OTSI KETA QUARTERLY

OTSI KETA CAPITAL

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Q3 2017

Otsi Keta Quarterly is designed to share insight on both current performance and future potential.

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QUESTIONS...

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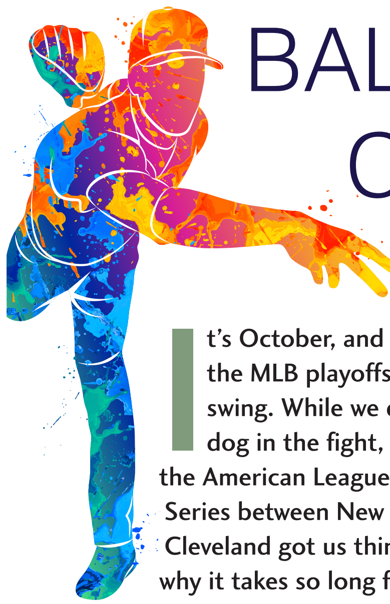

BALLS, STRIKES AND COMMON SENSE

It's October, and that means the MLB playoffs are in full swing. While we don't have a dog in the fight, game five of the American League Divisional Series between New York and Cleveland got us thinking about why it takes so long for common sense to win out in our everyday lives. Technological advances in recent years have made it possible to automate the calling of balls and strikes. There is even a box superimposed on your television screen marking the strike zone, so everybody watching at home can tell if the pitch was a ball or a strike. Unfortunately, the one person responsible for calling balls and strikes—the umpire behind the plate—has no technology to help him consistently locate balls in and out of the strike zone. During the game, the umpire unintentionally missed a few calls and slanted the game toward the Yankees. Why we don't turn this job over to automation is a question for the ages.

Technology will always be a big driver of progress, but we think an even bigger driver is going to be the collective mindset. The technology exists for automating the calling of balls and strikes, but the MLB doesn't have the mindset, yet. What keeps the collective mindset from changing with progress: self-interest, tradition, fear of change, conviction and apathy—all real emotions that keep good folks from making progress. In place of our usual market commentary, we thought we might talk about a few other areas where common sense just can't seem to win over the inertia of bad ideas.

PAYING FARMERS NOT TO GROW FOOD.
Federal commodity support programs were intended to help farmers survive bad crop years. However, provisions in federal law make it possible for farmers to receive subsidies on crops they never actually plant. In recent years, the federal government has paid more than $1.2B to farmers who never planted a thing. Between 2008 and 2012, $10.6M was paid to farmers that had been dead more than a year according to *The Economist* magazine. "Honestly, nobody sitting down today to create a new system would ever dream up such a complicated, convoluted and dual bureaucracy system that we've created now." *Ferd Hoefner National Sustainable Agriculture Commission*

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Don't expect politicians to change their mindset. Farmers, while small in number, are well organized and vocal. Further, most taxpayers have no idea how much of their money is being spent. It is a Faustian bargain for the farmers. The U.S. Department of Agriculture (USDA) has about 105,000 employees. The Bureau of Labor Statistics says we have about 1.2M farmers and farm workers. That means for every USDA employee we have about 11 farmers. Ouch! That is a lot of government oversight.

Paying workers not to work.

We are not referring to unemployment benefits, but actual contracts that pay folks not to work. In New York, the mayor recently brought back the "rubber rooms," where teachers who are banished from the classroom for a litany of offenses can get paid not to teach. In these 15 holding pens, there are a few rules. Beach chairs and air mattresses are forbidden, but nap time is not a problem. Research from the *New York Post* has identified teachers making $70,000 per year who have been paid for five years without seeing the inside of a classroom.

Making promises to government employees that can't possibly be kept.

We have written about this many times, so we will keep it short. Politicians have a moral and fiscal responsibility to level with workers about what promises they can keep and which ones basic mathematical principals make impossible. History has taught us the government can't get taxes in perpetuity from citizens who receive no value for those taxes. State and local governments are already in a hole financially, and pension and healthcare costs are growing at a multiple of economic growth. This ends badly.

Making people buy one-size-fits-all insurance policies.

We know why the laws are written this way; it just doesn't make a lot of common sense. Insurance requires people without specific conditions to pay for people who have certain conditions. The logic breakdown comes when you realize we are asking young people who have limited earnings and almost no net worth to subsidize largely older people who are at the peak of their earning cycle with an average net worth that is 60 times the younger person's. Health insurance isn't even insurance in the traditional sense, because everyone eventually gets sick. So, what we really have is a distributed cost model across a whole society. When someone else is paying the bill, costs will inevitably grow. Michigan just announced Obamacare premiums will rise 27% in 2018, and you won't be able to keep your doctor.

