OTSI KETA QUARTERLY

Forty-fourth Edition - July 2021

OTSI KETA CAPITAL

Q2 2021

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

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QUESTIONS...

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"Only in America"

– Don King

THE EVENT HORIZON

We have had a great first half of the year. Unfortunately, we play in a sport where they insist on keeping score in the second half as well.

We were pleased with the performance of the businesses in our portfolio in the second quarter. Management teams did an excellent job of focusing their resources on key customers and rebuilding supply chains impaired by the pandemic. Their business results weren't missed by the market at large, and the value of our holdings went up commensurately. We think business results will remain strong in the second half of 2021. As we always say, "price is what you pay, and value is what you get." A significant portion of these businesses continue to flag undervalued, but on a whole, the market has more overvalued stocks than it did a year or two ago. We expect there to be greater volatility in the second half of the year as investor sentiment reflects concerns over general valuation levels, proposed regulations and tax and spend policies from Washington DC.

As long-time readers, you know we are bottom-up managers whose typical holding period is one to three years. If you are investing for three years, you need to be consistently looking ahead five. We strive to be ahead of the event horizon, but just barely. Given the choice, we invest in a company doing well and misunderstood over a money-losing market darling. Some might question our lack of patience or commitment; that is not what drives our behavior. We are simply better at assessing medium-term business execution risks than projecting an emerging technologies path to commercialization. We are bird in the hand versus two in the bush kind of folks.

An ever-changing world generates icebergs and opportunities, usually in equal parts. We see four themes influencing the opportunities for the portfolio that the investing public is not fully accounting for:

1. Continued decarbonization of the economy
2. Level of government spending
3. Consumer demographics
4. Migration toward safety and opportunity

Decarbonizing the Economy

Regardless of your politics or stance on global warming, the economy is decarbonizing. It is happening through government regulation and from consumers demanding companies reduce their carbon footprints. It doesn't have to make economic or scientific sense once it reaches critical mass. Decarbonization has achieved critical mass. An example is the recent proxy fight over board seats at Exxon

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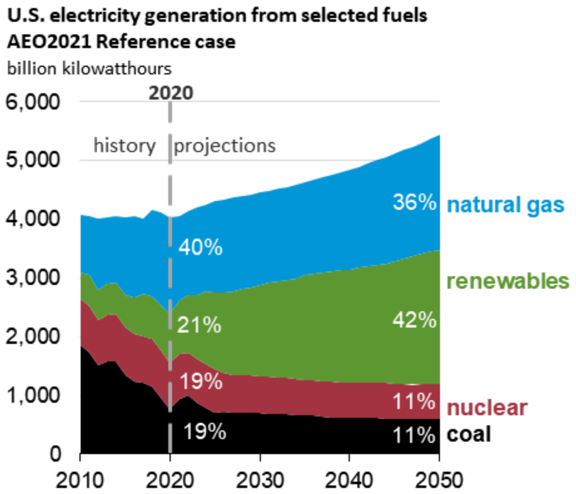
Mobile. A small activist fund holding less than 1% of Exxon's voting shares got three board seats. The activists got shareholder support to force Exxon to invest more in non-hydrocarbon initiatives.



Two things are colliding: the world's growing energy consumption over the next 30 years and the reality that governments and a large portion of the population want that energy to come from renewable energy. With nuclear largely off the table, we are going to get more windmills and solar panels. More windmills and solar panels on the grid mean new distribution and transmission capital expenditures and batteries to store power for peak periods. This should be good for materials companies, engineering firms and battery companies.

Level of government spending

The amount of government spending is unprecedented. In July, the government will begin sending monthly checks to people based on the number of children living with them and their income. A basic test of the universal basic income program. As we have discussed before, while some of this stimulus will be saved, the majority will eventually end up as sales and profit for businesses. This will continue to be a tailwind in the short and medium term, but eventually the bill will come due. In the meantime, the cost of money will go up. Rates remain low for now, but inflation is real and we think it will be more than "transitory" to quote Chairman Powell. We see no scenario where government spending moderates until after the next midterm elections. With inflation high, interest rates low and real rates negative, we think this is likely as bad as it gets for bank economics this cycle and have begun adding financial exposure to the portfolio in small amounts.

