OTSI KETA QUARTERLY

Thirty-Eighth Edition - October 2019

OTSI KETA CAPITAL

Q3 2019

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

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QUESTIONS...

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"Nobody goes there anymore. It's too crowded." – Yogi Berra

MINDING THE GAP

As managers of a small cap investment fund, we can attest that recently it hasn't felt like a long-in-the-tooth bull market to us, despite what the TV broadcasts espouse on the nightly news. Value stocks and small caps have been a bit unloved in the last 18 months and remain well off previous highs—underperforming their larger brethren. Recent headlines asking "Does valuation matter?" or our personal favorite, "Are secular changes making value investing obsolete?", remind us that it might be different this time, but it is probably not.

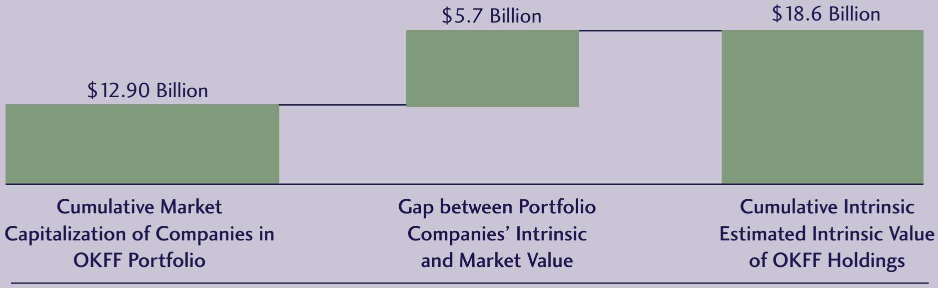
Over the last year, the intrinsic values of the businesses we own have grown without an equal improvement in their market value. There is no rule that says intrinsic value and market value must move in lockstep, but over time it has been our experience that they will usually converge. Market prices always change faster than underlying business fundamentals, sometimes in our favor and sometimes against.

Based on our intrinsic value calculations, the current portfolio was 44.1% undervalued at the end of the third quarter. Our portfolio is intended to be undervalued, but usually not by this much. On average, our portfolio has traded at a 25% to 35% discount to its intrinsic value since inception. In September, the gap began to close as the market pushed prices of our holdings up and earnings remained stable. We remain optimistic that the broader market will continue to see the strength and value of the businesses we own.

Portfolio Discount Chart

PORTFOLIO COMPANIES

Market value vs. Intrinsic value



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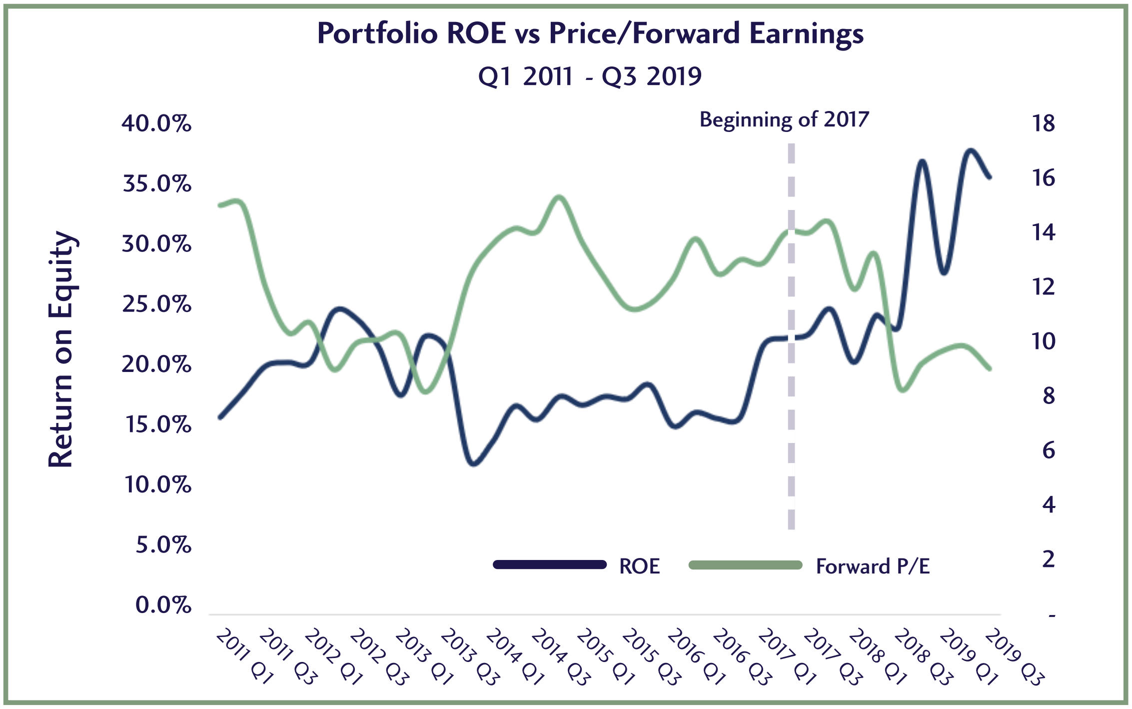
Contrary to the popularity of recent IPOs involving companies with fantastic growth and even more fantastic losses, we still prioritize earnings. Revenue growth is great, too, but we remain fond of the businesses that can grow the bottom line as well. Every quarter we provide our investors with a metric called price-to-perspective earnings. We like the measure for a number of reasons. The metric gives us an indication of what we are paying for a dollar of next year's earnings. More interesting to us is that we use analyst estimates to get a different perspective from our own estimates of future earnings. We track this measure over time and find it useful for gauging how the market is estimating and valuing our holdings. Below, we have included a historical chart of the last 35 quarters of our portfolio's price-to-perspective earnings metric and ROE.



