November 2023

Dear Partners,

For the third quarter, 1 Main Capital Partners, L.P. (the "Fund") delivered a net return of (0.3)%[1], compared to (3.3)% and (5.1)% for the S&P 500 ("SPX") and Russell 2000 ("RTY"), respectively. Year to date, the Fund returned 20.3% net, compared to 13.1% and 2.5% for the SPX and RTY, respectively.

While the Fund is flat since the end of 2021[1], its current portfolio consists of businesses that have greater earnings power and lower valuations due to changes in composition, as well as the organic growth, cash generation, and capital deployment at the underlying businesses. For this reason, I believe it has a more attractive expected prospective return profile than back then. Additionally, nearly 500 basis points of rate hikes are now behind us rather than ahead, as inflation slows. Thus far, key economic indicators have proved to be more resilient to higher rates than most had feared. Given this backdrop, I remain optimistic about the Fund's prospects of achieving strong returns in the coming years.

## October 7th

The terrorist attacks in Israel on October 7th were horrific. As an American Jew and the son of Israeli immigrants, I always knew antisemitism existed, but believed that it was on the fringe and that its widespread prevalence in civilized democracies was a thing of the past. Unfortunately, this theory has been called into question in the aftermath of the attacks. The global reaction to such atrocities and rising antisemitism has been disturbing to witness.

Over the last few weeks, I have worked to re-underwrite my view of the Israel-Palestine conflict, as I do when a stock moves against me. I remain convinced that the conflict is complex but solvable. However, any such conversation must start with denunciation of antisemitism and acknowledgment of Israel's right to exist and defend itself. Of course, Palestinians deserve the same level of respect if the goal is to achieve lasting peace. In the wake of October 7th, I'm afraid that we have a lot of work to do.

I very much appreciate all of you who have reached out since the start of October to express your sympathy and solidarity. In the coming weeks and months, I hope you all continue to speak up and reject all forms of hate—including antisemitism—wherever you see it.

## Nonfundamental flows (NFFs)

Over the long run, stock prices are driven by fundamentals. However, on any given day, the quoted price of an asset or security is set by marginal supply vs demand ("flows"), rather than estimates of intrinsic value. While fundamentals are a significant driver of flows ("fundamental flows"), there are many types of nonfundamental flows ("NFFs"), as well. Said another way, over the short run, stocks can move for many reasons but, in the long term, they trend with business performance.

*Fundamental flows* typically occur when investors are presented with information that causes them to reevaluate (i) the strength of the economy, or (ii) a specific company's earnings power, growth outlook, quality, or durability. Fundamental flows can come in various forms. As discussed in the Fund's Q2 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 2023 are estimated and unaudited. 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.

some fundamental investors prefer to make shorter-duration bets on stocks with near-term catalysts, while others prefer looking out further. Fundamental investors are generally good at understanding fundamental flows regardless of whether they are shorter duration or longer duration in nature.

*NFFs*, on the other hand, ignore company-specific news, making them more challenging to analyze. Some NFFs are sporadic, while others are episodic. Below are some examples of each.

Episodic NFFs:

(i) automatic retirement contributions (+);
(ii) ongoing share repurchases by stable, cash-generative companies (+);
(iii) ongoing withdrawals of savings for retirement or other forms of consumption (-).

Sporadic NFFs:

(i) index addition or deletion (+/-);
(ii) buying / selling related to quantitative or technical strategies (+/-);
(iii) active managers buying / selling for risk management purposes or changes in AUM (+/-).

At times, NFFs can overwhelm fundamental flows, especially in lower-liquidity small caps, which benefit less from consistent repurchases and retirement contributions relative to large caps and are equally burdened by ongoing withdrawals of savings.

When NFFs take over, fundamentals have very little impact on security prices. This can be problematic for those who don't know what they own, since NFF-related volatility can be misunderstood as an anticipation by others of an impending improvement or deterioration in a company's fundamentals.

Because of this, investors are well served to understand the various types of NFFs. More specifically, identifying NFFs as they occur enables investors to capitalize on the associated volatility, rather than get shaken out of positions at inopportune times based on price action alone. Of course, this requires confidence in one's understanding of a business and owning stocks at valuations that provide a wide margin of safety.

To further illustrate the point, we can look at three of the Fund's largest investments: DNTL, IWG, and LMB. All three reported strong results throughout the year and provided optimistic outlooks. However, LMB's share price benefited from NFFs while DNTL's and IWG's were negatively impacted by them.

LMB was added to the Russell 2000 index, which led to significant passive buying. DNTL's shares suffered from selling by event-driven funds that owned shares in anticipation of a takeover. Lastly, IWG's shares have been held back by significant forced selling from two of the company's largest holders, who each needed to reduce their holdings in the company to meet redemption requests.

One important benefit of buying stocks that temporarily suffer from sporadic NFFs is that eventually the NFFs stop, and fundamentals take over once again. I believe this will be the case with both DNTL and IWG. As such, the Fund added materially to its positions in both DNTL and IWG throughout the year, and I look forward to seeing what the future has in store for these investments.

**Current positioning**

At quarter-end, the Fund's top five positions were dentalcorp (DNTL), Enzo Biochem (ENZ), IWG (IWG), Limbach Holdings (LMB), and SP Plus (SP). Together, these holdings accounted for approximately 75% of capital. As highlighted in the Q2 letter, this is a bit more concentrated than we have been historically, as I believe the weightings are justified by the highly attractive risk-adjusted IRRs.

**SP Plus (SP)**

SP Plus is the largest operator of parking lots and garages in the country. The company has, over time, transitioned largely to management contracts where it generates, on average, approximately $50k per location annually, to operate parking lots for its clients.

