

April 2020

Dear Partners,

I hope that you and your loved ones are healthy and staying safe during these unpleasant times, and that we are all able to return to at least semi-normal routines soon. For those of you who work in healthcare, thank you for your service and the risk you take for the benefit of society. As many of you know, I got married this past Labor Day weekend; my wife works in emergency medicine and has been a tremendous resource not only on the job, but to our families and friends as well. If you have any pressing concerns about your health, please don't hesitate to reach out, as she has offered to do her best to answer your questions.

In the first quarter, 1 Main Capital Partners, L.P. (the "Fund") returned (4.8)% net of fees and expenses¹, compared to a return of (19.6)% and (30.6)% for the S&P 500 (SPX) and Russell 2000 (RTY) Indexes, respectively. Since its inception in February of 2018, The Fund has returned 5.4% net, compared to (4.4)% for the S&P 500 and (24.7)% for the Russell 2000 over the same period.

First Quarter Summary

The Fund came into the year positioned with a constructive view on the economy and equity markets due in large part to a significant de-escalation of the US-China trade war. At the same time, improved consumer and business confidence were expected to sustain throughout the year, and there appeared to be little risk that President Trump would do anything to rock the economy right before a coming election. Many companies shared this outlook, with management teams sounding confident when discussing their 2020 prospects on their January and February earnings calls.

Despite this promising backdrop, the global spread of the COVID-19 outbreak led to a rapid deterioration of the economic picture just a few weeks later. As the disease started to make its way around the world, the mid-term outlook for most businesses became highly uncertain. Even the strongest corporate balance sheets quickly become stressed in a zero-revenue environment. Stretched corporate balance sheets, in turn, lead to curtailment of employment and investment, which cascades throughout the economy in a magnified way.

Given these unfortunate circumstances, market participants significantly dialed back their exposures to risk assets midway through the quarter and rightfully shifted their focus to balance sheets and liquidity foremost, electing to sell first and ask questions later.

As the risks associated with virus became clear, I took actions to reduce the Fund's exposure to investments caught in its crossfire in the early part of the selloff. For example, the Fund sold out of its hotel franchisor positions, which were a part of the negative capital growthco basket that was highlighted in the Q4'19 letter.

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 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.

Conversely, as the selloff accelerated, the Fund was able to use the period of heightened market volatility to put cash to work by adding to existing positions as well as initiating new positions in businesses that i) had highly dislocated equities but are able to withstand any temporary slowdown caused by the virus, and ii) wouldn't be disproportionately hurt by an extended period of pullbacks in travel and leisure spending.

In one instance, the Fund was able to re-acquire shares in Apollo Global Management (APO) for under \$20 per share on a day where its stock declined by nearly 40%. APO ended the quarter at \$33.50 and has recently traded above \$40. In this case, while it is clear that the company's existing investments would suffer in an economic slowdown, the asset manager itself is well capitalized; it has significant dry powder that it could deploy into its existing holdings or new opportunities created by a downturn. Additionally, the company's fee income is stable and should continue even if underlying portfolio companies struggle.

Lastly, single-name short positions and index hedges helped offset losses from the Fund's long portfolio.

Portfolio Construction and Risk Management

Despite a significant change to the economic and market outlook, the Fund continues to stay the course by investing in high-quality, attractively valued businesses. I have no doubt that, over time, we will be well compensated for our patience.

However, given increased uncertainty associated with a wider range of potential outcomes, the Fund is currently less concentrated than usual. Additionally, I have been avoiding companies that lack ample liquidity as well as those with meaningful debt maturities in the coming 1-2 years.

Lastly, the Fund continues to hold a meaningful cash balance and a below-average net exposure of under 50% at quarter end.

Top 5 Positions

As of March 31st, the Fund's top 5 positions were Alphabet Inc (GOOG), alternative asset managers (APO, BX and KKR), GMS Inc (GMS), Issuer Direct (ISDR) and Pershing Square Holdings (PSH LN). Together, these holdings accounted for approximately 30% of assets.

Outside of GMS, each of the top 5 positions have been discussed in past letters. GMS was a part of the Fund's housing basket initiated in late 2018. After selling out for a gain in 2019, the Fund recently re-initiated several housing and construction related names, of which GMS is the largest.

GMS Inc (GMS) is a North American specialty distributor of interior construction products such as wallboard (~40% of sales), ceilings (~15% of sales), steel framing (~15% of sales) and other products (~30% of sales), with more than 250 branches across the US and Canada.