The Window Indicator

This year continues to be a very typical shipping year. The fleets continue to turn over as older freighters are put out to pasture (via the scrap yard) and newer vessels are on the drawing boards (see last quarter's "Window Indicator") or on their way to the Great Lakes via overseas shipyards.

The type of North American hauling this season continues to focus around iron ore, limestone, sand, coal, grains and salt. Port reports show a steady to slightly increasing amount of activity this summer as foreign vessels also ply the waters of the Great Lakes. Lake Carriers Association announced in August a 12.6% increase in U.S. hauled cargo from a year ago. The real change this shipping season remains the water levels of the Great Lakes. With no immediate relief in the near future, the speed limit of these massive boats in the tighter spaces of the Lakes continues to be slow. This has had a modest effect in the number of loads hauled with the limited U.S. and Canadian fleet.

Construction of the locks in Sault Ste Marie continue to be on track. The Senate Appropriations committee approved $75.3 million in funding on September 17. Construction on the new lock will commence in 2020. The amount approved by the Senate matched the amount approved by the House earlier in the year (no small feat in this political environment). It is nice to come together in a bipartisan way every once in a while!

International shipping is down about 3.5% this year as per the *NW Indiana Times*. Cargos have totaled 20.0 million tons from the start of the shipping season—March 22. The ongoing "tariff war" with international trade partners has put a strain on international business this season.

That is all for now from the Window! We will keep the glass clean, but the window closed for the fourth quarter. See you after the holidays.

ON THE ROAD

The car was fueled and the navigation set at the beginning of October. Off to Venore, Tennessee, (just outside of Knoxville) for the MasterCraft Boat Holdings (MCFT) investor day. It was a 36-hour turnaround, but well worth the trip south to learn more about this portfolio company and to hear from management about the future.

MasterCraft Boat Holdings, Inc., through its subsidiaries, designs, manufactures and markets recreational powerboats. It operates through three segments: MasterCraft, NauticStar and Crest. The MasterCraft segment produces recreational performance sport boats and luxury day boats under the MasterCraft and Aviara brands, which are used for waterskiing, wakeboarding and wake surfing, as well as general recreational boating. The NauticStar segment offers boats that are primarily used for saltwater fishing and general recreational boating. The Crest segment produces pontoon boats.

The company also offers boat trailers (for MasterCraft only) and replacement and aftermarket boat parts and accessories. It sells the boats through a network of independent dealers in North America and internationally. The company was founded in 1968 and is headquartered in Vonore, Tennessee.

The day started out at a local hotel conference room, where Terry McNew, company CEO, ran an efficient presentation about the recent past and the near future of the company. The stock had been under pressure this year due to a weather-related, soft June selling month. June is a paramount month in boat sales to set the tone for the summer selling season nationally.

He laid out the bright future and featured discussions on the new Aviara and the new 24-foot MasterCraft tow boat. The discussion also revolved around the continued integration for NauticStar, a center console player in the crowded fishing segment. It also gave us an opportunity to meet Patrick Fenton, the former CEO of Crest Marine LLC (now a member of MasterCraft management). More on Crest shortly!

After the presentation with questions and answers, it was off to the MasterCraft plant located on the Little Tennessee River.

We conveniently forgot our swim trunks to participate in the on-the-water demonstrations, but were very interested to see the construction and build out going on at the plant. To accommodate the new line, Aviara, there needed to be some expansion of facilities at the building plant.

We later were presented with the economic numbers that surrounded the addition of this new boat. Arguably one-third the cost of acquiring a competitor's product!

