July 2020

Dear Partners,

I hope that you and your loved ones remain healthy and safe during the COVID-19 pandemic, and that everyone has been able to at least begin what is likely to be a long process of returning to a semi-normal routine.

In the second quarter, 1 Main Capital Partners, L.P. (the "Fund") returned 18.6% net of fees and expenses[1], bringing its year-to-date performance to 13.0%. The Fund accomplished this while maintaining an average cash balance of greater than 50% during the trailing three- and six-month periods. Since its inception in February 2018, the Fund has returned 25.0% net, compared to 15.3% for the S&P 500 and (5.6)% for the Russell 2000.

Government Stimulus: A Powerful Force

Governments around the world seem determined to use any means necessary to prevent ordinary recessions from turning into depressions or banking crises. So far, the measures they have taken in response to COVID-19 have been nothing short of extraordinary. While the long-term consequences of such actions are unclear, there is no doubt that there have been substantial near-term benefits.

To summarize these actions, global central banks have pumped an enormous amount of liquidity into the financial system, while governments have implemented fiscal stimulus in the form of small business loans and enhanced unemployment benefits for consumers. Simply put, money printers have been turned on, and the impact from these programs is likely to continue to be felt for quite some time.

Even with the various stimulus programs in mind, the rapid recovery of equity markets in the April through June period was astounding. At the end of Q2, the S&P 500 and Russell 2000 were down just (3.1)% and (13.0)% year-to-date, respectively.

The resilience of risk assets caught many by surprise. After all, current expectations for Q2 US GDP are (34)%. If you would have told me at the start of the year that in Q2 we would likely see the largest GDP

[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.

decline in modern history but that the S&P 500 would be down merely 3.1% in the first half, I likely would have assumed you were out of your mind.

This is a good example for why trying to predict what equity markets will do in the next year is a futile exercise. Meaningful weakness in economic activity is increasingly likely to be met with swift government response, and the magnitude of such a response, or its impact on the market, is nearly impossible for anybody to predict.

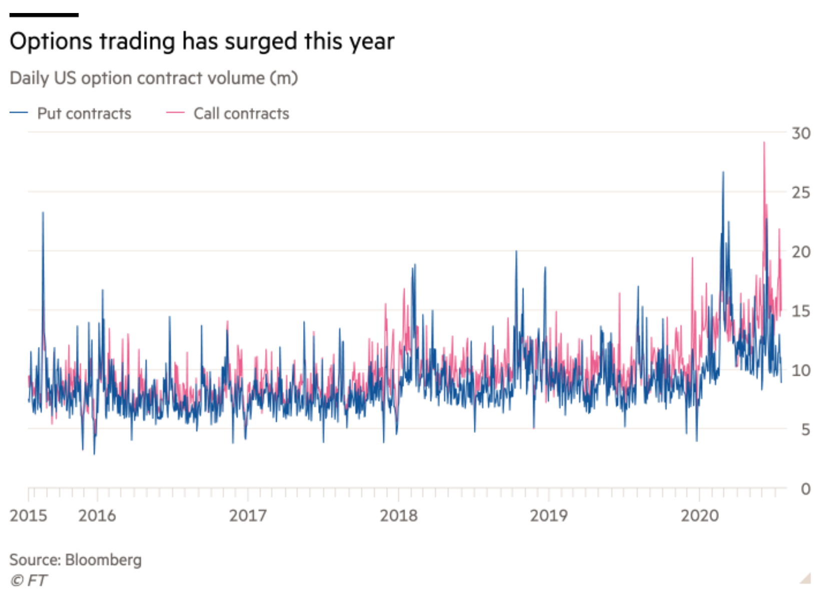
Just like the value of real estate does not go to zero when a tenant pays no rent for a few months, the value of a business does not go to zero when a forced shutdown causes its earnings to temporarily evaporate. So, the mark-to-market declines seen in many equity prices in the first half of this year could be attributed to fear-led liquidity seeking by investors rather than changes of fundamental business value, while the rapid recovery in prices serves as a strong reminder for why it pays to stay invested even when the skies look grey.

As such, I will continue spending my time trying to find and invest in strong companies at attractive valuations that should do well over time regardless of what the economy does in the next year.

Stocks Only Go Up

The current market environment is very polarizing. Many investors remain extremely cautious and have been skeptical of the COVID recovery rally the whole way up. Others have been exceptionally bullish.

Barstool Sports founder, Dave Portnoy, has been leading a retail investing renaissance, adopting the mantra "stocks only go up" while encouraging people to view investing in the same way they view sports betting or a casino game. In fact, according to the head of execution services at Citadel Securities, retail investors have accounted for 20-25% of the stock market activity amid the COVID volatility, compared to just 10% of activity historically. [2]



[2]Source: https://www.bloomberg.com/news/articles/2020-07-09/citadel-securities-says-retail-is-25-of-the-market-during-peaks.

Increased speculation, within what I believe to be a small subsegment of the market, can be seen in the options market, where investors are making highly leveraged bets. Like complex parlays in sports betting, short duration and far out-of-the-money options allow investors to bet on less likely outcomes in return for higher potential payouts. Well, many retail investors are currently loading up on the equivalent of 10-leg parlays.

These elevated levels of speculation are concerning since stocks are now well off their March lows and are no longer priced in a way where not much needs to go right for them to appreciate. At the same time, the potential range of outcomes for the economy over the next 12 months is extremely wide.

As such, while the Fund remains invested in compelling risk-adjusted opportunities, I constantly remind myself to follow the familiar adage repeated by Howard Marks in many of his memos: "move forward, but with caution."

Current Market Environment - 1999 or 2007?

