OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Forty-sixth Edition - April 2022

Q1 **2022**

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

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QUESTIONS...

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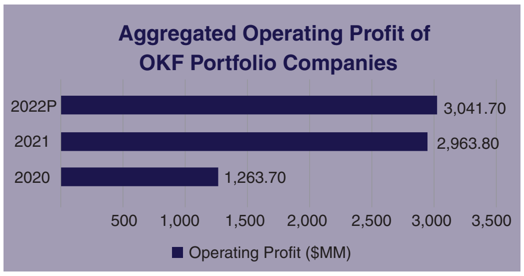
EMBEDDED VALUE

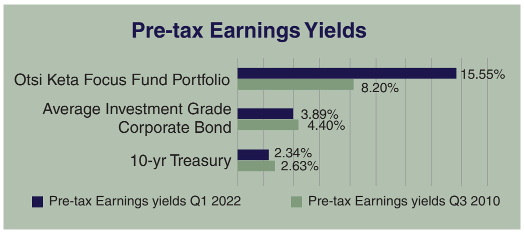
We like operating earnings. Earnings have a way of creating value for shareholders. Specifically, we like earnings today. If the earnings are many years down the road, we are not that interested. Strong current earnings don't always equate to rising stock prices, but they can help. Our current portfolio of companies generated 135% more operating profit in 2021 than in 2020. The portfolio only went up 35% last year. Make no mistake—not every dollar of operating profit makes its way to shareholders quickly, but over time, with a good management team, value often finds its way to the shareholder.



We are expecting profits to face a more pronounced headwind in 2022. Our estimates point to sales growing faster than profits for the first time in our history. It is possible we are being overly conservative in our estimates, but costs are getting harder to pass through to customers.

On the plus side, investor expectations have dropped faster and investor sentiment has turned bearish, allowing us to put together what we believe is the second most under-valued portfolio in the firm's history, the first being March of 2020 in the heat of the pandemic.

When we compare our current intrinsic value calculations against current market values, our portfolio is currently 66.8% under-valued. Some skeptical minds, like our own, might want a sanity check on that discount. While we reserve the right to be wrong, we did an additional back-of-the-envelope check to see if our expectations were getting ahead of ourselves or if the market was letting us buy earnings for less. We looked at the portfolio's pre-tax earnings yield and comparable pre-tax yields from October 2010 and compared them to the first quarter of 2022. We chose Q3 of 2010 because the term structures on rates are pretty close to today. Please refer back to the 2010 Q3 investor letter.



We recognize that future expectations can vary between fair-minded people, and growth drives multiples. However, current real rates are lower than they were in 2010, and we are paying about half as much for each dollar of current earnings on a portfolio of businesses that are continuing to grow sales and earnings. We believe the value is there and a bit of patience will be rewarded.

OUR VIEW

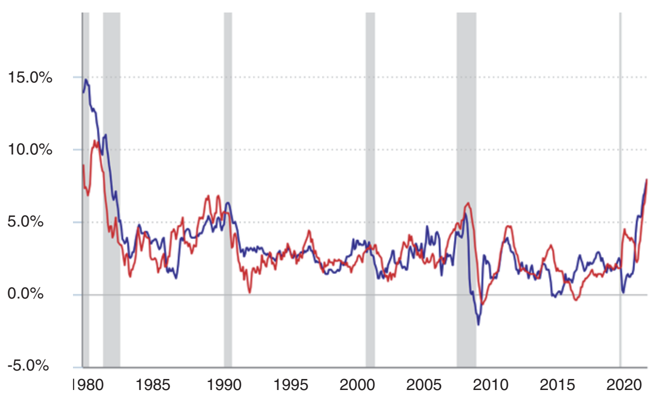
Interest rates are rising. They were not before. Inflation is increasing. It wasn't before. These changes are and will impact the value of our current investments and our preferences for future investments. For some investments, raising rates can increase earnings. Think banks that can now charge more for loans, but don't pay interest on business deposits. For companies that need to borrow consistently to maintain and grow their operations, the impact is reversed. Fundamental bond math requires bond prices to fall when interest rates raise. It's tough being a bond investor in a raising-rate environment. The above examples are first derivative—basically level or rate. The question for investors is really second derivative—rate of change and how steep.

