ARCH | Capital

	Arch Capital Investors Fund	S&P 500 Total Return Index
Returns Year To Date (2022)	(29.4%)	(23.9%)
Returns Since Inception (2/1/21)	(31.9%)	(1.0%)

**Fund returns are as of the end of Q3 2022 and net of realized and estimated fees. Returns may differ based on the timing of entry into the limited partnership.*

Contact archcapitalmanagement@gmail.com with any questions.

Dear Limited Partners,

The fund continued to go down in value in the third quarter of 2022, mainly driven by declines in the mid/large-cap consumer internet and software stocks in our portfolio. Through the first nine months of 2022, the S&P 500 – our benchmark that we use to evaluate our performance over the long term – has fallen 23.9%.

To put this nine-month drawdown in perspective, the S&P 500 index has only experienced worse returns in five full calendar years in its recorded history. This bear market has been steep and severe and unavoidable for investors like ourselves that do not care about hedging, shorting, or market timing. Volatility has created a tidal wave of chaos for financial markets in 2022, and we’re not immune from getting hit by it.

But we’re not afraid of volatility. In fact, we embrace it. We understand that down years are the price of running a concentrated, long-only equity strategy focused on – above all else – pairing our money with quality businesses and management teams.

One way we evaluate management teams is by asking whether the CEO and CFO of our portfolio companies care about allocating capital in the long-term interests of shareholders. This means evaluating what they say, but more importantly what they are doing.

We love management teams that consistently return excess cash through share repurchases because it shows us through *action* that they care about creating value for minority shareholders.

If we look at our portfolio today, every company has an outstanding buyback program, and almost every company (excluding Spotify and Take-Two Interactive) has reduced their shares outstanding in 2022.

With share prices falling, these buybacks become even more accretive as each dollar returned to shareholders is able to repurchase a larger % of the company's total shares outstanding. Counterintuitively, this means we should be *cheering* when the share prices of our portfolio companies fall – assuming no degradation in the quality of the business – as it will increase our rate of return over the long haul.

Let's look at a specific example. One of our portfolio companies is **Autodesk**, a construction/engineering/architecture software business with an incredible moat. Our cost basis on the stock is ~$230. Shares traded as high as $340 in 2021 but today are down around $200. With this declining share price, Autodesk management has been able to take the healthy free cash flow it generates and retire some of its shares outstanding at an accelerated rate.

At the beginning of 2022, Autodesk had approximately 220 million shares outstanding. Today, that number is down to around 216 million, and we expect this number to continue to drop over the next few years as the company ramps up its free cash flow generation. This reduction in share count will juice growth in free cash flow per share, which will determine what returns we get owning Autodesk over the long haul. The lower the stock drops, the faster Autodesk's share count drops, all else equal.

While it may not look like it, this 2022 bear market is actually a good thing for the fund, we're just not seeing it in the returns today. We're in the business of delayed gratification, and if it takes a bit longer to materialize the returns we expect, we have the patience to wait until the chaos subsides.

If you are interested in checking out our portfolio today, head on over to our website: https://www.archcapitalfund.com/holdings.

Sincerely,

Brett, Brady, and Ryan