Table 1.1 - Summary of Receipts, Outlays, and Surpluses or Deficits (-): 2000 - 2021E
(in millions of dollars)

Year	Total		
	Receipts	Outlays	Surplus or Deficit (-)
2000	2,025,191	1,788,950	236,241
2001	1,991,082	1,862,846	128,236
2002	1,853,136	2,010,894	-157,758
2003	1,782,314	2,159,899	-377,585
2004	1,880,114	2,292,841	-412,727
2005	2,153,611	2,471,957	-318,346
2006	2,406,869	2,655,050	-248,181
2007	2,567,985	2,728,686	-160,701
2008	2,523,991	2,982,544	-458,553
2009	2,104,989	3,517,677	-1,412,688
2010	2,162,706	3,457,079	-1,294,373
2011	2,303,466	3,603,065	-1,299,599
2012	2,449,990	3,526,563	-1,076,573
2013	2,775,106	3,454,881	-679,775
2014	3,012,491	3,506,284	-484,793
2015	3,249,890	3,691,850	-441,960
2016	3,267,965	3,852,616	-584,651
2017	3,316,184	3,981,630	-665,446
2018	3,329,907	4,109,044	-779,137
2019	3,463,364	4,446,956	-983,592
2020	3,421,162	6,550,396	-3,129,234
2021 estimate	3,580,777	7,249,456	-3,668,679

Consumer demographics

The stimulus during COVID-19 created a skewed picture of economic strength and spending. Recipients and businesses across the income spectrum favored durable goods over non-durable goods. It is conceivable that many saw the money as a one-time windfall and purchased durable goods, hoping to extend the benefit of the windfall. The implication is that the boom in retail sales might not be as robust as forecasters initially hoped. As the current stimulus recedes, spending will be strongest with the one percenters and businesses. Find great customers and you will find great businesses. We think growth in many durable goods categories will revert back to pre-pandemic levels more quickly than the market is anticipating.

Migration toward safety and opportunity

People migrate for a number of idiosyncratic reasons: the pursuit of personal safety and perceived opportunity are two of the biggest. GDP is driven by productivity and population. So, you have to keep your eyes on both—it is why we as managers have never understood investing in the

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The Window Indicator

The second quarter for shipping got off to a good start. The economic demand for commodities was robust as the country and world continued to wake up from the COVID-19 slumber of 2020. International shipping was running about one in five boats past the window as the second quarter wound down.

The new HBI mill for Cleveland Cliffs, Inc. (CLF) in Toledo spurred a lot of activity in the eastern part of Lake Erie as the mill came fully on-line this year. The commodity prices in general for the United States (steel, lumber, limestone, etc.) had the ports hopping with activity. This time of year is always interesting to see whether the prices for the raw materials mute demand or keep it high throughout the year. We will keep an eye out of the window.

Portfolio Spotlight

Legacy Housing Corporation

Business Description:

As one of the top manufactured homes and mobile home producers in the U.S., Legacy Housing Corporation builds, sells and finances their products primarily in the southern U.S. The company manufactures and provides for the transport of mobile homes and offers wholesale financing to dealers and mobile home parks. They offer a wide range of homes, including one to five bedrooms with one to three-and-a-half bathrooms. It also provides floor plans or wholesale financing for independent retailers; consumer financing for its products; and financing to manufactured housing community owners that buy its products for use in their rental housing communities. The company markets its homes under the Legacy brand through a network of 100 independent and 13 company-owned retail locations, as well as direct sales to owners of manufactured home communities in 15 states in the U.S.

-from S&P Capital IQ site

Catalyst:

The company fits our model for an under-valued, well-managed company in a space that is constantly expanding through new purchases and upgrades with their clientele. The company sells into an expanding area of the country, the South, and has new, innovative ways to leverage their production. The company also has limited exposure to the commodities markets due to their ability to pass through fluctuations to the buyer. A recent addition to developing home communities added to our interest in investment.

We feel that Legacy will be a good addition to the portfolio for the next three to five years.

