Top Mark Capital Partners LP

2020 Q3 Partnership Letter

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October 1, 2020

Dear Partners,

2020 continues to be an unprecedented year. Any hopes we had of returning to 'normal' this fall have now dissipated, and even the most optimistic among us see this lingering well into 2021. That being said, I am optimistic for the future. While many businesses will close or restructure, many are also pivoting and adapting to the new normal. Applications for new businesses are rising at the fastest rate in over a decade. The recovery appears to be 'K' shaped, and I am happy to report that, to date, our positions have thrived throughout the pandemic.

It's hard to believe that 8 years have passed since we launched the fund. It has always been my goal to do this full time, and this quarter that became a reality. I've made some operational changes that will enable us to grow - notably, we've engaged Sudrania to be our fund administrator, tax preparer, and audit manager (if/when we need it). With that, our LPs will receive timely, more detailed quarterly statements. This quarterly letter will serve as an update on the portfolio and I will distribute other memos throughout the year.

We also expanded our investment strategy this quarter. We now have a partnership with an emerging growth debt fund called Agility Capital. This 20-year old company provides short term loans to emerging growth companies. We intend to participate alongside Agility as a syndicate investor in private debt deals. I have developed a close relationship with the partners and have done a thorough review of their portfolio and underwriting practices. This is a win-win for us and Agility, and it enables me to continue to leverage my tech and startup network in seeking investment alpha for our fund. The typical Agility Capital deal structure involves a short term loan (typically 12-18 months), monthly interest, principal at maturity, and warrant coverage in the business.

I continue to be quite happy with our portfolio. I made a few selective purchases this quarter and I anticipate both equity buying opportunities and debt deployment opportunities with Agility in Q4. A full update on our portfolio is below.

Portfolio Update

Portfolio Summary

Position	EOQ %
NVDA	21%
AMZN	19%
AAPL	18%
MSFT	13%
AZEK	6%
SB.PC	6%
MO	5%
GOOG	2%
TSM	2%
Cash	8%

Performance Summary

Year	S&P % Return	TMCP % Return
2016	10%	**105%**
2017	19%	**45%**
2018	-6%	**11%**
2019	29%	**62%**
2020 (Q1-3)	4%	**64%**

Note: Inclusive of all fees and expenses, except 2020

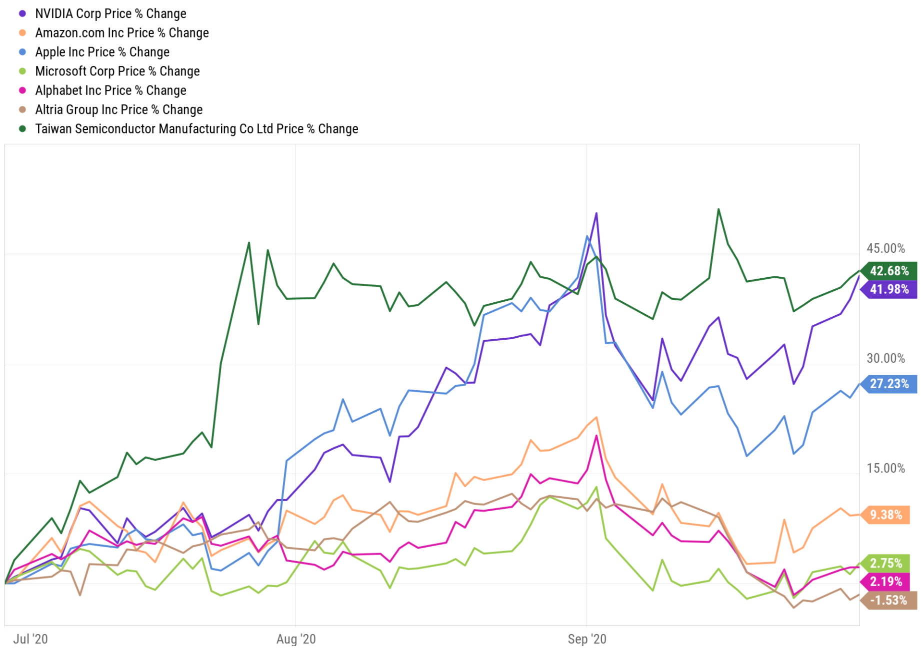

Figure 1: portfolio constituent Q3 % change

Portfolio Commentary

1. Nvidia (+41.65%)

The most exciting development at Nvidia this quarter is the company's definitive agreement to acquire ARM. I wrote about this in my memo, *Nvidia + ARM*, on September 18th. Suffice to say that I am excited about Nvidia's long term prospects, and the ARM deal in particular. For more information on my perspective on Nvidia, see my memos, *Semiconductor Overview* from September 29th, *AMD* from September 30th, and *Taiwan Semiconductor* from September 23rd. We neither added to nor reduced our position this quarter.

