1 MAIN CAPITAL

July 2019

Dear Partners,

In the second quarter, 1 Main Capital Partners, L.P. (the "Fund") returned (3.9)% net of fees and expenses[1], bringing the YTD performance to 5.7%. Over the same period, the S&P 500 (SPX) and Russell 2000 (RTY) Indexes returned 4.3% and 2.1%, respectively.

During the quarter, the Fund's performance was impacted by the increase in value of perceived safe-haven assets such as high multiple secular growers, companies with stable and increasing dividends, high grade bonds and even gold when compared to value stocks that are more sensitive to fluctuations in the economy. While both the SPX and RTY were positive, gold and 20-year treasuries did even better, returning 9.1% and 5.7% in the quarter, respectively.

According to JP Morgan's US Equity Strategy team, the P/E spread between low volatility stocks and value stocks is as the highest level in over 30 years, which includes the dot com bubble, with over 10 points of multiple differential.

Furthermore, small companies have underperformed large companies by a wide margin over the last 12 months. For example, the Russell 2000, which consists of the smallest 2,000 stocks in the Russell 3000 index has returned (3.3)% in the trailing twelve months ended June 2019. Over the same period, the S&P 500 has returned 10.4%, for total outperformance of 13.7%.

This rotation into safe-haven investments impacted the Fund on several fronts. First, the Fund's portfolio is skewed towards small cap value, which suffered in the period. I took advantage of weakness in certain core holdings by adding to them, at prices that should generate attractive returns through our hold period.

Second, the Fund's index hedges, the largest of which was a short position in SPX, were also unprofitable during the period. As mentioned in past letters, I believe that we are not as late-cycle as it seems when one hears that we are ten years into an economic expansion, because the current expansion never had an accelerant like those leading up to 2001 (internet stocks) or 2008 (housing and financial sector leverage). However, market participants remain on the edge of their seats hanging onto each economic data point and the indexes are back on their highs. As such, the Fund's portfolio is tilted towards out of favor names, and also prudently retaining portfolio flexibility for periods of elevated volatility.

Importantly, I continue to view the Fund's current portfolio as well-positioned for the future, consisting of high-quality, attractively valued and growing businesses. So far in the third quarter, our portfolio is off to a solid start and I remain excited so see what the future will bring.

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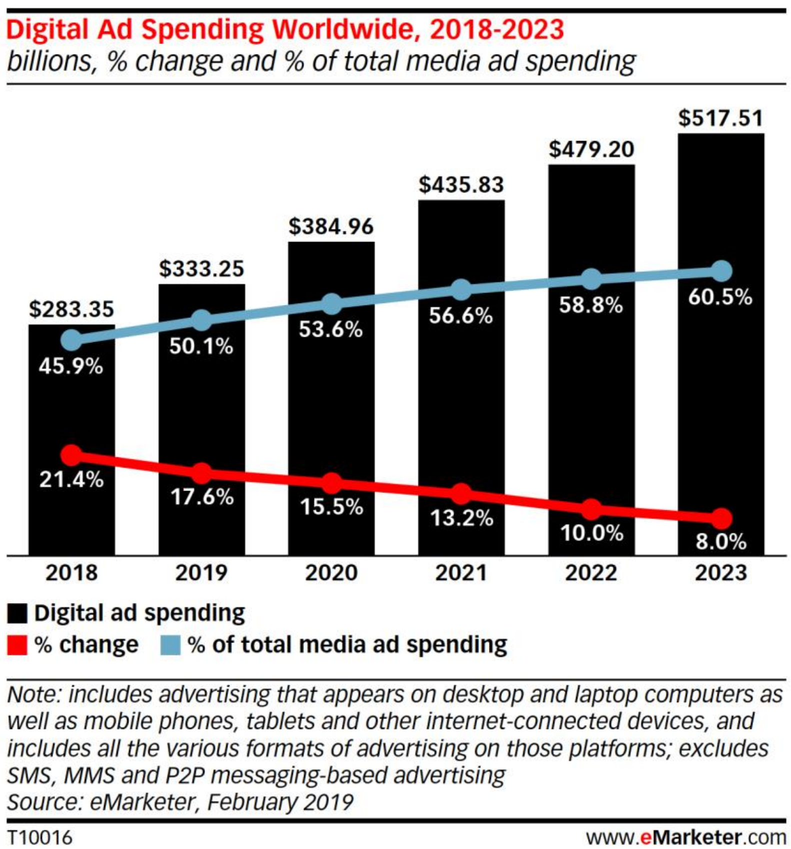
[1] Performance data is presented for the Fund's Class A Interests, and is net of any accrued incentive allocation, management fees and other applicable expenses (as disclosed in the Fund's Confidential Private Offering Memorandum), include the reinvestment of dividends, interest and capital gains, and assume an investment from inception. Returns for month-end and year to date 2019 are estimated, and un-audited. For investor specific returns, please refer to your capital statements. Due to the format of data available for the time periods indicated, net returns are difficult to calculate precisely. Please see the last page for important disclosure information.

