OTSI KETA QUARTERLY

Forty-seventh Edition - July 2022

OTSI KETA CAPITAL

Q2 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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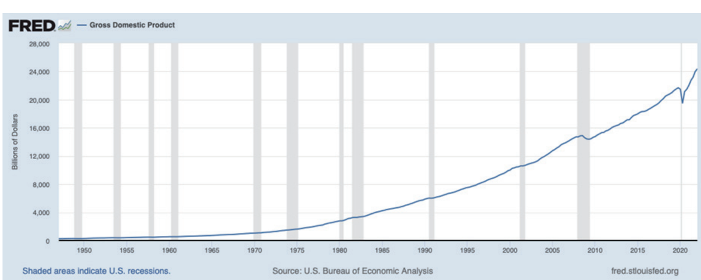
"It is good to have splitters and lumpers."

– Charles Darwin - 1857

IT'S COMPLICATED

We have been here before and most assuredly will be here again. The timing is the part that is never certain. At the end of the second quarter, the investing crowd began coalescing around a feeling, a sentiment. That sentiment is negative. A recent small business optimism survey shows business optimism at a 48-year low and a separate survey says 77% of Americans think the country is on the wrong track. Wow. That's not good. Sentiment could always get worse, but historically speaking, it's stretched.

The negatives are easier to see right now, while envisioning positive outcomes seems to fall in the rose-colored glasses category. Slowing and declining growth are the primary concern today. Recession fears always reduce the appetite for investment in stocks, driving prices down, frequently into correction or bear market territory. The market is pricing in a recession. We think the market has it right. Our current assessment has the Federal Reserve raising interest rates enough to tip the country into recession before year-end.



It is not easy to look smart in a recession. The lag between what's occurring in real time and the officially reported data is problematic. This imperfect information frequently causes investors to move out of stocks when they have already bottomed and delay purchasing undervalued companies that have become historically cheap. By the time a recession or a bear market is declared, the majority of damage to stock prices has already occurred. In our case, we expect a bumpy ride through the mid-terms, but we don't see significant downside within the portfolio from these levels. We have taken the valuation hit coming in, a fact that has been apparent in the recent quarterly statements. We do see opportunities over the next 12 to 24 months, as focus on the negatives causes people to value short-term and macro sentiment over history and fundamentals.

Not to over simplify, but the trick to doing well during a recession is to keep your job. If you can maintain margins, liquidity and profits, you're likely going to benefit from less well-positioned folks selling you their stuff for a discount. Reagan might have had it about right when he said "A recession is when your neighbor losses his job; a depression is when you lose yours."

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For perspective, the table below depicts the impact on GDP and employment from the two greatest economic downturns of modern times.

	When	Decrease in GDP	Peak Unemployment
Great Depression	Late 1930s	More than (10%)	25%
Great Recession	2008 & 2009	2008 (.3%) and 2009 (2.6%)	10%

We reserve the right to be wrong, but the economy feels more resilient than 2008 and 2009. Consumers are in better shape and leverage is much lower for both people and corporations.

Again, we agree negative growth is a problem. We don't see a deep decline in aggregate demand or an extended period of decline. In a value-focused portfolio like ours, future revenue growth is not the biggest driver of valuation. A company's current and near-term profitability and cash generation get greater attention. The market overall is a different story—too many companies need the topline growth to reach sustainable profits, and when aggregate demand declines, the drops in value get steep and fast. Think all the SPACS, crypto currency and profitless companies.

We currently have three companies in our portfolio that have accepted buyout offers and are waiting for their deals to close. One happened just after the end of the quarter: Meridian Bioscience (VIVO). Sanderson Farms remains a carryover from 2021 and Ocean-Bio we discuss later in the letter. This represents the most buyouts the fund has had in a six-month period. Confirmation from others that we have undervalued holdings is reassuring, but also a bit of a bummer when the acquirer gets a discount due to a lower overall market.

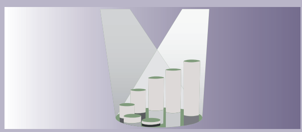
We expect the deals to close toward the end of the year, with the caveat that the Sanderson deal is receiving significant regulatory scrutiny. For practical purposes, about 15% of the portfolio is insulated by a buyout or actual cash on hand. We expect to deploy these resources as they come available taking advantage of what we expect will be attractive prices for profitable enterprises.

Below is a chart that talks about recoveries from bear markets and hopefully provides perspective on how long they have historically lasted on average and, equally interesting, the length of time to recover.