While historically the company's location count was relatively flat, it recently experienced a significant acceleration in new business wins for two reasons. First, struggling real estate owners are increasingly looking for additional ways to monetize properties that were previously unmonetized. More importantly, SP has built a technological lead with its Sphere offering that allows garage owners to dynamically price their lots, reduce labor, allow for easier mobile payments, and monitor their location in real time. Thus, smaller competitors without such a technology offering have been bleeding share to SP at an accelerating rate.

The Fund initiated its position in SP in the second quarter at a low-double-digit free cash flow multiple. During the third quarter, I significantly increased our investment in the company as I gained confidence that this acceleration in location wins was sustainable. In my conversations and in-person meetings with management, the company suggested it should keep taking share until the end of the decade, as smaller competitors are unable to keep up with the Sphere offering.

Early on in Q4, SP announced that it had agreed to be acquired for a large premium. Given the regulatory risk associated with the completion of acquisition, the Fund exited its investment in the company.

**Enzo Biochem (ENZ)**

During the quarter, the Fund initiated an opportunistic position in Enzo Biochem (ENZ). I first began researching ENZ in March 2023, when the company announced that it had reached an agreement to sell its clinical lab business to LabCorp for nearly $150 million in cash, or approximately $3 per share.

Just three weeks after announcing the pending sale, ENZ disclosed a cyber security breach, which forced the company to direct its customers to competitors until it was able to resecure its IT systems. ENZ shareholders rightfully got nervous that a potential material adverse change would jeopardize the deal.

In July, ENZ announced that it agreed to accept a reduced price of $113 million for its clinical lab business and completed the sale, at which point I began accumulating a position for the Fund.

Following the sale, the company is left with its life sciences business, which develops, manufactures, and sells a diverse portfolio of products used for drug development, clinical research, and diagnostics. The company has 475 patents focused on genomics, small molecules, antibody production, and tissue analysis. It makes 10k+ products in house at its Long Island facility and has access to an additional 200k products in the portfolio, where it manipulates or relabels them for resale.

This life sciences business generates $15-20 million of annual gross profit which should translate into EBITDA of $5-10 million if run for cashflow. I believe the ultimate value of this business to an acquiror would be $50-150 million, or $1-3 per share.

Besides the life sciences business, ENZ has nearly $1.50 per share of net cash and some outstanding liabilities including a class action suit related to the data breach and several disputes with its founder.

There are three activists involved in ENZ, each owning just under 10% of the company, and each with a cost basis double the Fund's cost basis and current share price. One of them is on the board. I believe that they all want to clean up the outstanding liabilities and sell the company in 2024.

Recently, ENZ appointed a new chairman with a long and impressive background, including the winding down and selling of subscale public companies. He seems well qualified to create a favorable outcome relative to the current share price, and I look forward to seeing how this investment plays out in the year ahead.

While opportunistic investments don't normally make their way into the top five positions of the Fund, I believe that the large cash balance and activist involvement provide a large margin of safety, making the risk reward here especially compelling.

**Outlook**

So far in 2023, inflation has slowed meaningfully while the economy has been surprisingly strong and seemingly resilient. Despite this backdrop, investor fears over inflation and economic growth remain persistent. This worry makes sense in the context of a backdrop that includes a tight labor market, elevated focus on supply chain resiliency over cost efficiency (deglobalization), unsustainably high fiscal deficits (and growing), and escalating geopolitical tensions.

As we head into the 2024 election season, domestic partisanship is more elevated than any time in recent memory, and thus the range of policy outcomes starting in 2025 is abnormally wide. Looking out, it is not unreasonable to argue that fiscal deficits will widen or shrink. That interest rates will be higher or lower by 200 basis points. That oil will be $50 or $150 per barrel.

Because of this, small-cap stocks and cyclical companies continue to trade as though the economy is at peak levels and a recession is imminent. The lack of investor confidence in near-term fundamentals is leading to exacerbated moves when NFFs occur. This is an excellent environment for good stock pickers. I remain as confident as ever that the Fund's collection of businesses will continue to execute well and that over the long term, fundamentals will win out.

As always, I love what we own and am looking forward to updating you all on the Fund's activity and performance in the months and years to come. Thank you for your continued support and confidence. Please reach out with any questions.

Sincerely,
Yaron Naymark

1 MAIN CAPITAL

## Monthly Performance Summary[2]

| 2023 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Main Capital Partners - Gross | 14.1% | -0.6% | -0.7% | 0.4% | -1.0% | 8.6% | 5.1% | 8.5% | -12.2% | | | | 21.6% |
| 1 Main Capital Partners - Net | 13.9% | -0.7% | -0.8% | 0.2% | -1.2% | 8.5% | 4.8% | 6.8% | -10.9% | | | | 20.3% |
| S&P 500 index - incl dividends | 6.3% | -2.4% | 3.7% | 1.6% | 0.4% | 6.6% | 3.2% | -1.6% | -4.8% | | | | 13.1% |
| Russell 2000 - incl dividends | 9.7% | -1.7% | -4.8% | -1.8% | -0.9% | 8.1% | 6.1% | -5.0% | -5.9% | | | | 2.5% |

| | One Year | Three Year | Five Year | Since Inception | Inception Annualized |
|---|---|---|---|---|---|
| 1 Main Capital Partners - Gross | 36.9% | 30.2% | 26.2% | 261.2% | 25.4% |
| 1 Main Capital Partners - Net | 35.0% | 23.7% | 20.3% | 178.0% | 19.8% |
| S&P 500 index - incl dividends | 21.6% | 10.1% | 9.9% | 67.7% | 9.6% |
| Russell 2000 - incl dividends | 8.9% | 7.1% | 2.4% | 21.8% | 3.5% |

[2] 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 2023 are estimated, and unaudited. 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 of 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.