2. Amazon (+9.23%)

Amazon continues to benefit from COVID-19 related behavioral shifts. For what it is worth, this is evident in my own Amazon order history. I placed 89 orders so far this year, and only 17 of those occurred in Q1 – in Q2 and Q3 my usage of Amazon nearly doubled.

I've also delayed buying a new computer because of Amazon. I have a Mac but prefer to use Windows when doing financial modeling. In the past I've either used Bootcamp or Parallels to run Windows and Excel. With Bootcamp, you have to restart your machine and boot into Windows each time you want to use excel (inconvenient) and Parallels seriously slows down my computer (not productive). With AWS WorkSpaces, I now have a virtual Windows desktop in the cloud and pay by the hour. No need to reboot and it doesn't slow down my local machine.

Personal experiences aside, Amazon continues to execute on all fronts and is well positioned going forward. I will intently watch the antitrust proceedings, but I continue to believe that Amazon is the best positioned of the big tech firms currently under scrutiny. We neither added to nor reduced our position this quarter.

3. Apple (+26.66%)

Apple surprised many people with it's ability to navigate the COVID-19 crisis. Despite Apple's supply chain being almost entirely in China, they maintained supply throughout the worst of the pandemic and even released new products. I continue to be excited about the growth in Apple's services business - specifically with the launch of Apple One. Additionally, the launch of the A14 chip marks yet another major improvement in chip design (the first mass market 5nm chip). I wrote about Apple's *Time Flies* event in a memo on September 16th. I should also mention that the stock split 4-1 during the quarter. We neither added to nor reduced our position.

4. Microsoft (+2.17%)

While the stock hasn't moved much this quarter, I'm probably most excited about Microsoft's prospects of all the companies in our portfolio. Microsoft made a few exciting moves in gaming. First, Microsoft is launching new Xbox gaming consoles (series X and S). More importantly, Microsoft is going to offer the Xbox console and GamePass (its Netflix like games as a service) starting at just $24.99/mo. Building on that story, Microsoft made a big acquisition this quarter - ZeniMax Media (for $7.5 BN) - one of the most storied gaming companies in the world with a library of very popular current and classic titles like Doom, Quake, Fallout, Dishonered and more. This will help make Microsoft's GamePass library all the more compelling. For more details, see my memo *Microsoft* from September 23rd. We neither added to nor reduced our position this quarter.

5. Azek (+0.23%)

Azek is a new position in our portfolio. Here's the company description:

> *Azek is a designer and manufacturer of beautiful, low maintenance and environmentally sustainable products focused on the fast-growing*

> *Outdoor Living market. Its portfolio of products includes decks, rail, trim, wood and wood-look siding, porches, pavers, outdoor furniture, outdoor cabinetry and outdoor lighting. The company operates in two segments namely Residential and Commercial. In Residential segment, its consumer brands, TimberTech and AZEK, are recognized by contractors and consumers for their premium aesthetics, uncompromising quality and performance, and diversity of style and design options. In Commercial segment, it manufactures engineered sheet products and bathroom partitions and lockers.*

I have firsthand experience with the product - it was recommended by our architect because it requires far less maintenance than wood and looks great to boot. Additionally, working with the material was easier than wood (though mistake are more expensive). All in all I was very impressed, and our deck and pergola turned out great.

Azek will benefit from the 'resuburbanization' and 'remodel' craze that has been triggered by COVID-19. Over the long run, I expect Azek to consistently reduce their cost basis and become more competitive with traditional building products. I have yet to write a memo on the company but keep an eye out for one in the next few weeks.

6. Safe Bulkers, Preferred C Shares (+0.00%)

We've held Safe Bulkers preferred shares (initially the Bs, now the Cs) since 2013. It's a relatively small position that we added to in March. Whenever I can buy it cheap, I do. Bulk shipping companies are a bit of a mixed bag, and Safe Bulkers is one of the best managed ones. Our average cost is ~$17.50 / share, netting us a cost based dividend yield north of 11%. We neither added to nor reduced our position this quarter.

7. Altria (+0.91%)

Altria is a new position in our portfolio. This is a value play and ticks our checkboxes - cashflow, sound management, and durable competitive advantage. There are obviously risks, but I believe they are outweighed by upside. I will likely release a memo on Altria in the coming months.

8. Alphabet (+0.187)

We continue to hold a very small position in Google/Alphabet. We neither added to nor reduced our position this quarter.

9. Taiwan Semiconductor (+42.56%)

Ah, the smallest position in the portfolio, TSMC. We bought Taiwan Semiconductor in March during the selloff and, in hindsight I wish I had bought more. We added a small amount to the position this quarter. Believe it or not, this slow moving, conservatively financed company is our largest gainer on a percentage basis this quarter. I wrote about Taiwan Semiconductor in a memo on September 23rd, the semiconductor industry in general on September 29th, and *AMD* on September 30th.

10. Cash

We finished the quarter with just ~8% in cash. However, with additional capital contributions, that will swing to ~40% today.