the average security delivered significant positive returns. This letter will provide an analysis of the major geopolitical and financial events that caused these positive returns and our views as to how these events will shape the remainder of 2019.

Jerome Powell & The Federal Funds Rate – Continued from Q4, 2018

At the end of 2018, the bickering between Jerome Powell, the chairman of the Federal Reserve, and President Trump reached an unprecedented level. It seemed at the time that neither man would back down. What a difference a month makes. After a crushing stock market rout to end 2018, Jerome Powell became significantly more accommodative. In December, most market participants expected 3-4 rate hikes in 2019. In January Powell explained that while the economy was strong, the Fed "wouldn't hesitate" to tweak the balance sheet reduction if it was causing problems. In February Powell said he was in "no rush" to hike rates in a "solid" but slowing economy. Most recently, in March Powell said explained that due to the slowing US and global economies there would be no rate hikes in 2019. In addition, Powell explained that he would begin to slow the balance sheet runoff starting in May and halt the runoff in September.

IPO Boom

https://www.cnbc.com/2019/03/23/reasons-why-you-may-want-to-rethink-investing-in-the-uber-lyft-pinterest-ipos.html

Yield Curve Inversion

https://www.cnbc.com/2019/03/25/the-us-bond-yield-curve-has-inverted-heres-what-it-means.html?forYou=true

Powell's comments in January and February served as kindling, igniting a fire that propelled the market higher. However, his March comments were a bit more frightening. During March the interest rate on the US 10 Year Treasury Note declined from 2.75% to 2.42% which ultimately pushed the yield on the 10 year below that of the 3-month Treasury Bill. This phenomenon is called a "yield curve inversion." A normal yield curve is when shorter-term debt pays less than longer-term debt. The thinking is a long-term investment carries more risk. An inverted yield curve is one where shorter-term debt pays more than longer-term debt. This inversion signifies that people have become skeptical that the market will continue to expand over the long-term.

An inverted yield curve is generally considered a recession predictor. In the last 50 years, every yield curve inversion has preceded a recession except for one false positive. The recession isn't immediate, it could be months or even years before it begins. Or it could be a false positive. Only time will tell.

Oil – Continued from Q4, 2018

Since reaching a four-year high of almost $77/barrel on October 3rd, the price of Crude Oil has fallen more than 40%. The reason for the price decline is simple, there is an overabundance of supply and weakening demand. President Trump warned major oil producing countries to increase production in expectation of renewed sanctions on Iran. However, once Russia and Saudi Arabia turned on the taps, President Trump granted generous exemptions to Iran's largest customers. This supply glut was coupled with October forecasts that oil demand would grow more slowly than anticipated. Once the selling began there was no holding back.

The breakeven point for new wells for most US producers is $50-55/barrel. Due to the recent price slump US companies are starting to pause their construction plans. At the same time, OPEC has decided to cut production by 1.2 million barrels per day. The dramatic fall in oil prices has played a significant role in the 14% annual decline in the value of the S&P Goldman Sachs Commodity Index (GSCI). With gasoline under $2/gallon across many states in the US, we believe oil prices are at or near their bottom. In agreement with the broader market, we foresee the price of oil increasing back to $60-70 in 2019 which will propel the S&P GSCI higher as well.

China – Continued from Q4, 2018

China's two major indices closed out 2018 losing 24% and 33% which equates to the indices' worst annual performance since 2008. While this was largely due to the escalating trade tensions between the US and China, the Chinese economy was further hampered by both a drop in their GDP growth and a contraction in their manufacturing sector. The US has also become increasingly vocal regarding Chinese military actions in the Pacific and their increased hacking and espionage activities. In an effort to inject capital into the market the Chinese government lowered their bank's reserve requirements, however, this did not provide nearly as much relief as was anticipated.

We believe 2019 negotiations with China will prove successful to a limited degree. We believe a trade agreement will be reached but the scope of the agreement won't be significantly superior to our trade relationship during the Obama administration. Much like the North Korea denuclearization pact, both President Trump and President Jinping will likely declare that they "won" the trade agreement. We believe this eventual agreement will bring calm to the market ultimately helping it to move higher.

Conclusion

The negative sentiment and market performance witnessed in the final three months of 2018 is in our opinion not the beginning of a cataclysmic market endemic like the Great Recession of 2008. Instead, we believe this correction was inevitable due to the tremendous bull run witnessed in US stocks since November 2016. While this correction may not be over, we believe the fundamentals of the US economy remain strong, and we view this as a buying opportunity. We are optimistic about the full year 2019 performance which we hope will be driven by solid corporate performance and profits.

We believe the Trans Pacific Partnership, the renegotiated NAFTA (USMCA), and additional direct investments in emerging markets will come together to boost the economic performance of international stocks in 2019. At the same time, we expect US companies to benefit from strong corporate earnings growth, a more dovish Fed, and some sort of trade agreement between the US and China. Oil we believe will rise boosting the performance of the commodity index while the Federal Funds Rate will stay relatively stable which should provide better fixed income returns.

Client Referral Network

Starting this quarter, GA Pincus Funds' quarterly newsletter will feature a section where we will feature different categories of referrals (ex: Real Estate Professionals in Chicago, Public Relations Professionals in New York, Employment Lawyers in Georgia, etc). GA Pincus Funds strongly believes in the power of networking which is why we have decided to use our quarterly newsletter to introduce our friends to our network. The people and/or businesses in our referral network will be owned and/or managed by our clients. We will not publish our client's names and we will not accept any payments for these referrals. If you or your company would like to be featured in our newsletter, please let us know. It is free to participate.

Performance Calculations

As you are aware, GA Pincus Funds has spent the last two years developing custom software to automate our business. Your performance is now calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

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 on 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, if 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 2019,

Gabriel

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