OTSI KETA QUARTERLY

OTSI KETA CAPITAL

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

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QUESTIONS...

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UNCERTAIN TIMES

Strange days indeed. We hope this letter finds our investors and their families healthy and safe. The current pandemic continues to strain all elements of our society. With the 24-hour news cycle—all Covid-19, all the time—we will spare our readers yet more medical analysis from non-doctors. Instead, this letter will focus on what we think these uncertain times mean for investors and our portfolio.

The last quarter was challenging, as the virus gained traction faster and more globally than many, including us, anticipated. If it is not clear to many now, it will be soon—the doctors are largely in charge of when the economy reopens. There will be limited clarity until the world has a viable therapeutic or vaccine that limits the lethality of this virus. A great deal of focus and treasure is being directed at attaining this objective.

The uncertainty of clinical success and its timing is currently being reflected in the value of businesses. Many businesses in their current form will not survive the shutdown. While many small businesses will close, we expect a fair number of weak public companies to disappear through bankruptcy, restructuring or merger. The small capitalization space was hit very hard as investors threw many a baby out with the bath water. We expect strong balance sheets, good cashflow and competent management will be increasingly more valuable when the world reopens. Our portfolio of businesses is long on these attributes.

Our ability to forecast future earnings, in the near term, is nil. We expect reduced or minimal earnings for many of our companies in the second and third quarters. Instead, we are using normalized three-year averages for our valuation baselines. We are having conversations with management teams, but they also struggle to anticipate the timing and magnitude of the virus' impact. Lack of clarity and conviction is causing swings in investor sentiment and creating jaw-clinching volatility. What has become abundantly clear to us—volatility and patience are inversely related in investors. It takes a lot to rattle a market this completely. History reflects that times like these can create once-in-a-generation opportunity, some of which will not be immediately visible.

The market is reflecting more than negative sentiment. Real economic dislocations are occurring with few historical precedents. Shutting down commercial activity on this scale is untried and untested. There is a sense among investors that the magnitude of the disruption will change the country and, possibly, capitalism.

We see two big areas for investor concern and a laundry list of small potential hurdles. The first involves the strain the virus has put on the financial plumbing of our capitalist system. When capitalism works as intended, capital gets allocated most efficiently by market forces. Investors willingly fund projects and endeavors they believe capable of generating

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returns worthy of the risks. In the last week, the only net capital provider has been the US Federal Reserve (the Fed). Without the Fed stepping in and buying huge quantities of debt securities, the markets would have seized up. We are glad for the Fed's support, as the alternative would have been unimaginable. It is unlikely that all of the money being injected will find its way to worthy borrowers. A little inefficiency to save the world is expected, but enough inefficiency and you invite new problems. The Fed is currently purchasing $625 billion a week in MBS, Treasuries and corporates. Even with trillions in new liquidity injected each month, it may not work without getting some help from the private sector.

The second area of concern is what comes next. It is hard to see how the capitalist's and government's contract has not been altered permanently. If the government can print money at whatever level is required to head off a crisis, people and businesses will see less value in preparing for the worst. A less prepared private sector will guarantee more printing of currency to finance our way out of future crisis.

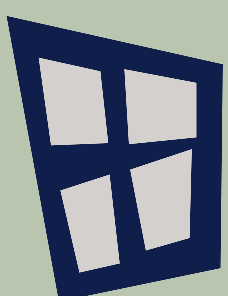
One would think our beliefs and above commentary would keep us in cash and out of equities. It is actually the opposite. Good companies have never been cheaper on some important measures. People panicked for good reason. There is not enough history on pandemics to give investors certainty on timing and magnitudes of recoveries.

However, pension plans and investors will still need to save and compound their capital after the virus recedes. These buyers will focus on the profitable companies with strong balance sheets. History, while short on reliable pandemic data, is long on what happens when governments print currency to pump up weak economies. Getting high on your own supply always leads to higher asset prices in nominal terms. After this economic shock, the idea of taxing or borrowing our way out of fiscal malaise will hold no sway and create no constituency. Milton Freedman step aside, we are about to increase the money supply at an unprecedented rate.

The uncertainty principle is the concept that precise, simultaneous measurement of some complementary variables is impossible. Contrary to the principles of classical physics, the simultaneous measurement of such variables is inescapably flawed; the more precisely one is measured, the more flawed the measurement of the other will be. We are uncertain about next quarter's earnings and when the economy will restart. We can't measure the investor mood with any precision. We can't say how much of the bad news is priced into the portfolio's current valuation, but we think the discounting has gone too far.

We do know people are scared, and in times of fear people often substitute an easy question in place of a hard question. The hard question is, "what do I own and what is it really worth?" The question many investors are now asking instead is how much lower could the market go? People are imagining the worst—and, we believe most outperformance comes from taking advantage of someone else's actions and constraints. Stay safe and healthy.

The Window Indicator



The locks have opened, and the boats are running!

The locks in Sault Ste Marie (the Soo) officially opened March 25 at 12:01 a.m. to little fanfare this year. The Great Lakes Fleet was deemed "essential," and the boats made their way to various ports. Currently, approximately two-thirds of the United States and Canadian fleets are on the water.

Reports from Lake Carriers Association indicate that there are currently many restrictions being implemented on the boats. Social distancing, limited contact at ports and other such measures are keeping the sailors safe and active. Oh to be employed still in times like this!

The initial forecasts for 2020 in the shipping industry looked very similar to 2019. Of course, this was before the economy took that quick left turn in March and stalled. Still, many commodities are being delivered to their appropriate locations with the anticipation that this big, economic machine will be restarted shortly. We will have more to say in the second quarter.

The St. Lawrence Seaway opened to international traffic on April 1. Navigation is somewhat constrained this time of year due to late season ice and navigational aids. The ice seems gone and the buoys were being deployed in the St. Clair River on the evening of April 6, so we should soon see the international traffic again. This will only aid in our return to "normal."

We will keep the window appropriately ajar and according to the State of Michigan and federal mandates to monitor the fleet. See you in July!

OUR PERFORMANCE

For the first quarter ended March 31, 2020, the Otsi Keta Focus Fund was down 26.10% versus the Russell 2000 Value Index down 36.05%. Since inception, the Fund has returned 88.54%. 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 1st Quarter 2020	Since Inception Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**(26.10)%**	**6.60%**	**88.54%**
Russell 2000 Index (^RUT)	(30.89)%	5.59%	71.53%
Russell 2000 Value (^RUJ)	(36.05)%	2.68%	29.97%

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

Due to the volatility in the market that started in February and intensified in March, there was limited activity in the core of the portfolio. New/former names became very attractive opportunities, so they were added to the portfolio. As they are still being accumulated, we will cover their additions next quarter. Limited options buying appeared for the first time in the portfolio as we modestly hedged the rapid downside movement of the markets. Though it was like being in a rowboat during a hurricane, the positions created limited profit and softened the blow of the downturn, especially in February. Those subsequent profits were redeployed in traditional long positions in the portfolio.

As was stated in the quarterly fund statements, one holding exceeded the traditional 9% cap. This was an unintended outcome to a fast-moving market. The upside to this exception was the holding didn't fully participate in the downside and naturally became a larger holding. We feel that this position will ultimately prove a tremendous positive to the portfolio, and we will trim accordingly as this market continues to settle down.

We will return to a more traditional "additions" and "deletions" next quarter. Stay safe and healthy.

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