ARCH|Capital

	Arch Capital Investors Fund	**S&P 500 Total Return Index**
Returns Year To Date	9.4%	7.5%
Cumulative Returns Since Inception (2/1/21)	(26.1%)	14.5%

**Fund returns are as of the end of Q1 2023 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 start of 2023 has been fine if not uneventful for the Arch Capital limited partnership. Our pursuit of finding more high upside/low downside opportunities in deep-value stocks continued in Q1. We are consistently combing through different unloved stocks from around the world until we find one that is within our wheelhouse. Nothing we looked at fit our criteria this quarter, though.

Our long-term goals for this portion of the fund remain unchanged from what we outlined in our 2022 annual letter:

"In 2023, we want to put more time and effort into finding deep-value stocks for the fund. Over the last two years, two of our more successful investments have been from stocks that are clearly not the best businesses in the world but traded at extremely discounted prices. In the future, instead of having 10% of our investments in deep value, it might grow to 25%."

The portfolio of ~10 high-quality stocks with long-term competitive advantages is relatively unchanged and still makes up the vast majority of our asset allocation. We sold **Wix.com** when it appreciated earlier this year even though it reported another poor earnings results with more red flags from management. Sometimes, luck can strike in your favor even though you are wrong about a business or management team (with Wix, we were wrong about both).

Replacing our Wix investment is **Amazon**, a company we are sure you have heard of before. We believe the company's long-term growth runway, profit potential, and competitive advantages were being vastly underrated in early January when its market cap was well below $1 trillion. We think early January was one of those rare times you could buy a special business like Amazon at a discounted valuation. Our hope is that – if we are right about its competitive advantages in retail and cloud computing – our Amazon stake will end up being a permanent holding in the limited partnership.

Harbor Diversified (HRBR) is the holding company of regional airline Air Wisconsin and now makes up 5% of the fund after we bought more of the stock in March at below $2.00 a share. This is our favorite "deep value" opportunity at the moment, and we wanted to take a few paragraphs to describe why we own shares today.

Regional airlines like Air Wisconsin sign contracts with major airlines called capacity agreements. Historically, Air Wisconsin had an agreement with United Airlines where Air Wisconsin would operate the planes and supply workers while United would manage ticket booking, scheduling, and fuel with the planes operating for customers under the United brand. Air Wisconsin earned revenue by getting a fee from United to operate the regional flight routes.

United's contract with Air Wisconsin was set to end in February of 2023 (subject to a wind-down schedule), a key concern for investors as it was unclear what management planned to do once the contract ended. Things got even more concerning when United started disputing a portion of the fee it paid HRBR because Air Wisconsin was unable to fulfill all its routes due to the pilot shortage.

This had investors (including us) betting that United would not renew its capacity agreement in February. They did not, but American Airlines stepped in and signed a new five-year deal with Air Wisconsin that commenced last month. The remaining disputed payment with United is going under arbitration this summer. We have no idea how much HRBR will recover from the dispute, but our assumption right now is a grand total of zero dollars.

Now, with the contract renewal risk gone but the pilot shortage still up in the air, HRBR's stock has not moved and actually sank during March (we would like to note that even with the pilot shortage, HRBR generated $56 million in operating income last year). At $2.00 a share, HRBR traded at a market cap of $89 million and a negative enterprise value (it has almost $200 million in cash and marketable securities on its balance sheet). We believe its current earnings power is around $50 million a year for the next five years under the American contract. That is not too shabby compared to a market cap below $100 million and a negative enterprise value.

This creates a great set-up with HRBR stock for the next year. Our downside is protected by the fact the company is trading below its liquidation value, even if it wins no money from United in the payment dispute. Our upside is 2x - 3x the current share price if HRBR proves it can generate consistent profits under the American capacity agreement, something that we will find out in the next few quarters. This is the ideal “heads I win big, tails I don’t lose” scenario that we are searching for in deep-value stocks.

When starting the fund two years ago, we decided to write quarterly updates for investors so we could better communicate our philosophy and why we own what we own. Now, we think it is best to change to two updates a year (an annual letter and a half-year update). Frankly, given our low activity and turnover each quarter, these updates are going to get highly repetitive if we continue doing them every three months.

If you are interested in learning more about the fund and seeing our current portfolio allocation, head on over to our website: https://www.archcapitalfund.com/holdings. There, you can sign-up to receive our communication with LPs if you haven’t done so already. And, as always, contact us with any specific questions you may have.

Sincerely,

Brett, Brady, and Ryan