It takes many viewpoints to make a market, so we thought it best for our partners to understand our viewpoint. We think we have demand-driven inflation, or too many dollars chasing too few goods. A great deal more money has flowed into ESG funds than value funds in the last decade. It will take years for capacity to expand enough in critical sectors like energy, agriculture and transportation to keep up with higher world demand. Investment comes first, then capacity expansion. The lack of capital investment means inflation will be higher for longer as supply continues to lag demand.

As we have written before, inflation is a nasty bugger. Paying more for the same things like gas, groceries and used cars is a real bummer. In a democracy, a little inflation is to be expected, but a lot of inflation will get a politico fired. Historically, inflation in the U.S. has averaged about 4%. In March 2022, inflation came in at 8.4%. That's a number that will get you fired. So, it is a good bet the issue will be addressed.

12 -month percentage change, Consumer Price Index
January 1980 February 2022

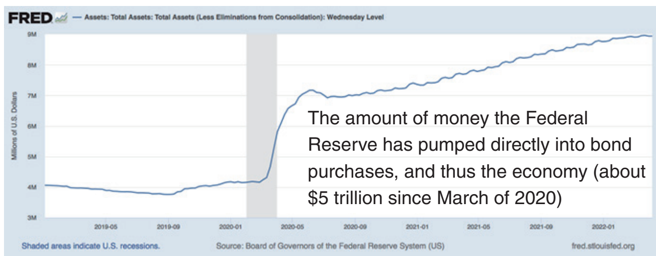
ALL ITEMS IN BLUE   FOOD IN RED



Source: Bureau of labor statistics

Every first-term administration wants the same thing—a second term. At this point, we think a sane administration would embark on a few paths to reduce inflation:

1. Raise interest rates faster than expected.
2. Stop injecting the money that the Fed has been using to create "quantitative easing" (see Investopedia for a good definition).
3. Reduce regulation and incentivize capital investment to drive up supply.



If that's what happens, we would have a bit of short-term pain, but likely muddle through without a big change in quality of life. That's not what we think is going to happen. Our current belief has rates rising and liquidity being reduced. We also believe the administration will pursue another large reconciliation package that, if passed, will further pressure demand and prices. The only policies to increase supply seem heavy-handed (defense production act) and are unlikely to drive long-term capital investment.

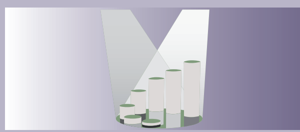
Both paths—raising interest rates and reducing the amount of liquidity (money) washing around the system—are intended to slow aggregate demand growth. More specifically, these paths are to get you to cancel or delay your purchases just enough to get supply and demand back in balance. Hence, the current term de jour is "soft landing." Proposed big spending bills would remove the medicine and keep the fever burning.

Based on our view of the potential policy initiatives, we think rates and inflation both will stay elevated, but growth will stay positive as well. We believe the supply chain snarls improve, but only minimally with increased regulation the main culprit.

Unprofitable companies should lose the most investor support relative to their profitable brethren. Companies that can't fund their own growth may have trouble raising the capital to reach profitability. Investors in bonds and equities will demand higher returns to compensate for their reduction in purchasing power.

We remain confident that our portfolio is well-positioned and are comfortable with the valuations and businesses in which we are invested.

Portfolio Spotlight



Encore Wire, Inc. (ticker: WIRE)

Business Description:

An industry-leading manufacturer in wire and cable with time-saving innovation and a vertically integrated business model. Encore's customers include home builders, commercial construction and industrial buildings. The company was incorporated in 1989 and is headquartered in McKinney, Texas.

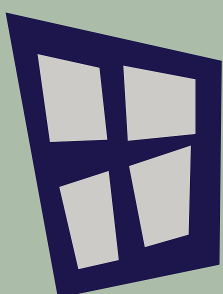
-from S&P Capital IQ site and Encore Presentation

What's Happening:

The business maintains a single-site campus that allows significant cost savings in freight, internal handling and in-process inventory. They are also vertically integrated where they fabricate all copper rod and plastic compound, helping to eliminate middlemen costs, allowing operational flexibility and adaptive order-to-ship fill rates.