The bifurcation between investors who are overly cautious and those who are overly optimistic is understandable since the economy is becoming increasingly bifurcated as well.

On one hand, the demand outlook remains incredibly challenging for many old-economy businesses. Restaurants, travel, and entertainment businesses are being hit particularly hard in the current environment. However, consumer confidence has been surprisingly resilient, and many families have been re-allocating spend towards other areas. For example, consumer appetite for RVs, boats and rural housing units has been off-the-charts strong over the last several months. Many participants in this sector, including a few that the Fund owns, are barely keeping up with the strong demand.

On the other hand, there is a powerful innovation & productivity wave that is driving meaningful secular growth within certain sectors – particularly e-commerce, digital payments, and software-as-a-service (SaaS) offerings. In many cases, the already-rapid growth rates of companies in these sectors have accelerated even further due to COVID.

So, are the have-nots destined to drag the economy and the market lower like housing did in 2007-08? Or are the have's going to continue appreciating to increasingly higher valuations dominated by a FOMO induced retail feeding frenzy like in 1999?

Nobody knows for sure. As stated earlier, the possible range of outcomes for the economy are extremely wide. With that said, my belief is that with banks as well-capitalized as they are, and the Fed ensuring liquidity and low rates for longer, that the current market valuation is justified even if the economy takes several years to recover back to 2019 levels. Of course, I will always remain flexible and willing to change this view as events unfold.

Most importantly, this backdrop, which is best described as one with i) increased variability in the possible range of outcomes for companies, and ii) significant dispersion in valuation multiples being ascribed to companies is an excellent one for picking stocks. In turn, I believe this is a great environment for sensible active managers and fully expect that the businesses we own will continue to shine regardless of what the economy brings.

Top 5 Positions

As of June 30th, the Fund's top 5 positions were Alphabet Inc (GOOG), Hanesbrands Inc (HBI), a basket of housing related stocks, KKR & Co Ince (KKR) and MasterCraft Boat Holdings (MCFT). Together, these holdings accounted for nearly 40% of assets. Outside of HBI, each of the top 5 positions have been discussed at length in past letters and have been performing to my expectations.

Hanesbrands Inc (HBI) is a leading manufacturer and marketer of everyday basic innerwear and activewear under some of the world's most well-known brands including Hanes and Champion.

The company benefits from leading scale, market share and brand equity in product categories where items are repeatedly repurchased by customers. These attractive attributes can be seen in the company's strong returns on equity, which have averaged over 35% per year since it was spun out of Sara Lee Corp in 2006.

However, the company's stock has been under significant pressure since 2015 driven by broad-based retail inventory destocking in the US, its largest market. At its 2018 investor day, management pointed out that between 2015-2018 there were 1,250 store closures in mass, mid-tier, and department channels, representing 11% of total doors.

When a retailer like Kmart closes its doors, remaining stores like Walmart do not magically decide to hold more inventory on their shelves. As such, even with growing market share and stable end-market, Hanes sales into its retail channel were bound to suffer over this period.

Despite a challenging market environment for the company, HBI's continued investments in marketing and distribution have helped it grow its consumer-directed revenues by approximately 4x over the last 5 years. Today, that business accounts for over 25% of sales and has been growing at a mid-teens rate.

Meanwhile, the company has seen a resurgence in demand for its Champion brand, which benefits from the secular trend towards activewear. The Champion Instagram page currently sports 6 million followers, compared to 3 million for Lululemon and 8 million for Under Armour. Its brand is also trending on fashion websites such as revolve.com and urbanoutfitters.com. This momentum has helped it more than double its revenues over the last 3 years, while management has said that it expects Champion to generate $3 billion of revenue in the coming years, up from $2 billion currently.

Coming into 2020, it appeared as though HBI was on track to turn the corner on its 4-year stock slide. The company generated FCF of over $700 million in 2019 and was looking to grow it to almost $900 million in 2020. Organic growth and operating margins were both inflecting. Unfortunately, when COVID-19 hit, the hope for an inflection year was thrown out the window and HBI's stock was punished for its high leverage of over 3x EBITDA at a time where demand was temporarily dwindling.

The Fund accumulated its position in May after the company amended covenants under its credit facilities and raised $700 million in a bond offering to solidify its liquidity position. At under $10 per share, we were paying less than 5x trailing FCF and approximately 6x trailing EBITDA for a business that I believed should be valued more like a consumer staple business than a dying retailer. More importantly, given the strong performance at Champion, this brand alone was likely worth more than HBI's entire enterprise value if it were to be sold or spun out as a stand-alone public company – providing us with a significant margin of safety in the investment.

Since the Fund built its position, HBI hired a new, well regarded, CEO who was formerly a senior executive at Walmart (HBI's largest customer). It has also caught a wave of upgrades from research firms covering the name. I look forward to seeing what the new CEO can do with the strong portfolio of brands that he has taken over.

Organizational Update

I am pleased to announce that Richard Passer will soon be joining 1 Main Capital as the Director of Operations and Capital Partnerships. While being small and nimble is a powerful advantage to possess in investing, 1 Main is currently at a size where additional scale will have very little impact on the way our portfolio is managed, while at the same time its benefits will accrue to all investors in the partnership.

Richard has extensive experience helping hedge funds scale and will be a valuable resource to the firm. Please join me in welcoming Richard to the organization.

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]

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%							16.4%
1 Main Capital Partners - Net	-5.4%	7.3%	-6.3%	5.4%	4.6%	7.6%							13.0%
S&P 500 index - incl dividends	0.0%	-8.2%	-12.4%	12.8%	4.8%	2.0%							-3.1%
Russell 2000 - incl dividends	-3.2%	-8.4%	-21.7%	13.7%	6.5%	3.5%							-13.0%

[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 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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