1 MAIN CAPITAL

October 2020

Dear Partners,

For the third quarter, 1 Main Capital Partners, L.P. (the "Fund") returned 17% net of fees and expenses[1], bringing its year-to-date return to 33%. The Fund accomplished this while maintaining an average cash balance of greater than 50% during the period. Hanesbrands (HBI), Issuer Direct (ISDR) and Limbach Holdings (LMB) were the largest contributors in the quarter, accounting for more than 15% of performance[2].

Since inception, the Fund has delivered a cumulative net return of 47%, compared to 26% for the S&P 500 and a negative total return for the Russell 2000. The Fund has accomplished this despite maintaining low gross and net exposure to the market. While the Fund's exposure has fluctuated depending on market dynamics, on average, it has been lower than desired and acted as a drag on performance. Bottom line, we have owned good businesses that have performed well, but have not owned enough of them. Over time, my goal is to get the Fund more invested, but I will be patient in getting us there.

As I've done in prior letters, I'll reiterate that not all quarters or years will be positive. The ebbs and flows of the Fund's performance should be judged over a multi-year period, since that is the timeframe with which I evaluate our investments. On that basis, I am more excited about the composition of our portfolio today than I have been since the Fund's inception, and I look forward to seeing how the underlying businesses we own perform in the coming months and years.

Splits and SPACs

In last quarter's letter, I touched on increasing retail participation and speculation in the stock market. Surely enough, bankers have taken notice and have been advising their clients on ways to capitalize on this dynamic.

During the third quarter, Apple and Tesla each announced stock splits that led to share appreciation of more than 30% in the 30 days following their announcements. A stock split has the impact of lowering the share price of a company without any change to the underlying earnings power of the business. Just like a pie of pizza is still the same size whether it is cut into 6 slices or 12, so is the absolute earnings power of Apple whether it has 4 billion shares or 17 billion shares outstanding. However, unsophisticated investors who can now more easily afford becoming a shareholder have, perhaps unknowingly, decided they are willing to pay 30% more for the pie cut into 12 slices than they were for the same pie cut into 6. Go figure.

Special purpose acquisition company (SPAC) IPO activity has been even more telling. SPACs are cash-funded shell corporations designed to help operating companies circumvent the traditional IPO process. Typically, a SPAC sponsor will raise cash from investors in an IPO, and then go out and look to merge with an operating company. The result is that the operating company gets access to the SPAC's cash and public listing, while the SPAC investors become owners of the operating company instead of just the shell

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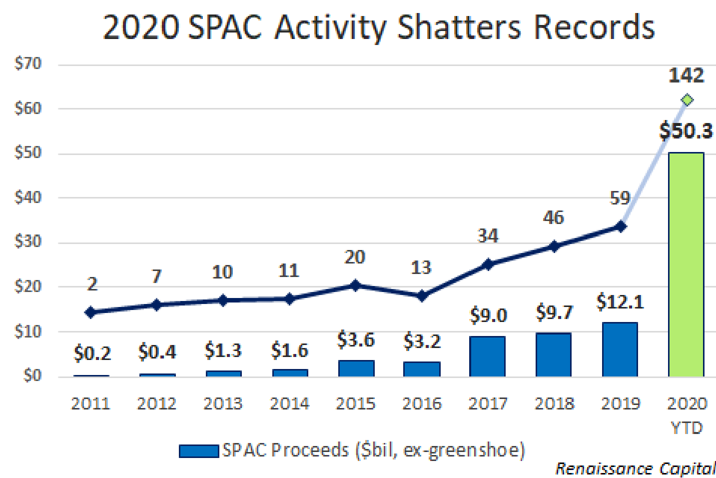
[2] Attribution is presented gross of management fees, expenses, and incentive allocations.

company. In return for raising the SPAC and finding an acquisition, the sponsor usually gets handsomely compensated in the form of a large equity kicker.

Typically, for a SPAC sponsor to successfully raise cash, they must show a track record of success in finding and acquiring businesses. The reason for this is that people who buy into the SPAC IPO are trusting the sponsor to acquire an attractive business on favorable terms. These SPAC investors usually will not know if the deal is a good one for some period until after the transaction has been completed.

However, in today's market environment, SPAC sponsors have realized that if they announce mergers with companies that retail investors find exciting, the shares will appreciate meaningfully upon deal announcement rather than after some period of strong execution following the deal.

The result is that sophisticated investors are increasingly willing to buy into SPAC IPOs regardless of the sponsor track record with the intention of flipping the SPAC shares to retail buyers for a quick profit once an exciting deal is announced. As such, we are seeing the amount of SPAC IPOs increase substantially from previous year levels, as people like Shaquille O'Neal attempt to capitalize on the mania.



While these are decent examples of why I believe there is an increasing level of speculative activity in today's market, I will remind investors that it is very tough timing bubbles. They usually go on for much longer and much farther than people think they could. From January 1998 through March 2000 the Nasdaq appreciated by ~4x. In the words of George Soros, "When I see a bubble forming, I rush to buy, adding fuel to the fire." Well, that's what people are doing, and nobody knows when the party will end.

To be clear, I have no intention of rushing in to buy bubble stocks with the Fund's capital, but I also have no interest in trying to guess where this trend will go next. I will stick to the strategy that has worked for us: focusing on finding and buying quality businesses at reasonable valuations.

Top 5 Positions

As of September 30th, the Fund's top 5 positions were Hanesbrands (HBI), KKR & Co (KKR), Limbach Holdings (LMB), RCI Hospitality (RICK) and ski and wake boat manufacturers (MasterCraft (MCFT) and Malibu (MBUU)). Together, these holdings accounted for approximately 45% of assets.