The point of our mini-rant is that what ails our country is the delusion of how people think things work versus the reality of how things actually work. Progress doesn't need to come from technology. There is a massive improvement in the human condition that can be driven by common sense and mindset. The mindset that realizes progress comes from doing the hard things and that little gain is achieved without additional pain. The mindset that hard work leads to success. The mindset that traditions need to be tested routinely against alternatives. In the months ahead, our political representatives in Washington, D.C. will consider reforming our tax code and its litany of untouchable, sacred cows. Our corporate tax rate is no longer competitive, and we are losing businesses, people, factories and capital daily. We have a suggestion—use some common sense and lower the rates.

Monthly Fund Returns by Year

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2010					-1.98%	-2.85%	2/55%	-4.25%	8.51%	5.40%	5.50%	2.31%	**15.42%**
2011	-1.40%	1.42%	4.72%	0.68%	-2.29%	-0.91%	-4.52%	-2.04%	-8.48%	12.22%	-0.09%	0.44%	**-1.60%**
2012	7.56%	1.54%	3.18%	-1.87%	-6.62%	4.00%	0.66%	0.30%	2.75%	-3.09%	0.74%	2.05%	**10.99%**
2013	4.05%	-0.14%	3.14%	-2.59%	3.74%	1.67%	7.10%	-2.50%	5.04%	6.31%	0.49%	0.75%	**30.00%**
2014	-6.18%	6.74%	1.60%	-3.36%	-0.10%	2.58%	-5.66%	3.11%	-3.60%	11.11%	-0.12%	2.51%	**7.49%**
2015	-2.22%	5.37%	0.88%	0.21%	-2.37%	-0.13%	-3.46%	-2.91%	-5.64%	7.93%	0.57%	-0.20	**-2.69%**
2016	-2.95%	3.91%	2.34%	2.26%	-2.01%	1.42%	5.36%	0.66%	-2.12%	-6.30%	12.10%	2.77%	**17.54%**
2017	-1.16%	1.57%	0.11%	4.82%	-3.84%	3.48%	0.38%	-2.74%	9.02%				**11.58%***

*Fund performance numbers are net of all fees and expenses, and accrued performance allocations fee structure was 1.5%/20% from inception through 2016 and 1.5%/10% in 2017.

The Window Indicator

The third quarter of the calendar year saw robust hauling on the Great Lakes. Strong commodity prices, coupled with a good economy and higher water, saw the Great Lakes' fleet hauling at a pace that reminded statisticians of 2012, which was a good year, by the way!

The American Integrity broke the Soo Locks iron ore record with a load of over 75,000 tons of Mesabi Range iron ore headed for a mill in Indiana Harbor late in September. A wetter summer aided Lake Superior water levels, allowing for the fleet to be loaded at or above normal capacity.

The Midwest is seeing some renewed interest in projects that had been halted around the taconite industry. Private funds are pouring into a scuttled Essar Steel project in Minnesota, and the same investor acquired the closed Magnetation facility with operations in Minnesota and Michigan. Publicly traded Cliffs Natural Resources (CLF) is in the process of building a new hot briquetted iron manufacturing facility in the port of Toledo. This will be a $700 million facility that will create 130 full-time jobs and require 1200 construction jobs over the next two years. Activity out the window should be robust for years to come.

The leisure industry seems to be getting in on the activity out the window. More cruise ships have been sited this year than in years past. Just last evening, a cruise ship was headed north up the St. Clair River. That's NORTH in the month of October! The economy seems to be picking up.

The fourth quarter is setting up to be good for the shipping industry. Weather has been unseasonably warm, and demand does not appear to be waning for commodities. Work on the smaller of the two locks in the Soo is already slated for late January. The repairs to the MacArthur lock should take some pressure off of the always-busy Poe Lock.

We need to get back to the window. There is just too much activity going on for an October. We look forward to reporting on how the year closed out in January. Enjoy your fall!

What is Hot Briquetted Iron?

