Arquitos
CAPITAL MANAGEMENT

July 24, 2025

Dear Partner:

Arquitos returned 13.1% net of fees in the second quarter of 2025, bringing the year-to-date return to 28.8%. Individual returns will vary based on timing of investment. Please check your statement for specific results. See page four for more detailed performance information.

Uncertainty has always been part of the human experience. For most of history, the unknown posed existential threats, whether from predators, disease, or rival tribes. To survive, we developed a deep psychological aversion to uncertainty. We overcorrected for danger, defaulting to caution, and passed those instincts forward through generations.

Storytelling became our way of managing that uncertainty. Stories helped us make sense of the world, coordinate as groups, and feel safe, even when that sense of safety was built on illusion. Today, those same instincts remain. When people face ambiguity, they often construct narratives that provide comfort rather than clarity. “Unknown” is intolerable, so it must be filled in. Truth is less important.

This tendency is especially visible in markets. Investing is an extension of human nature and is highly susceptible to narrative-driven behavior. In the absence of clear information, investors create stories to explain short-term price movements. These stories, often fueled by fear or speculation, can feel rational in the moment but are rarely grounded in the long-term realities of the business.

Instincts that made sense historically don’t always serve us today. Short-term uncertainty is no longer a threat to survival. Uncertainty can often be an opportunity. The recent share price fluctuations in our Liquidia investment, described below, provides a timely example.

Liquidia Therapeutics (LQDA)
Liquidia has navigated a complex landscape for years, marked by patent disputes and FDA approval delays for their flagship drug, Yutrepia. Today, everything is about Yutrepia’s product launch and their prospects to penetrate a previously monopolistic market. For Liquidia, that uncertainty has always been a buying opportunity. Shares are 200% higher today than our original purchase price more than three years ago.

Yutrepia finally received FDA approval for Yutrepia in late May and officially launched soon thereafter. Interestingly, despite this significant milestone, Liquidia's stock price experienced a dramatic but temporary dip, falling from over $19 in early June to $12.46 by the end of the second quarter. This decline was primarily driven by investor apprehension regarding the initial commercial rollout and concerns about a potential competitor still years away from market entry. Since then, the narrative has rapidly changed again and today shares trade for nearly $18.

Initial reports for Yutrepia's June prescription numbers are exceptionally strong and well above expectations. While it's still early days, this robust start validates our confidence in Liquidia management's sales force and their go-to-market strategy, confirming the significant unmet need Yutrepia addresses in the market.

I first highlighted Liquidia in our Q4 2022 letter. The issues then were a variety of patent disputes with competitor United Therapeutics. To date, United Therapeutics has failed in each of those legal cases but had succeeded in delaying Liquidia’s launch and FDA approval. Lawfare worked extremely well in this situation.

There are still two long-shot legal challenges from United Therapuertics. Both of these cases are highly likely to be resolved in Liquidia’s favor. But, as we have seen in this long saga, anything can happen. Fortunately, with Yutrepia now on the market, these legal tactics are far less impactful than before.

Beyond legal issues, Liquidia shares had dropped in early June due to the announcement of a successful phase two trial from a potential future competitor. On June 10, 2025, a company named Insmed announced outstanding results for its experimental PAH therapy. Both Liquidia and United Therapeutics shares dropped in response while Insmed shares rose more than 40%. Insmed’s drug, TPIP, is a dry powder treprostinil drug administrated via an inhaler and designed to be a once-daily treatment. As a reminder, Liquidia’s Yutrepia delivers treprostinil via an inhaler three to five times a day. Obviously, all things being equal, a once daily treatment would be much more attractive to patients, which is why the results hurt Liquidia’s stock price.

However, a closer look, as pointed out by a Raymond James analyst, reveals potential issues with Insmed’s trial design that may have artificially inflated the results. The analyst noted that the trial patients presented with more severe cases and appeared "under-treated at baseline versus key PAH studies, potentially favoring treatment response." This raises questions about the comparability and true efficacy of Insmed’s findings.

It's worth considering the timing of Insmed's $750 million stock offering following these Phase 2 results and whether that fundraising prospect played into the design of the trial. Regardless, Insmed still needs to conduct a Phase 3 trial, which isn't expected to begin until next year, followed by an FDA approval requirement. Even assuming a best-case scenario with strong Phase 3 results, TPIP is unlikely to reach the market for many years. By then, Liquidia's next-generation drug, L606, which has also shown very strong clinical trial results to date, is expected to be available.

Is Insmed simply telling a good story at the moment, or are they are future threat to Liquidia? Only time will tell but my initial perspective is one of guarded skepticism.

In the meantime, I am continuing to monitor Liquidia's Yutrepia launch. We have been rewarded for our patience over the past three years, despite several bouts of volatility. I continue to be optimistic in the company, its leadership, and the prospects for its stock.

ENDI Corp (ENDI)
ENDI's operational performance continues to be exceptionally strong, particularly within its CrossingBridge subsidiary. As of June 30, CrossingBridge's Assets Under Management (AUM) surpassed $4 billion, a substantial increase from $3.4 billion at the start of the year. The subsidiary publicly reports AUM on their website on a monthly basis at crossingbridgeadvisors.com.

Earlier this year, ENDI sold 25% of CrossingBridge at a $104 million valuation. Consequently, you can think of ENDI's share of that current AUM to be $3 billion (75% of $4 billion). ENDI also has approximately $52 million in cash and investments as of the March 31, 2025 reporting period and adjusting for the post-quarter partial subsidiary sale. The company also carries $10 million of debt. Their current market cap is $85 million.

At the current stock price of $16 per share, the market is valuing that $3 billion of growing AUM at $43 million. If we adjust for the valuation of the partial subsidiary sale, the market is pricing the CrossingBridge asset significantly lower than what sophisticated third-party investors paid earlier this year when AUM was 15% lower.

The bottom line is that we continue to have a long way to go to for ENDI to get to fair value. And, as the company continues to perform well operationally, that fair value continues to increase as well.

Uncertainty often presents the greatest opportunities. Short-term price movements do not always reflect a company's true value. And, remember, not all stories are true.

Thank you again for your long-term commitment to Arquitos. It has been a pleasure managing the fund for more than 13 years and investing on your behalf. I look forward to doing so for decades to come.
Best regards,

Steven Kiel

Arquitos Performance Since Inception

	Arquitos (Gross)	Arquitos (Net)
2025 YTD	29.4%	28.8%
2024	30.9%	29.6%
2023	23.3%	22.1%
2022	-52.5%	-52.9%
2021	56.5%	54.9%
2020	-1.3%	-2.3%
2019	-13.8%	-14.7%
2018	-30.6%	-31.3%
2017	80.8%	64.0%
2016	65.4%	54.9%
2015	-14.0%	-14.8%
2014	72.8%	57.8%
2013	58.7%	46.6%
2012*	9.0%	7.2%
Annualized	**15.9%**	**12.1%**

*Founded April 10, 2012

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Performance returns presented above are for Arquitos Capital Partners, LP and reflect the fund's total return, net of fees and expenses, since its April 10, 2012, inception. They are net of the high water mark and the 20% performance fee, applied after a 4% hurdle, as detailed in the confidential private offering memorandum. Arquitos Capital Offshore, Ltd. was launched on March 1, 2018. Returns from Arquitos Capital Offshore, Ltd. may differ slightly and are not presented here.

Performance returns for 2025 are estimated by our third-party administrator, pending the year-end audit. Actual returns may differ from the returns presented. Positions reflected in this letter do not represent all the positions held, purchased, or sold.

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