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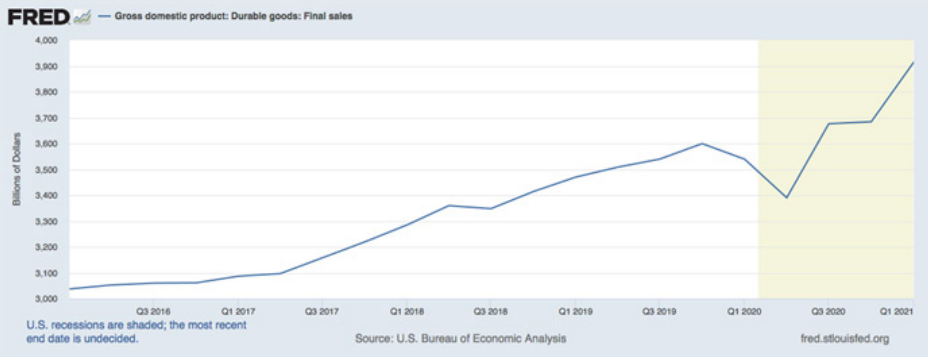
EU countries: declining population and low productivity growth. Social safety nets are critical up to a point; after that they are negatively correlated with productivity.

Historically, the U.S. has provided both the opportunity for personal and political safety, as well as economic opportunities. A number of larger cities in the country are struggling with continued partial lockdowns and rising crime rates. We expect rural and suburban markets to outperform cities in the medium term and the continued migration of existing residents to areas of lower crime and higher perceived opportunity.



This graph shows durable goods by quarter. A back-of-the-envelope reading says we pulled ahead of close to four billion dollars in durable goods purchases in the last year. This is a risk factor we are spending time on in 2021.

We see good opportunities and expect growth in businesses that are focused on safety and security.

OUR PERFORMANCE

For the second quarter ended June 30, 2021, the Otsi Keta Focus Fund was up 7.23% versus the Russell 2000 Index up 4.05%. Since inception, the Fund has returned 342.64%. 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 2021	Since Inception Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**7.23%**	**14.25%**	**342.64%**
Russell 2000 Index (^RUT)	4.05%	11.69%	243.71%
Russell 2000 Value (^RUJ)	4.19%	9.00%	161.79%

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

Market volatility continued to influence the portfolio in the second quarter—for the good of our partners. Our nimble approach to buying and selling allowed the Fund to realize much of the profits that were generated. Here's a look at the key activity during the second quarter:

Portfolio Highlights

Position	Activity	Comments
Great Lakes Dredge and Dock	Added	Domestic dredging operation that services primarily saltwater ports in the U.S. Tides and storms provide the continued need for business.
Limbach Holdings Inc.	Added	Excellent financials in a recovery play—commercial construction.
Legacy Housing Corp.	Initiated	Number four producer of manufactured homes in the U.S. Great fundamentals coupled with an excellent management team. Strong potential upside with the current economic environment.
Onewater Marine Inc.	Added	One of the top boat dealers representing multiple lines and demographics in the U.S., primarily servicing east of the Mississippi. Believe demand will continue to flourish in 2021.
Meridian Bioscience	Added	Excellent financials representing an entry into the healthcare sector. Former holding with updated management and a compelling story for 2021 and beyond.
Sanderson Farms	Added	One of the top chicken processors in the country with a strong brand and solid management. Good inflationary hedge. Company now being shopped for sale by current management.
Smith & Wesson Brands Inc.	Trimmed due to exceeding 9% rule	Well-known, outdoor enthusiast brand name with strong fundamentals and management. Second go-around with the company.
Apogee Enterprised	Exited	Fair value exceeded and lackluster management guidance for the first half of the year.
Virnetx Holding Corp.	Exited	Re-evaluated investment thesis and redeployed proceeds into other portfolio names.
DCP Midstream Partnership LP	Trimmed due to exceeding 9% rule	A strong midstream player in a sector that still shows good upside. Our only energy holding.

Conclusion

We feel the portfolio is well positioned for 2021 and the current administration in the U.S. We initiated one new name to the portfolio, added to some in the portfolio that remained undervalued at the time, trimmed some due to valuation and exited two names in the second quarter. We continue to look for opportunities amongst the noisy bull market. The third quarter and beyond in 2021 should be similar.

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