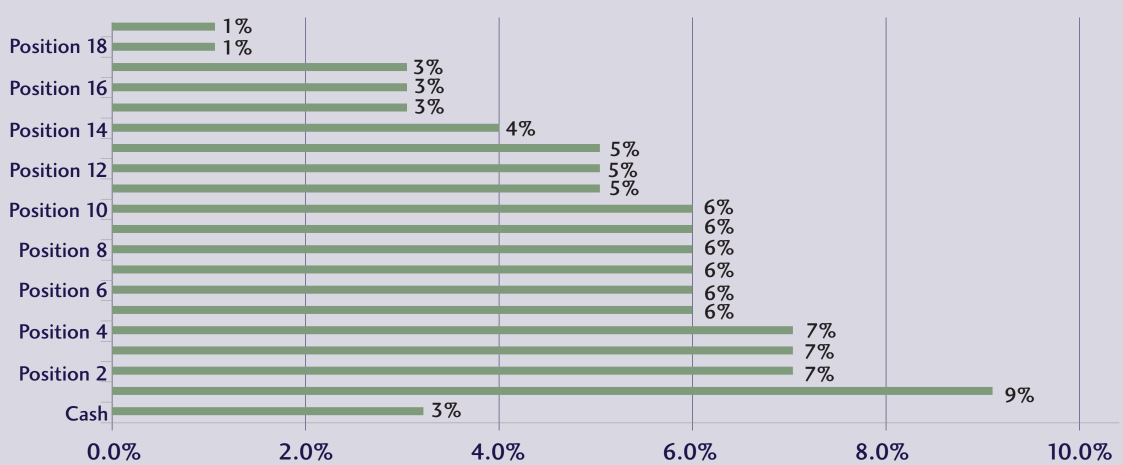
According to the International Iron Metallics Associaton, Hot Briquetted Iron (HBI) is a premium form of Direct Reduced Iron (DRI) that has been compacted at a temperature greater than 650 degrees centigrade at time of compaction and has a density greater than 5,000 kilograms per cubic meter.

HBI was developed as a product in order to overcome the problems associated with shipping and handling of DRI—due to the process of compaction, it is very much less porous and, therefore, very much less reactive than DRI and does not suffer from the risk of self-heating associated with DRI.

The principle market for HBI is electric arc furnace (EAF) steelmaking, but HBI also finds application as a trim coolant in basic oxygen furnace steelmaking and as blast furnace feedstock.

A new market is being created in the Midwest!

Otsi Keta Focus Fund's Position Size
(Quarter ending September 30, 2017)



OUR PERFORMANCE

For the second quarter ended September 30, 2017, the Otsi Keta Focus Fund was up 6.44% versus the Russell 2000 Value Index at 4.62%. Year to date, the Fund was up 11.58%, outpacing the comparable index by 738 basis points. Since inception, the Fund has returned 143.47%. All Otsi Keta Focus Fund numbers mentioned are net of all fees and expenses. Please see the table below to review the performance of Otsi Keta Focus Fund Limited Partnership versus competitive indexes.

Just a reminder, our performance "benchmark" has always been the Russell 2000 Index as indicated below. The Russell 2000 Value Index more closely represents the style of company that is found within our portfolio. Because we are loathe to change our paperwork to update our "benchmark," Otsi Keta will continue to focus on beating both indexes going forward.

Fund Name	ROR 3rd Quarter 2017	ROR YTD Sept. 30, 2017	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**6.44%**	**11.58%**	**143.47%**
Russell 2000 Index (^RUT)	5.27%	9.85%	121.78%
Russell 2000 Value (^RUJ)	4.62%	4.20%	95.65%

Sources: Otsi Keta Capital and Russell Investment
*Note: All OKFF performance data is shown net of all fees and expenses and is based on an investment with the maximum charge of 1.5%/10%.

The third quarter of 2017 started out quiet as the market worked its way through a mediocre July followed by a lower August. September was the "shot of medicine" needed to turn the middling quarter around. Strength in the portfolio was evenly distributed as many names caught a bid for the final month. Names such as Hurco, Oil Dri and Sanderson Farms buoyed the performance.

The beginning of October has seen some follow-through from September's end. With tax reform potentially on the horizon, the final quarter of the year should see strength. Smaller companies are poised to reap the largest rewards as their tax rate reflects more of a small household's than a large corporation's. Potential buyouts in the smaller company space could look more attractive if tax rates create a more accretive scenario for would-be buyers.

Banking on Congress is never a good strategy, but we hold out hope that some change can occur in D.C. This time for the good of all!

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