OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Forty-fifth Edition - January 2022

Q4
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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"Business is business. And business must grow..."
– Dr. Seuss

COVID, COVID EVERYWHERE.

As 2021 drew to a close, Omicron was the word on everyone's lips. So, whether you are vaxxed or unvaxxed, boosted or bombed, caught the bug or eluded the virus, here at the Fund we are glad you weathered the storm. We see a less medically driven environment in 2022. Our pandemic prediction utilizes zero medical training (i.e., we have none), but relies on the power of observation. After nearly 650 days, holiday season air traffic returned in 2021 and even exceeded pre-pandemic 2019 levels on some days. If people are willing to get in a metal tube with 200 strangers, they probably are mentally capable of heading back to the office.

It was a good year for our style of investing. Companies with actual earnings got some notice. We continue to find strong opportunities in companies with good balance sheets, strong margins and growth. With inflation running in the mid-single digits, our portfolio is well-positioned for another strong year. Volatility will remain elevated with the inevitable drops and pops that have historically benefitted the Fund over longer periods.

The strong price appreciation in the Fund over the last three years has driven increased turnover. Companies reaching fair value have been sold to make room for better investments. Almost half of our current positions are new in the last 12 months. Many of our new positions will benefit from higher nominal growth, driven partially by inflation. In truth, this will be a challenging time for many of our management teams. To date, they have been able to raise prices in excess of costs. As inflation continues to rise, it will get harder to maintain and grow margins.

Low single-digit inflation is not a bad thing, but high single-digit inflation is a problem. Essentially, we will have lost price stability and that will require fiscal and monetary action. The bugger about inflation is it turns everyone against each other, all believing someone up the chain is price gauging. This domino-like reaction is hard to stop. Central banks will raise rates and fiscal policy will become less expansionary in an effort to support the value of the dollar. (See charts on page 2.) This gets painful to economic growth in a hurry. After listening to Congress and the President over the last year, it is hard to see any heroes standing up for sound money.

To further cloud the issue, we think real inflation might be running much hotter than official statistics, which often seem to lag the typical citizen's reality. One thing is clear, the Fed seems behind the curve.

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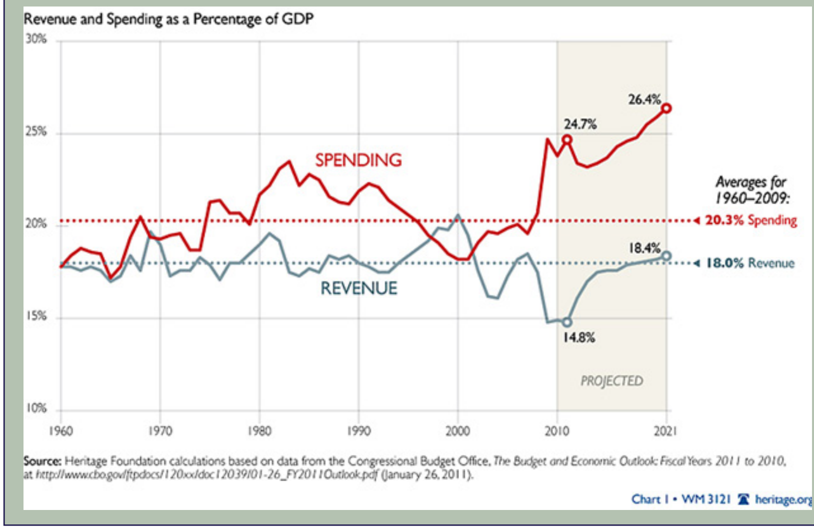
Given our inflation projections, we think valuations priced on earnings, not sales, are the place to focus. Story stocks and disruptors always find a bid from investors, but high inflation reduces their attraction as future earnings become less valuable. We expect the current portfolio to produce operating profit growth of 13.6% in 2022 and margins to drop 100 basis points to 16%.

Aggregated OKFF Portfolio (Dollars in Billions)			
	2021P	2022E	Delta
Net Revenue	$25.475	$30.707	20.5%
Operative Profit	$4.32	$4.91	13.6%
Operating Margin	17.0%	16.0%	

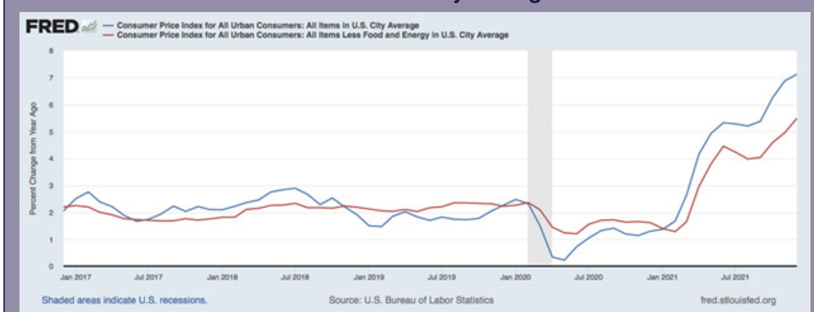
Source: OKC Analysis

Many of the companies we currently hold have some measure of inflation protection built in. Many have the ability to pass through supply chain increases, and others, like certain financial institutions, should benefit from increasing net interest margins driven by rising long-term rates and artificially low short rates. We expect that protection will help support margins, but at forecasted rates, we expect operating margins to remain pressured all year. Many of the story stocks and high-flying tech names may not fare as well. To buy the story and hope earnings will follow is pre-COVID thinking. We continue to focus on companies with high returns on invested capital selling at attractive pre-tax earnings yields.

