October 2019

Dear Partners,

In the third quarter, 1 Main Capital Partners, L.P. (the "Fund") returned 5.4% net of fees and expenses[1], bringing the YTD performance to 11.4%. During the quarter, the S&P 500 (SPX) and Russell 2000 (RTY) Indexes returned 1.7% and (2.4)%, respectively.

As I've pointed out in the past, the Fund's performance shouldn't be judged on a quarterly basis, but over a multi-year period, which is the time frame I use to evaluate our holdings. On a prospective basis, I remain very excited about the Fund's holdings, and am excited to see how our investments perform in the coming years.

<u>Third Quarter Contributors</u>[2]

Meaningful contributors to performance in the quarter included Alphabet Inc (GOOG), Altigen Communications (ATGN), GMS Inc. (GMS), Hemacare Corp (HEMA), KKR & Co (KKR), Pershing Square Holdings (PSH LN) and RCI Hospitality (RICK).

GMS Inc. (GMS), a building products distributor, and formerly the largest component of the Fund's housing basket, appreciated meaningfully as the company reported strong free cash flow and investors overcame their fear that the US housing market was set to collapse. After a near year-to-date double in the company's share price, the Fund has exited its investment in GMS.

Hemacare Corp (HEMA) is a leading provider of human-derived cellular material to the biotech, pharmaceutical and academic institution end markets. In layman terms, the company is an arms dealer to cell, gene and immunotherapy research organizations.

HEMA's customers rely on it to provide certain cell types from specific donor pools to be used in their drug research process. Importantly, the amount these research organizations spend on materials provided by HEMA pale in comparison to the expected revenues from commercialized products that are being pursued. Because of this, consistency, quality and reliability are much more important to HEMA's customers than price.

In my conversations with industry participants, I have learned that HEMA is perceived as the supplier of choice to its customers. Consequently, the company's product offering is priced at a premium to its competitors, who are viewed by customers as an inferior choice for supply.

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

Additionally, HEMA's end market is rapidly expanding. Cell-based therapies are being researched at an increasing pace, and there have been multiple billion-dollar-plus acquisitions of cell-based biotech firms over the last few years. The growth in research budgets at the customer level has translated into significant revenue growth for HEMA, from $5 million in 2014 to an expected $40 million this year.

Unlike many rapidly growing companies, HEMA has managed to maintain profitability and an attractive margin profile while scaling its business. This profitability has allowed insiders to maintain ownership of greater than 40% of the company while they have scaled, a testament that they are running it for the benefit of shareholders.

Looking forward, I believe that revenues should continue growing at an attractive rate, and that margins can expand from current levels, which is a recipe for strong earnings growth. The company has also suggested that it will at some point look into uplisting to a well-known exchange which would increase its potential investor universe and should lead to a higher ascribed valuation from the market.

Given the amount of capital flowing into the space, I believe that HEMA is also an attractive acquisition candidate and that management would consider selling the business if the right buyer came along and offered a significant premium for the business.

Top 5 Current Positions

As of September 30th, the Fund's top 5 positions were Alphabet (GOOG), KKR & Co (KKR), Mastech Digital (MHH), MasterCraft Boat Holdings (MCFT), and RCI Hospitality (RICK). Together, these accounted for approximately 45% of assets. Each these positions have been discussed in prior letters, and their theses remain for the most part unchanged.

During and subsequent to the quarter, the Fund increased its investment in a special situation contingent value right that is undergoing litigation and initiated a new position in a special situation warrant. Both holdings come with binary outcomes but provide what I view to be very attractive upside relative to the risk taken. The Fund is still building its position in the warrant, but I will provide an update on both investments in future letters as they play out.

Sanofi Contingent Value Right (GCVRZ) is a publicly traded contingent value right (CVR) that was created when Sanofi acquired Genzyme in 2011 and originally had the potential to be worth up to $14 per right if certain milestones were hit.

The CVR was designed to facilitate the deal by bridging the bid/ask between the buyer and seller caused by (i) differences of opinion over the eventual approval and value of the Genzyme drug Lemtrada®, a potential blockbuster drug for the treatment of multiple sclerosis, and (ii) manufacturing issues affecting production of two of Genzyme's most successful drugs, Cerezyme® and Fabrazyme®.