Second Quarter Detractors[2]

Single name detractors in the quarter included GOOG (75bps), THC (75bps) and MCFT (60bps).

Alphabet Inc (GOOG), a core position held by the Fund and discussed in past letters, was down 8% in the quarter, as the company's first quarter constant currency revenue growth of 19% missed investor expectations. Management attributed the miss to timing of product changes in its advertising business, which includes YouTube, a business that it optimizes for the long-term rather than short-term performance.

While investors were looking for the company to maintain a 20% or better growth rate, the overarching worry was that this deceleration was a sign that Amazon's emerging advertising business was taking share from GOOG. However, the company reported 39% paid click growth, a figure that shows underlying utilization of the company's platform remains strong. At the same time, the shift of advertising spend towards digital formats and away from traditional media is nowhere near complete.



GOOG's advertising business remains the most dominant in the world. The company grew its revenues by over $5bn YoY in the quarter, and will likely grow its full year revenues by over $20 billion in 2019. This level of growth is remarkable for any company that has been around for as long as GOOG has, let alone one of this scale. Even if its revenue growth rate was to sustainably fall below the 20% psychological

[2] Attribution is presented gross of management fees, expenses, and incentive allocations.

threshold investors have been expecting, the company's absolute valuation remains compelling at 15x 2020 consensus earnings ex-cash, which is below the market multiple.

Lastly, while investors have also signaled some concern over a potential DOJ antitrust investigation against GOOG, there is little reason to believe that the government will do anything to change consumer habits or use of the most dominant website and applications in the world such as search, maps, YouTube, Gmail, android OS, among others. In fact, the odds are that the company's businesses are worth far more broken up than they are together, and any move by the government to force a breakup would likely be a win for shareholders.

Tenet Healthcare (THC), which was the largest contributor to Fund performance in the first quarter declined by nearly 30% in the second quarter as investors embraced the fact that Medicare-for-all would become a hot policy topic of the 2020 elections. The Fund held hedges consisting of short positions in other healthcare facility stocks, which partially mitigated the losses related to the investment. Subsequent to quarter end, THC announced that it would spin its revenue cycle management business, known as Conifer, to shareholders rather than divest it. This spin is not expected to take place until after the upcoming presidential elections, and while it highlights the meaningful sum-of-the parts upside to the THC's current valuation, will leave the company highly levered and lower cash flow generation. The Fund has sold its investment and moved on.

MasterCraft Boat Holdings (MCFT) sold off meaningfully during the second quarter as investors increasingly worried that the recreational boating cycle is about to roll over. Even if this were to happen, MasterCraft is an incredibly high-quality company, has a clean balance sheet, earns very attractive through-cycle returns on capital and has a lot of long-term growth potential. The Fund added meaningfully to the position and it has now entered the top 5. I discuss the company in more detail below.

As always, I'm happy to discuss specific positions in more detail with anyone. Please feel free to reach out with any questions.

Top 5 Current Positions

As of June 30th, the Fund's top 5 positions were Alphabet (GOOG), the alternative asset manager basket consisting of KKR & Co (KKR) and Apollo Global Management (APO), MasterCraft Boat Holdings (MCFT), Pershing Square Holdings (PSH LN) and RCI Hospitality (RICK). Together, these accounted for approximately 40% of assets.