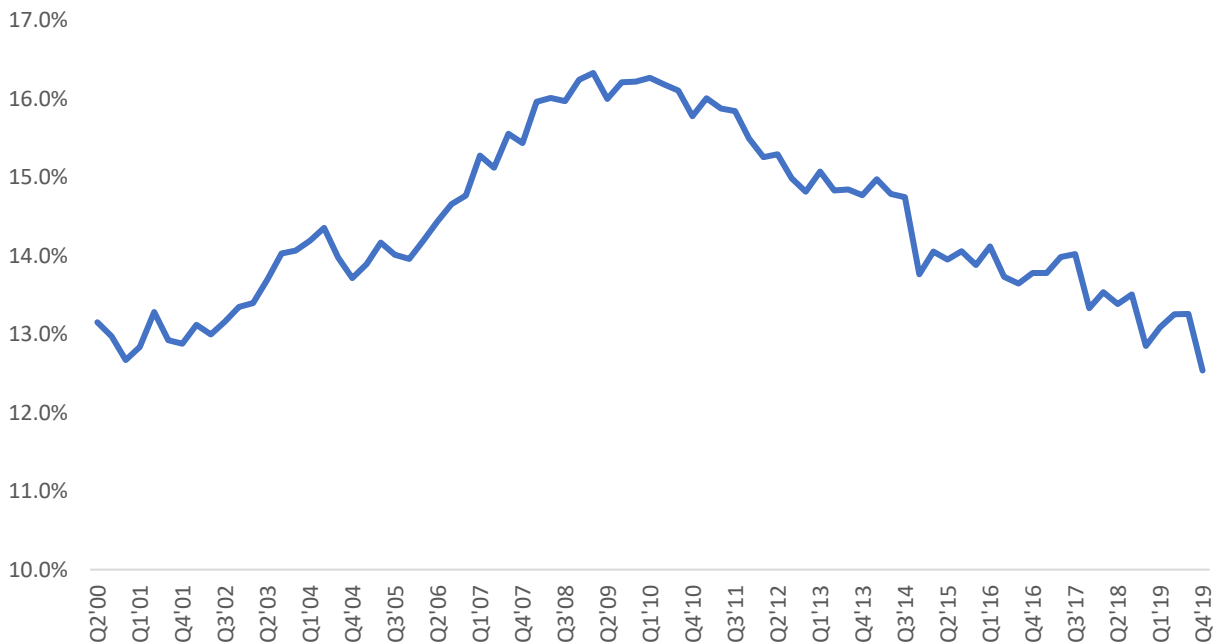
The company's branches are a one-stop shop that represent a critical link between interior products manufacturers and a highly fragmented interior contractor base that is balanced across the commercial (~55% of sales) and residential (~45% of sales) end markets.

GMS’s stock price declined by over 60% during the first quarter as investors sought to reduce exposure to economically sensitive businesses considering the shut-down policies implemented to combat COVID-19.

Despite falling squarely in the crossfire of names that investors sold aggressively, I believe that GMS’s stock was unfairly punished during the selloff. While the company is ~3x levered, it has ample liquidity and no near-term maturities or maintenance covenants on its debt. Additionally, construction has been deemed an essential service in most states which means that it has continued relatively unabated in many of the company’s markets.

Even in a scenario where new construction slows down, GMS should still generate significant free cash flow. From conversations with the company, it is my understanding that EBITDA declined by approximately 30% in 2009, while FCF declined less than EBITDA since the company typically works down its inventory and receivables during downturns.