At the time of the deal, the odds of achieving at least some of the milestones appeared high:

> In connection with the solicitation of shareholder approval for the merger, Genzyme estimated a 90% probability of timely achieving the Approval Milestone, an 80% likelihood of timely achieving Product Sales Milestone #1, and a probable value of $5.58 for each of the 291.4 million CVRs –

> i.e., a total CVR value of over $1.6 billion. In its own communication with its own shareholders, Sanofi incorporated Genzyme's "description of the consideration" afforded by the CVRs.
>
> In its SEC Form F-4 Registration Statement, Sanofi represented at the time the CVRs were issued that they provided Genzyme shareholders "the opportunity to participate in any future success of Lemtrada and the production in 2011 of both Cerezyme and Fabrazyme."

However, after closing on Genzyme, Sanofi neglected its duty to use the required diligent or commercially reasonable efforts to achieve the milestones.

In 2015, it became apparent that the milestones would likely be missed causing the CVR to trade down to as low as 8c by early 2016. Several high-profile activist funds bought a large amount of the rights and sued Sanofi for breach of contract (on behalf of the CVR holders).

During the discovery / deposition process of the litigation, there have been some damaging revelations brought to light (and some implied actions that are redacted but based on surrounding language appear even more damaging), which I think have made it increasingly likely that the CVR will recover $3-7 per right sometime in the next 6-18 months. This level of recovery would be significantly higher than Fund's average purchase price in the mid-50c range.

Sanofi recently hired a new CEO and new CFO that shouldn't be blamed for the mistakes of past management as long as they don't wait too long to settle the case. Additionally, if Sanofi were to go to trial, the full $14 CVR value (plus interest of prime +3%) would be in play. Even if Sanofi had a strong case, going to trial and risking a potential $4bn+ judgement if they lost is something that most companies would typically avoid. Lastly, anyone who reads the motions from both parties in the case docket would see that Sanofi doesn't have a strong case.

As such, I think the odds of settlement are reasonably high. While the timing of a finalized settlement is more difficult to pinpoint, a favorable summary judgement for the CVR holders on the first 3 milestones could come by early to mid-2020, thereby significantly strengthening the CVR holder's negotiation position.

Outlook

This past week, Barron's published the results of its fall 2019 Big Money Poll. In it, only 27% of responding money managers called themselves bullish about the market prospects for the next 12 months, down from 49% in the spring survey and 56% a year ago. The latest reading is the lowest percentage of bulls in over 20 years.[3]

At the same time, Money market funds have pulled in $332 billion over the last six months, the fastest pace since the second half of 2008, bringing total money market assets to nearly $3.5 trillion which is the highest level since September 2009.[4]

[3] https://www.barrons.com/articles/barrons-big-money-poll-why-wall-street-is-scared-of-washington-51572045878.

[4] https://www.cnbc.com/2019/10/12/investors-flock-to-money-markets-at-highest-rate-since-the-crisis.html.

Trade and impeachment headlines are stirring fear in the minds of professional and individual investors alike. Sentiment surrounding cyclical stocks, while slightly improved of late, is still extremely pessimistic and causing them to be valued like global growth is about to collapse.

Failed IPOs of Silicon Valley unicorns and increased volatility in high flying growth stocks, whose ever-expanding valuations have until now been fueled by easy money policies, are leading many to compare today to the 2001 dot-com bubble.

There is no shortage of things to worry about. However, when the things that should worry us most are in the daily headlines, it is fair to assume that they are baked into market expectations.

US consumers, who account for 70% of the country's GDP, continue to chug along as evidenced by the 2.9% YoY growth in consumer spending as of the most recent GDP report, and are being helped by low rates and improving wages.

Absolute market valuations remain sensible. The S&P 500 sells for a reasonable 17x 2020 earnings estimates, which corresponds to an earnings yield of approximately 6%. Its dividend yield is 2%. Both of these figures compare favorably to interest rates. A 10-year, risk-free, government bond currently yields less than 2%. Importantly, S&P earnings tend to grow in real terms over time and would accelerate in periods of inflation, while the coupons on a bond do not.

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[5]

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%	4.1%	-1.2%	2.8%				12.7%
1 Main Capital Partners - Net	4.5%	7.4%	-2.0%	2.1%	-7.0%	1.2%	4.0%	-1.3%	2.7%				11.4%
S&P 500 index - incl dividends	8.0%	3.2%	1.9%	4.0%	-6.4%	7.0%	1.4%	-1.6%	1.9%				20.6%
Russell 2000 - incl dividends	11.2%	5.2%	-2.1%	3.4%	-7.8%	7.1%	0.6%	-4.9%	2.1%				14.2%

[5] 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.

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.