The boat assembly line was impressive, with the company integrating any aspect of the model in-house to save on cost and improve the bottom line. We were impressed by the attitude of management as we walked the floor. Photographs, videos, etc. were encouraged, as the company has nothing to hide and feels their competition has nothing (or everything) to gain by seeing their process. They feel they are the premier tow boat company in the world and were very proud to show off their processes. We were feeling very good about our investment at this point!

On the water, we experienced the NauticStar, Aviara and MasterCraft products. All were impressive in their own rights, and we feel will be a valuable part of the discretionary marketplace. They set themselves apart in the various segments.

We were fortunate enough to sit with Terry McNew at lunch, and we expressed our interest in following up with their pontoon boat plant in Owosso, Michigan. He obliged and it was back to the offices in St. Clair and Owosso the following week.

Fred and I were met at the Owosso office by former co-owner and current manager of Crest Marine LLC, Pat Fenton, along with George Steinbarger, VP of finance and human resources of MasterCraft. Crest Marine, LLC was a family-owned business that was acquired by Pat and a partner during the Great Recession. Crest is now one of the top five pontoon boat names in the country according to sales, thanks to Pat's leadership and the follow-on assistance from MasterCraft.

The business had a typical Midwest feel to it. The line was efficient and vertically integrated, and like MasterCraft, almost all of the boat was crafted in-house except for the power plant. Pat and George walked us through the process and the many updates that were in process or completed since the MasterCraft acquisition in 2018.

We were equally impressed with the Crest facility and came away with the same positive feelings we had in Vonore.

Note: Since writing this On The Road, the CEO, Terry McNew, has stepped down to pursue a private equity opportunity in the furniture business. Lengthy conversations with George Steinbarger have given us confidence to continue with this holding. We believe the brand of MasterCraft outweighs the personalities that run the business.

OUR PERFORMANCE

For the third quarter ended September 30, 2019, the Otsi Keta Focus Fund was down 3.55% versus the Russell 2000 Value Index down 1.12%. Since inception, the Fund has returned 122.65%. 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.

Fund Name	ROR 2nd Quarter 2019	5-year total return
Otsi Keta Focus Fund Limited Partnership*	**(3.55)%**	**36.04%**
Russell 2000 Index (^RUT)	(2.76)%	38.28%
Russell 2000 Value (^RUJ)	(1.12)%	27.57%

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%.

Fund Activity

We introduced this piece approximately a year ago to share more about the activity in the Fund. For this quarter:

Additions

Mastercraft Boat Holdings, Petmed Express and Johnson Outdoors were added to current positions during the quarter. Mastercraft showed a better quarter than we anticipated, along with promising future projections. We also were impressed by recent management discussions and plant tours (See On The Road). Petmed Express continues to be an interesting play in the ever-increasing pet pharmacy business. Pets seem to have more interest from younger generations than expanding the population. We believe this will be a solid investment for the Fund. And finally, Johnson Outdoors, a Wisconsin manufacturer of camping, diving and marine electronics, showed us an increased dividend along with a tariff exemption for their products, which we see as a positive for the company. The exemption was retroactive and should benefit upcoming numbers for the company.

Reductions

We eliminated our holding in Friedman Industries. What started out as a promising investment in the steel processing, pipe manufacturing and processing business turned into an example of why we are very careful around companies that live at the low end of our market capitalization parameters. We initiated a small position in this company about a year ago, and their forecasts didn't materialize in the subsequent quarters. Our volume discipline allowed us to exit without much damage. The Fund trimmed holdings in Atkore International, an electrical raceway manufacturer, and Advanced Energy Industries, a manufacturer of measurement and control solutions for the semi-conductor industry. Both of these companies started to exceed our fair value estimates.

We continue to monitor the portfolio and are very excited about the future with our current holdings.

Our Focus in Investing

The markets over the last 18 months have been challenging for the "value" space. This has shown no bias for value companies ranging from small to large. As our partners know, we invest in the small end of the marketplace with a focus on the middle of the United States. This focus has been incredibly fruitful over the life of the Fund, and we continue to believe in this strategy.

Unfortunately, periods of time can be painful for some partners and unrealistically profitable for others. We hold no sway over the exchanges, so we cannot predict the right time to enter or exit the Fund. As general partners of the operation, we tend to be incredibly biased toward our business and our strategy. In other words, our glass seems to skew to permanently half full. We feel comfortable in this bias, because we back that feeling up with hard work and the majority of our own investable dollars alongside our partners.

This strategy cannot put salve in all partners' wounds over periods of time, and we realize that investment choices will ebb and flow as we manage this pool of money. We appreciate the trust that our partners put with us, and thank you for the privilege to manage the Fund.

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