They recently completed a 720,000 square foot service center on their campus, which will contribute to increased sales volume. They will complete by mid-2022 a repurposing of an existing space to expand their manufacturing capacity. And, in the coming years, capital expenditures will go toward continued improvements in vertical integration and modernizing.

The Window Indicator



Traffic out the window is coming back to life. The U.S. Army Corps of Engineers, Detroit District, Soo Area Office opened the Poe Lock at 12:01 a.m. on March 25, marking the beginning of another shipping season on the Great Lakes. The smaller lock, the MacArthur Lock, located south of the Poe, will open late in April. Maintenance issues are still ongoing in that lock.

With the commodity markets heating up in 2022, it is interesting to see the number of boats put on the lakes this year to haul goods. Some lines, like the Algoma Central Corp and the Canadian Steamship Lines, have almost their full complement of ships on the waters. The Great Lakes Fleet, Inc. and the American Steamship Company have been slower to release their ships. The former lines are Canadian, and the latter are United States-based ships. Some of this activity could be based on demand for raw materials, but the wrinkle of available hands for the boats might be playing into the pace of sailing. And, the freighters burn an oil-based product to operate.

The first foreign based freighter, or "Salty," came sliding by the window recently enroute to Duluth, Minnesota, for a load of grain. One would think with the shifting sands from the global grain producing countries that the activity from Salty's will be greatly increased this season. We will keep a close watch this year.

Finally, the return of the cruise ships will be happening when the weather improves this year. The Viking Octantis will be sliding by the window in late May or early June headed to many ports on the Great Lakes, including the tourist haven, Thunder Bay, Ontario. The cruise ships are always unusual sites, much like the mega yachts that sporadically appear in the window. It is nice to see some return to "normal" this shipping season. Happy spring!

OUR PERFORMANCE

For the first quarter ended March 31, 2022, the Otsi Keta Focus Fund was down 7.11% versus the Russell 2000 Index down 7.80%. Since inception, the Fund has returned 336.84%. 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 2022	Since Inception Annualized	7-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**(7.11%)**	**13.17%**	**12.12%**	**336.84%**
Russell 2000 Index (^RUT)	(7.80%)	9.90%	7.44%	207.95%
Russell 2000 Value (^RUJ)	(2.84%)	8.18%	6.61%	155.26%

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% from inception, May 7, 2010.

Fund Activity

Market volatility continued to influence the portfolio in the first quarter. Here's a look at the activity during the first quarter:

Portfolio Highlights

Position	Activity	Comments
Argan, Inc.	Initiated	Excellent business in the engineering, procurement and construction of power facilities in the traditional and renewable energy markets. Former holding.
First Foundation, Inc.	Added	Excellent financial holding (one of two) that is well-positioned for a rising interest rate environment.
Smith & Wesson Brands Inc.	Added	Well-known, outdoor enthusiast brand name with strong fundamentals and management. Second go-around with the company.
Triumph Bancorp, Inc.	Added	Innovative bank in the traditional and fintech space. Innovator in the factoring business with the transportation industry.
Encore Wire Corp.	Added	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 an undervalued holding.
Compass Minerals International, Inc.	Trimmed due to 9% Rule	Essential minerals company with a consistent component (salt) and an imbedded option (lithium). We believe that the "option" makes this an undervalued investment.
DCP Midstream Partnership	Trimmed due to 9% Rule	Wide moat business in the energy pipeline business with moderate upside.
Meridian Bioscience	Trimmed due to 9% Rule	Excellent business in the medical testing market that was influenced both positively and negatively in the COVID environment. A return to normalcy has the business ramping up.
Miller Industries	Exited	One of the top towing and recovery manufacturers in the U.S. Exited due to concerns over inflationary pressures on the business and potential forward growth.
UFP Technologies, Inc.	Exited	A well-run packaging business that had exceeded our fair value estimate.

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, trimmed some due to our nine percent rule and exited two names in the first quarter due to inflationary concerns and valuation. We continue to look for opportunities amongst the noisy market. The second quarter and beyond in 2022 should be similar.

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