Each of these positions except LMB and MBUU has been discussed at length in past letters and continue to perform in line with my expectations.

MBUU benefits from the same secular theme as MCFT, but I have decided to split the Fund's position equally between the two competitors. One comes with a lower valuation on temporarily depressed earnings, while the other comes with a stronger market position and better track record of execution.

Limbach is profiled below.

Limbach Holdings (LMB) is a leading specialty contractor providing heating, ventilation, air-conditioning ("HVAC"), plumbing, electrical and building controls design, engineering, installation, and maintenance services in commercial/industrial markets across the US.

The company's largest end market is the healthcare vertical, though it has a diversified base of blue-chip customers such as Disney and Facebook. In 2019, the company was ranked the 12th largest mechanical contractor according to Engineering News Record.

LMB came public in 2016 via merger with a SPAC to access equity markets to pursue an accretive roll-up of its industry. In a presentation at the time of announcement, management pointed out that the industry is dominated by small, family-owned branches that make attractive M&A targets. As these owners look to retire, there is a limited buyer universe which should allow LMB to accretively consolidate the industry.

However, quickly after coming public, the company began to disappoint investors by missing margin expectations and suffering from working capital related liquidity issues. By late 2019, investors had completely lost confidence in management and abandoned the stock, selling it down to $3 per share, well below its prior highs of $16, culminating in the board replacing both the COO and CFO.

Over the past year, the new management team and other legacy team members have implemented operational changes designed to address the issues that formerly plagued the company. For example, the company changed the way it bills and collects for projects. Also, regional branch managers are now required to seek approval for large projects and are prohibited from taking on projects that would strain labor capacity to the point where they may have to hire flex labor at expensive rates.

The immediate impact from these changes has been remarkable. Despite some COVID-19 related project delays, LMB has generated $35 million of TTM free cash flow (>$4 per share) and completely repaired its balance sheet from an overleveraged position last year to a likely net cash position by the end of this year.

Looking ahead, the company stands to benefit from added focus on ventilation by building owners and tenants due to the COVID pandemic. Additionally, the operational changes implemented by management should lead LMB to double its EBITDA margins. Lastly, the company will use its strong cash flow generation to execute on a highly accretive acquisition pipeline. If management executes, the company will regain credibility with investors, likely driving the multiple up meaningfully from its current level of 3x EBITDA.

Usually, the best investments are ones where investors benefit from rapid growth as well as multiple expansion. I believe LMB can deliver on both and am excited to see how the company performs in the coming years.

Outlook

Thus far, 2020 has been a year many will want to forget, though few will be able to. We entered the year with accommodative policies being undertaken by global central banks. US/China trade tensions were de-escalated and expected to remain subdued due to the upcoming presidential election. US consumer balance sheets were in great shape. Overall, expectations were for synchronized global growth in conjunction with reasonable valuations and low interest rates.

However, while markets are good at climbing a wall of worry, they are usually hit hardest when investors have their guards down. Well, COVID-19 caught the markets off guard, causing indexes to enter bear market territory in record speed. Additionally, people and societies across the world have suffered from lockdowns and their associated job losses.

Over the last few months, markets recovered as quickly as they sold off, due to massive quantities of global fiscal and monetary stimulus in attempt to offset the deflationary forces of shutdowns. Many market participants have been perplexed at the pace of recovery in equity values compared to that of employment or GDP gains and with a looming US election around the corner.

However, equities are long-duration assets and accommodative global central banks have told us that a major market-wide credit event is off the table and that rates will stay lower for longer. Meanwhile, pressure for fiscal stimulus continues to mount and, regardless of the delays, will likely come eventually. Lastly, the recovery in stock prices has been led by companies that have benefitted from COVID.

In my view, regardless of who wins the election, this dynamic of low rates and increased government spending will persist. I am also optimistic that effective COVID vaccines and therapeutics will become available in 2021. The combination of these factors should be very bullish for corporate profits.

So looking ahead into Q4 of this year and 2021, I am hopeful that old economy and travel-related business will benefit from stimulus and a fully reopened economy, while the digital-first companies will continue to benefit from the secular trends to which they are exposed. Said another way, I am hopeful that stocks can continue climbing these many walls of worry.

Organizational Update

I am pleased to announce that 1 Main Capital Management has established an advisory board to assist in providing guidance as the Fund scales. The advisory board members include David Blechman (Founder, New State Capital Partners), Hannah Testani (COO, Intelligent Audit) and Michael Swieca (Partner, Talpion). I am proud to have such a strong board and would like to wish them a warm welcome.

Additionally, the Fund has engaged Paul Hastings LLP as its new legal counsel.

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

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Monthly Performance Summary[3]

2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1 Main Capital Partners - Gross	-5.3%	7.8%	-6.4%	5.6%	5.4%	9.5%	5.2%	6.4%	8.5%				41.3%
1 Main Capital Partners - Net	-5.4%	7.3%	-6.3%	5.4%	4.6%	7.6%	4.2%	5.2%	7.0%				32.6%
S&P 500 index - incl dividends	0.0%	-8.2%	-12.4%	12.8%	4.8%	2.0%	5.6%	7.2%	-3.8%				5.6%
Russell 2000 - incl dividends	-3.2%	-8.4%	-21.7%	13.7%	6.5%	3.5%	2.8%	5.6%	-3.3%				-8.7%

[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 2020 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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