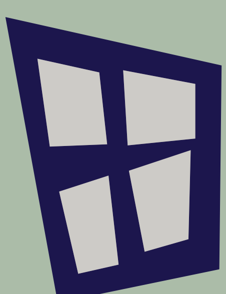
Under the Current Policy Baseline, Spending Is Causing the Future Deficits



Consumer Price Index for All Urban Consumers: All Items in U.S. City Average



The Window Indicator



Traffic out the window has slowed to a crawl as the season winds down. The Welland Canal (the canal around Niagara Falls from Lake Erie to Lake Ontario) closed in the beginning of January for the 2021 shipping season. The St. Lawrence Management Company reported a 10% increase in traffic this year over the average. The Canal will reopen for the 2022 season around the end of March.

The Soo Locks (connecting Lake Superior with Lake Huron) closed for the season on January 15, 2022. The MacArthur Lock, which is the smaller of the two locks, closed on December 15, 2021, and will not reopen until May 1, 2022. This lock needs extensive repairs. The larger Poe Lock will reopen in March dependent on weather. The maintenance for this lock will be routine.

Here are some interesting statistics out of Detroit for 2021:

- The number one cargo handled by the port was stone, which was offloaded at seven different docks.
- Inbound leads the category over outbound cargoes for the port. Stone, iron ore, coal, asphalt and cement are the major products delivered. There were 86 deliveries of either cement or cement clinker to Detroit.
- Coke led the outbound category for the season. Sixty-two coke loads were shipped out with all but one coming from Zug Island. Coke was transported to other mills around the Great Lakes.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2021, the Otsi Keta Focus Fund was up 11.3% versus the Russell 2000 Index up 1.86%. Since inception, the Fund has returned 370.27%. 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.

We included the S&P 500 Index for this point in time, because we receive periodic inquiries regarding our performance against this popular index. In no way are we communicating that the S&P 500 is an accurate benchmark to our style of investing. The Index is a common proxy to equity performance over time, so we decided to show it for this letter. We have been investing for the Fund since May 7, 2010.

Fund Name	ROR 4th Quarter 2021	Since Inception Annualized	Year to Date	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**11.30%**	**14.19%**	**36.09%**	**370.27%**
Russell 2000 Index (^RUT)	1.86%	10.89%	13.69%	234.01%
Russell 2000 Value (^RUJ)	4.89%	8.63%	26.26%	162.71%
S&P 500 (^GSPC)	10.65%	13.15%	26.89%	322.48%

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:

Please see page 4 for Q4 fund activity.

Conclusion

We feel the portfolio is well-positioned for 2022 and the current administration in the United States. 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 or looming acquisition and exited one name in the fourth quarter. We continue to look for opportunities amongst the noisy bull market. The first quarter and beyond in 2022 should be similar.

Portfolio Spotlight

Sanderson Farms, Inc. (ticker: SAFM)

Business Description:

One of the top integrated poultry processing companies in the United States. It produces, processes, markets and distributes fresh, frozen and prepared chicken products. Sanderson's customers include retail grocers, food and beverage businesses and governments. The company was founded in 1947 and is headquartered in Laurel, Mississippi.

-from S&P Capital IQ site

What's Happening:

On August 9, 2021, Cargill, Continental Grain Company and Sanderson Farms announced that they reached a definitive agreement for a joint venture between Cargill and Continental Grain to acquire Sanderson Farms for $203 per share in cash, representing a total value for Sanderson Farms of $4.53 billion. The buyout represented approximately a 30% premium to the share price prior to the rumors of a sale.

Since the announcement, the United States government through their regulatory departments has taken a keen interest in the consolidation of businesses in the meat processing space. What was anticipated to being a late Q4 2021 closing has drifted into 2022 with less certainty on a conclusion. With that cloud hanging over the deal, we acted accordingly.

Sanderson Farms was held in the portfolio from costs ranging from approximately $123 to $148. The $203 buyout represented a 37% to 66% premium for those shares. Our fair value valuation was $220 for the company at the time of the announcement. We feel that $203 was a fair offer for the company.

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Fund Activity

Market volatility continued to influence the portfolio in the fourth 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 activity during the fourth quarter:

Portfolio Highlights

Position	Activity	Comments
Compass Minerals International, Inc.	Added	Essential minerals company with a consistent component (salt) and an imbedded option (lithium). We believe that the "option" makes this an undervalued investment
First Foundation, Inc.	Added	Excellent financial holding (one of two) that is well-positioned for a rising interest rate environment.
Legacy Housing Corp.	Added	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. We still see this as an undervalued play in the space.
Nathan's Famous, Inc.	Added	Top brand in the food space with a complementary franchise business. Well positioned for the continued "reopening" play.
Ocean Bio Chemical	Added	Unique consumer packaged goods company that caters to the recreational market both in RVs and boats. Very undervalued and under-the-radar company.
OneWater Marine, Inc.	Added	One of the top recreational boat retailers in the country with a strong portfolio and solid management. Good inflationary hedge. Continues to expand in an industry that continues to turn over.
Smith & Wesson Brands Inc.	Added	Well-known, outdoor enthusiast brand name with strong fundamentals and management. Second go-around with the company.
Meridian Bioscience	Added	Diagnostic test kit business that was mildly influenced by the pandemic. Positioned well for the hospital industry to return to a normal course of business.
Encore Wire Corp.	Initiated	Manufactures and sells electrical building wire and cable. Texas company with the right footprint to service an expanding area of the U.S. Great management team and continues to be a very undervalued holding.
The Greenbrier Co.	Exited	Designs, manufactures, repairs and leases railroad freight car equipment in North America. Company exceeded our fair value estimate.
Miller Industries	Trimmed	One of the top towing and recovery manufacturers in the U.S. Trimmed due to fair value and potential forward growth.
Sanderson Farms	Trimmed	One of the top chicken processors in the U.S. Being acquired by Cargill and Continental Grain for $203 per share sometime in 2022.

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