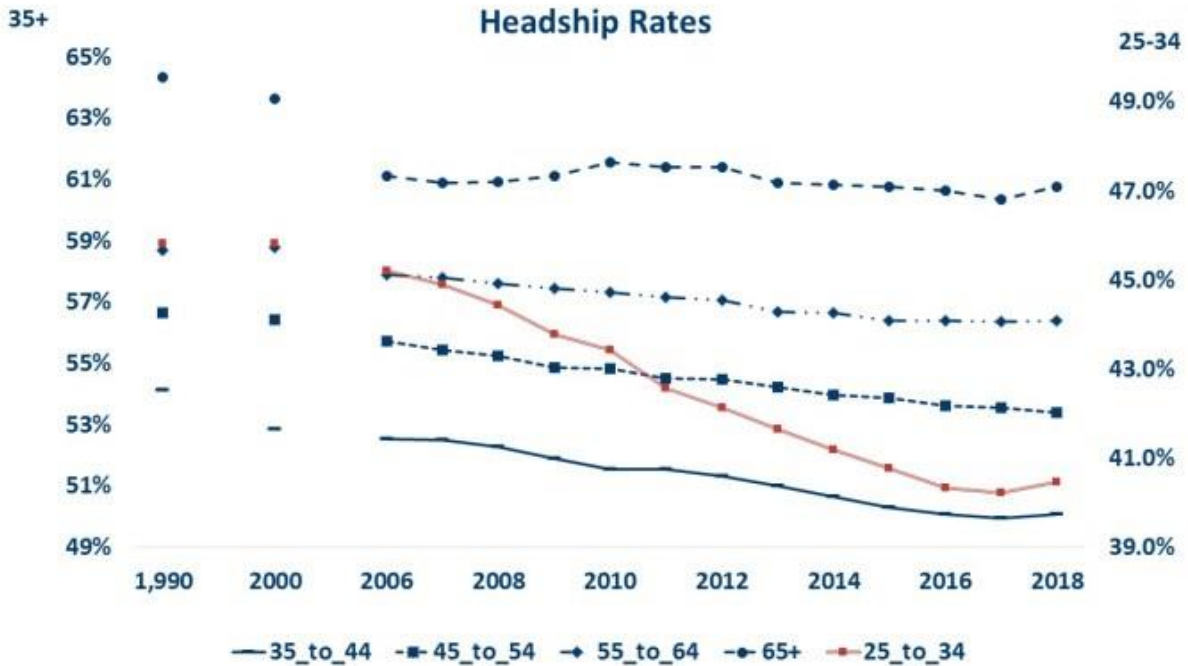
However, as discussed in the Fund’s Q4’18 letter, it is unlikely that new housing starts will fall as significantly in a current recession as they did in 2009. First, as shown in the chart below, housing unit vacancy rates today are significantly below 2008/2009 levels making it more challenging for new households to absorb existing inventory units rather than buy new ones.²



Second, headship rates among the young have declined significantly since 2008, meaning millennials have already pushed out starting families.³ At some point, it becomes a “now or never” decision for them rather than one about their economic situation.

² Source: US Census Bureau.

³ Source: <https://eyeonhousing.org/2020/04/young-adults-headship-trends-reversed-pre-coronavirus/>.



On the commercial front, there has been increasing talks of a large-scale infrastructure package by both political parties as part of the fiscal stimulus related to the COVID-19 response. If more hospitals, schools and airports are built, expanded or remodeled, it would prove to be a significant tailwind to GMS’s business.

Encouragingly, GMS has been firing on all cylinders coming into this year. The company was expanding its margins while also outgrowing the industry by using its excellent service capabilities to gain market share.

However, should demand weaken in the coming quarters, GMS’s free cash flow will undoubtedly decline but the company could see accelerated share gains as poorly capitalized competition pulls back on its service levels. If a slowdown is prolonged, the company will likely see attractive M&A opportunities present themselves.

At less than 4x trailing twelve-month free cash flow, I believe we are going to be well compensated for owning construction risk at a time when few investors want exposure to the sector.

Outlook

Beginning in March, major cities around the world implemented social distancing and work-from-home measures designed to slow down the spread of the COVID-19 virus and reduce the strain on hospitals. Non-essential businesses have been shut down and major global corporations have canceled conference and corporate travel. Entertainment events such as NBA games and concerts have been indefinitely suspended.

In turn, major segments of the economy such as restaurants, travel & leisure, retailers and other small businesses have been put in uncomfortable positions of seeing revenue reduced to \$0 in some cases while

many of their expenses and obligations are fixed. Employees of these corporations have been furloughed and, in many cases, outright fired.

The US government has responded to this chain of events with accommodative monetary and fiscal policies including the passage of a major fiscal stimulus package that increases unemployment benefits and provides small business loans to companies in need. The Fed has lowered interest rates and increased asset purchases to boost liquidity and help prevent an economic crisis from also turning into a financial crisis.

Since the passage of the stimulus package, markets have stabilized and rallied meaningfully off the March lows. The strength of this rally has confused many, including myself, since the economic outlook remains highly uncertain and the S&P 500 valuation, now at 19x trailing earnings, does not appear cheap by historical standards.

Businesses and households are accruing significant liabilities associated with the shutdown and its it likely that they will look to pay those liabilities off before returning to prior levels of consumption and investment.

Additionally, it is not hard to believe that due to recency bias those businesses and households will work to increase their savings in case we get a second wave of the virus in the fall, or in case there is another pandemic that affects us again in the coming years. In short, even once we re-open it is clear to me that the economy will not quickly recover to prior levels over a quarter or two.