Alternative asset managers (KKR and APO). I had the pleasure of presenting my thesis regarding the alternative asset manager basket at the Manual of Ideas Wide-Moat Investing Summit in June. You can find a copy of my presentation here. The largest alternative asset managers represent incredibly high-quality businesses. They have a high degree of recurring fee revenue associated with their funds that typically have 5-10 years of duration. They require very little capital, as almost all the capital that they invest is committed by their institutional clients. They have high operating margins, typically approaching 50%+, with compensation being their primary expense. Lastly, they have very wide moats, as institutional investors typically require long-term track records showing a history of successfully deploying large pools of capital before they are willing to commit to large funds – something that is very hard to achieve when starting anew.

KKR and APO manage $200bn and $300bn, respectively, and each stand to benefit from a multi-decade shift towards private investments in leveraged buyouts, infrastructure, real estate and credit. Furthermore, many of the largest institutional investors are looking to consolidate the number of managers they allocate to, while committing more of their capital to fewer asset managers who have a variety of strategies under one umbrella (example). KKR and APO both are in the enviable position of having strong reputations with allocators and offering various investment platforms to their institutional clients, which positions them to gain a larger share of an already growing pie. Lastly, scale and reputation help managers hire the best talent, which helps drive strong performance, which further solidifies market leadership.

The alternative asset management sector has recently undergone a wave of conversion from partnerships to corporations. KKR first converted to a corporation in 2018 and has since been followed by announced conversions by Blackstone, Apollo and the Carlyle Group. These conversions have the effect of broadening the potential investor base that can own the group.

At the same time, the sector is still misunderstood due to the complex accounting associated with these businesses, as well as a flawed perception regarding how a recession would impact them. To elaborate, investors fear that a downturn would hurt the valuations of the fund managers' holdings and thus hurt their ability to generate incentive fees or raise new funds in the future. However, the reality is that these managers have shown in past recessions that, due to their long-term lockups, they are not forced sellers and can instead deploy large amounts of capital at attractive entry valuations which should boost the long-term performance of their funds rather than hurt it.

As investors spend more time getting familiar with and thinking about the sector, I believe there is a good chance that the market begins to ascribe higher valuations to KKR and APO, which sell for 12x and 11x their consensus 2020 distributable earnings, respectively. Regardless of whether that happens, I predict that each of these companies should compound their earnings at a mid-teens rate or better over a multi-year period.

Pershing Square Holdings (PSH LN) is a closed-ended publicly listed hedge fund vehicle that is managed by Pershing Square Capital Management, which was founded and run by well-known investor Bill Ackman. I have spent over a decade following Pershing's investment strategy, studying its wins as well as its losses, and have always regarded Bill Ackman as a talented stock picker who, as all managers do, gets it wrong from time to time.

Despite his strong long-term track record and numerous highly successful investments, Ackman is best known for blowing up his first hedge fund, Gotham Partners, in his early 30s, as well as making unsuccessful investments in Target, Valeant Pharmaceuticals and Herbalife.

The Valeant and Herbalife related losses caused the Pershing Square hedge fund to substantially underperform the indexes from 2015-17. However, even after taking the bad years into account, an investor in Pershing Square's flagship hedge fund has fared significantly better since inception than one who invested in the S&P 500 over the same period; since 2004, it has returned more than 7x after all fees and expenses, while the SPX has returned about 2x. More importantly, I believe that Ackman has learned from his mistakes and is a better investor today because of his experiences.

Recently, Ackman has gone back to the basics. His fund's investments today are as high-quality as they have ever been, with very little controversy surrounding any of his holdings, which consist of companies like ADP (payroll), Chipotle (burritos), Hilton (hospitality), Howard Hughes (high-quality quality real estate), Lowes (home improvement), Starbucks (coffee), Restaurant Brands (Burger King's parent) and United Technologies (global leader in aircraft engines, HVAC equipment and elevators).

This renewed focus on high-quality, predictable and growing businesses is apparent in PSH LN's recent results – NAV is up almost 50% YTD. Despite the improved performance and high grading of the portfolio, investors are still fixated on the fund's 2015-17 rough patch. This is evident in PSH LN's discount to NAV, or the value of its investment in Pershing Square's hedge fund, which has widened to more than 30% today from low-single digits in 2015. Said another way, today the market is offering us a way to invest in the fund's holdings at a greater than 30% discount.

I view the PSH LN vehicle as a way to gain exposure to these high-quality businesses with significant downside protection in the form of a 30% discount. Not only should these businesses compound their values at a teens rate or better over time, but as they do, Pershing Square's reputation should regain its luster, which I believe will cause the discount will narrow over time.