On the other hand, it is also possible to make the argument that even if earnings don't quickly recover to prior levels, that the overall market multiple remains reasonable relative to fixed income, especially in a world where many sovereign credits provide little to no yield.

Fortunately for us, we can pick our spots and invest in opportunities that I believe are likely to work out in our favor over time, regardless of which path the economy or market ends up taking. As such, I remain confident that we are likely to generate attractive risk-adjusted returns in the months and years ahead.

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 Summary⁴

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%										-4.4%
1 Main Capital Partners - Net	-5.4%	7.3%	-6.3%										-4.8%
S&P 500 index - incl dividends	0.0%	-8.2%	-12.4%										-19.6%
Russell 2000 - incl dividends	-3.2%	-8.4%	-21.7%										-30.6%

⁴ 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.

IMPORTANT DISCLOSURES

In general. This disclaimer applies to this document and the verbal or written comments of any person presenting it (collectively, the “**Report**”). The information contained in this Report is provided for informational purposes only and does not contain certain material information about 1 Main Capital Partners, L.P. (the “**Fund**”), including important disclosures and risk factors associated with an investment in the Fund, and no representation or warranty is made concerning the completeness or accuracy of this information. To the extent that you rely on the Report in connection with an investment decision, you do so at your own risk. Certain information contained herein was obtained from or provided by third-party sources; although such information is believed to be accurate, it has not been independently verified. The information in the Report is provided to you as of the dates indicated and 1 Main Capital Management, LLC and its affiliates (collectively, the “**Manager**”) do not intend to update the information after its distribution, even in the event the information becomes materially inaccurate.

No offer to purchase or sell securities. This Report does not constitute an offer to sell, or the solicitation of an offer to buy, and may not be relied upon in connection with the purchase of any security, including an interest in the Fund or any other fund managed by the Manager. Any such offer would only be made by means of such fund’s formal private placement documents, the terms of which shall govern in all respects.

Performance Information. Unless otherwise noted, any performance numbers used in the Report are for the Fund’s Class A Interests, and are net of any accrued incentive allocation, management fees and other applicable expenses, include the reinvestment of dividends, interest and capital gains, and assume an investment from inception of such Class. As such, the performance numbers do not reflect the performance of any particular investor’s interest and you should not rely on it as a statement of your actual return.

Past performance. In all cases where historical performance is presented, please note that past performance is not a reliable indicator of future results and should not be relied upon as the basis for making an investment decision.

Risk of loss. An investment in the Fund will be highly speculative, and there can be no assurance that the Fund’s investment objective will be achieved. Investors must be prepared to bear the risk of a total loss of their invested capital.

Portfolio Guidelines/Construction. Information contained in this Report, especially as it pertains to portfolio characteristics, construction, profiles or investment strategies or objectives, reflects the Manager’s current thinking based on normal market conditions, and may be modified in response to the Manager’s perception of changing market conditions, opportunities or otherwise, in the Manager’s sole discretion, without further notice to you. Any target strategies, objectives or parameters are not projections or predictions and are presented solely for your information. No assurance is given that the Fund will achieve its investment strategies, objectives or parameters.

Index Performance. The index comparisons are provided for informational purposes only. The S&P 500 Total Return Index (SPXT) is a capitalization weighted index that is designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries. There are significant differences between the Fund and the index referenced, including,

but not limited to, risk profile, liquidity, volatility and asset composition. The index reflects the reinvestment of dividends and other income, are unmanaged, and do not reflect a deduction for advisory fees. An investor may not invest directly into an index. For the foregoing and other reasons, the performance of the index may not be comparable to the Fund's and should not be relied upon in making an investment decision with respect to the Fund.

No tax, legal, accounting or investment advice. The Report is not intended to provide, and should not be relied upon for, tax, legal, accounting or investment advice.

Logos, trade names, trademarks and copyrights. Certain logos, trade names, trademarks and/or copyrights (collectively, "Marks") contained herein are included for identification and informational purposes only. Such Marks may be owned by companies or persons that are not affiliated with the Manager or any the Manager managed fund and no claim is made that any such company or person has sponsored or endorsed the use of such Marks in the Report.

Confidentiality/Distribution of the Report. The information in this Report is confidential. By accepting any portion of the Report, you agree that you will treat the Report confidentially. It is intended only for the use of the person to whom it is given and the Manager expressly prohibits its redistribution without the Manager's prior written consent. The Report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use is contrary to law, regulation or rule.