Pershing Square's management seems to share this view with me, as they have purchased more than $250 million of PSH NA shares since May of 2018, and now own almost 40 million shares, or $1 billion worth at today's prices, representing 18% of the company on a fully diluted basis. Additionally, in June of this year, PSH LN announced that it would buy back $100 million of its public shares by early 2020. Should the discount to NAV persist, I believe they will continue buying more shares back to capitalize on the opportunity.

Ackman is especially incentivized to close the NAV discount because it will be very difficult for Pershing Square to raise capital from new institutional investors while the gap exists. In the event that the discount lingers, investors will still get back 100c on the dollar whenever Bill Ackman decides to or is forced to step away from the business and return capital to Pershing's investors.

MasterCraft Boat Holdings (MCFT) is a company that the Fund profitably owned and exited last year. With the stock almost 60% off its 2018 highs and now selling for approximately 5x its 2020 consensus earnings, it is once again a top holding. As a reminder, MCFT is a manufacturer of waterski and wakeboard boats under the MasterCraft brand (60% of sales). Over the last two years, MCFT has made two diversifying acquisitions into the pontoon as well as the saltwater fishing and general recreation markets (40% of sales).

The decline in MCFT stock has coincided with weakness across the boating sector as well as cyclical small-cap value names more broadly. It seems the market is calling for a deep and prolonged consumer-led recession, similar to what we saw in 2008, and is applying a large discount on many cyclicals. I don't share this view with the market, as I believe consumer confidence and balance sheets are in decent shape, as are banks who finance consumer spending.

However, even if we do go into a recession, MasterCraft is significantly undervalued. The company is well capitalized with only 1x of debt and owns incredibly valuable brands that compete in attractive segments of the boating market that would snap back relatively quickly coming out of any downturn.

MCFT's core brand holds a leading 22% share in the oligopolistic performance sports boat (PSB) market. This segment of the market has in recent years experienced strong growth relative to the broader powerboat industry due to the proliferation of tow sports and recreational activities, as well as increased innovation that has led to improved performance, functionality and versatility of these boats compared to other recreational powerboats.

In layman's terms, consumers are embracing more active lifestyles and placing more value on unique experiences (i.e. spending the day a boat). These trends have helped the PSB segment of the boating market take a few points of share from sterndrive boats almost every year since 2002.

Additionally, unlike other segments of the boating market where there are hundreds of competitors, the PSB market is consolidated; the top four players hold a combined 70% of the market. These four players benefit from a favorable industry structure with rational pricing, large national dealer networks, the ability to invest R&D into innovation, and most importantly, brand awareness on lakes that makes this market very different from its other boating counterparts.

Interestingly, while the PSB category has taken significant share from the sterndrive category over the last 15 years, overall annual industry unit sales of ~10 million remain well below historical peaks which averaged 12 million from 2002-2007 with a high of 13 million in 2006.

MCFT's two other brands are also market leaders in segments that have been taking share of their respective categories. For example, pontoon units represented 1 out of every 5 outboard boats sold in the US in 2005 but have increased to 1 in 3 outboard boats sold currently. Impressively, MCFT's pontoon brand, Crest Marine has grown its sales at 2x the market since 2011.

In addition to M&A, MCFT continues to invest for growth through the income statement. The company has been spending money on the development of a new luxury recreational boat brand called Aviara, which will be launched this coming year. Despite the elevated investment spend related to this new brand, the company still generates significant cash flows. In fact, since coming public in 2015, MCFT has grown its adjusted EPS by 4x, while keeping leverage at a minimal ~1x EBITDA.

As a thought exercise, let's compare MCFT to auto companies, who are also highly cyclical and sell for low P/E multiples.

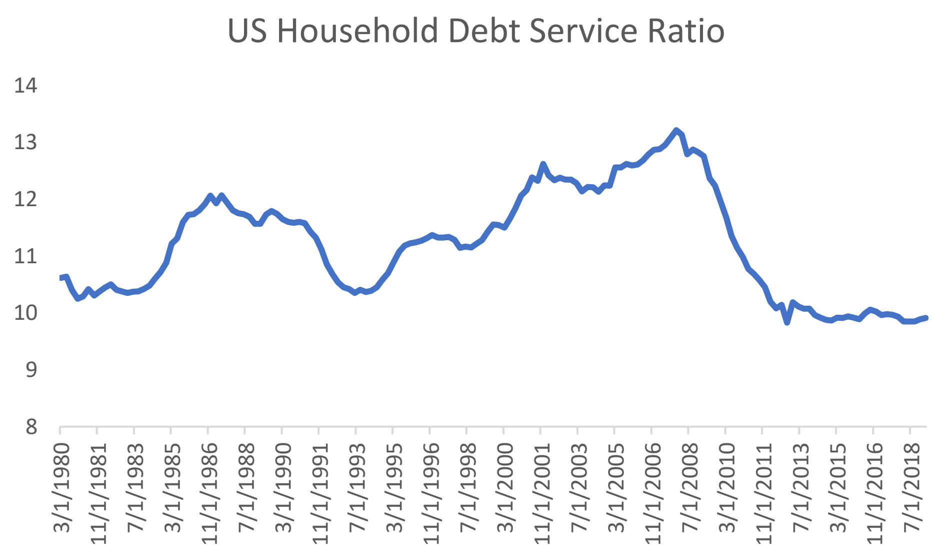
	MCFT	Auto companies
EPS growth since 2015	~4x	Negative
Secular demand trend	Growing	Declining
FCF conversion	High	Low
Capital intensity	Low	High
Min purchase commitments	Minimal (1)	High
Underfunded pensions	None	Large
Unions	No	Yes
FinCos with credit risk and residual guarantees	No	Yes

(1) Example: MCFT would need to see its ski/wake units fall by over 50% before its min engine volume commitment kicked in.

The table above outlines why I believe that MCFT is superior to auto companies in almost every way. Yet, they both trade at similar P/E multiples. It is clear to me MCFT is the baby being thrown out with the bath water and I believe we will be rewarded for owning MCFT shares at today's attractive prices.

Outlook

The Q2 GDP report showed that consumer spending in the US increased by 4.3% in the quarter, compared to just 1.1% in Q1. Consumer confidence remains elevated, consumer balance sheets are in good shape and the unemployment rate remains low. The ratio of US household debt service payments as a percentage of disposable income is under 10% and at all-time lows. As a reminder, consumption accounts for approximately 70% of US GDP.



Meanwhile, manufacturing and industrial businesses are showing signs of weakening, albeit off a base that hasn't ever showed the same signs of overheating as in past peaks. For now, it appears the industrial slowdown is something to keep an eye on, though is at least partially being driven by global trade tensions, which if settled could help accelerate economic activity.

From a valuation standpoint, the S&P 500 sells for a reasonable 16x 2020 earnings estimates, corporate and bank balance sheets remain healthy and the economic growth continues its upward trajectory.

While it is important to keep an open mind about which direction the economy and market might head in the future, reasonable valuations along with rising corporate earnings and an outlook that suggests a low-rate environment for longer continues to bode well for US equities.

As such, we will continue to focus on owning high quality businesses at attractive valuations that should do well over our long-term investment period.

Thank you for your continued support and confidence. Please reach out with any questions at yaron@1maincapital.com or 305-710-8509.

Sincerely,
Yaron Naymark

Monthly Performance Summary[3]

2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1 Main Capital Partners - Gross	4.6%	7.5%	-1.9%	2.2%	-6.9%	1.4%							6.5%
1 Main Capital Partners - Net	4.5%	7.4%	-2.0%	2.1%	-7.0%	1.2%							5.7%
S&P 500 index - incl dividends	8.0%	3.2%	1.9%	4.0%	-6.4%	7.0%							18.5%
Russell 2000 - incl dividends	11.2%	5.2%	-2.1%	3.4%	-7.8%	7.1%							17.0%

[3] Performance Data is presented for the Fund's Class A Interests, and are net of any accrued incentive allocation, management fees and other applicable expenses (as disclosed in the Fund's Confidential Private Offering Memorandum), include the reinvestment of dividends, interest and capital gains, and assume an investment from inception. Returns for month-end and year to date 2019 are estimated, and un-audited. For investor specific returns, please refer to your capital statements. Due to the format of data available for the time periods indicated, net returns are difficult to calculate precisely. Please see the last page for important disclosure information.

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