The hard question in down markets is whether to buy undervalued companies or sell them. The weak companies or speculative issues have already been sold. At this point in the cycle, people are either lumpers or splitters. Lumpers believe the world is best described and understood by macro all-encompassing trends and events where similarities are more important than differences. Lumpers might be more inclined to sell and wait for the crowd to return to better spirits. Splitters think the world is best described by unique and specific attributes that aggregation often dilutes. We are splitters. We find the value in specific attributes that others overlook for reasons that have little to do with the actual company. We think the overwhelming negative sentiment that currently prevails will open profitable investment opportunities.

While our medium-term strategy continues to focus on buying a dollar's worth of value for 50 cents, we do recognize the challenging macro and geopolitical environment. Inflation will be with us until the Federal Reserve or the economic cycle squeeze off enough aggregate demand to stabilize prices. These macro-economic risks alongside some significant geo-political turbulence will keep us managing our capital with an additional focus on risk and caution where needed. As the title of this article stated, "It's Complicated." The best time to hunt for value is when you're the only one hunting and the opportunities are plentiful. With three companies in the portfolio under buyout agreements and a cash balance higher than usual, we are well-positioned for a successful fall.

Portfolio Spotlight



Ocean Bio-Chem, Inc. (Ticker: OBCI)

Business Description:

A Florida-based corporation that manufactures, markets and distributes a broad line of appearance and maintenance products for the marine, automotive, power sports, recreational vehicle and outdoor power equipment markets under the Star brite®, Star Tron®, Odor Star® and other brand names within the United States and Canada. The company manufactures, markets and distributes a line of disinfectant, sanitizing and deodorizing products under the Performacide® and Star brite® brand names. In addition, the company produces private label formulations of many of its products for various customers and provides custom blending and packaging services for these and other products.

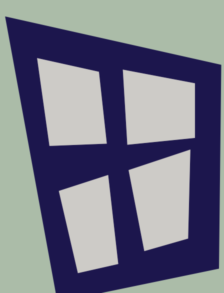
-from Ocean Bio-Chem, Inc. Investor Relations

What's Happening:

On June 22, 2022, One Water Marine, Inc. (ONEW) announced it had signed a definitive agreement to acquire all the outstanding shares of Ocean Bio-Chem, Inc. for $125 million in cash or $13.08 per share. This represented a +110% premium over the previous day's closing price of Ocean Bio-Chem, Inc. The board of directors has unanimously approved the transaction. Due to the CEO and founder holdings in the company, the deal has been essentially finalized with the remaining processes still outstanding. We anticipate the deal closing sometime toward the end of the third calendar quarter.

There were multiple facets that were interesting about the deal. Ocean Bio-Chem, Inc. was a holding that entered our radar during the pandemic. After calls with management (our only option), we made an investment in a company that was at the small end of our scale with an owner that controlled a majority of the shares. We felt at the time that the practical exit for the business would be a sale and we were rewarded for our holding time. What was unforeseen was that the suitor would be another company in the portfolio: One Water Marine, Inc. (ONEW). We feel that Ocean Bio-Chem, Inc. will be an accretive acquisition for the One Water portfolio. Their management has proven to be excellent acquirers during our time holding the company. We also believe that cash was the right vehicle in this marketplace due to the undervalued nature of One Water's stock. We look forward to not only investing the proceeds within our portfolio, but seeing this exiting company flourish inside the One Water family of holdings.

The Window Indicator



This news is from the U.S. Army Corps of Engineers, Detroit District

Phase three construction will start this summer with the $1.068 billion of the New Lock at the Soo Phase three contract award July 1, 2022.

Kokosing Alberici Traylor, LLC (KAT), a joint venture headquartered in Westerville, Ohio, will begin constructing the largest phase, the new lock chamber and rehabilitation of the downstream approach walls. This contract allows the contractor to begin work. With continued funding, the remaining work, valued at $803.95 million may be awarded over the next three years. Corps of Engineers officials expect Phase three construction to take seven years.

"The Corps of Engineers looks forward to beginning construction on the new lock chamber later this summer, and we continue to work hard to maintain the pace and continue to make progress toward New Lock at the Soo total project completion in summer 2030," said New Lock at the Soo project manager, Mollie Mahoney.

We will keep looking out the window with our binoculars to monitor this exciting project in Northern Michigan.

The new Interlake Steamship vessel, Mark W. Barker, will be undergoing sea trials in July. This vessel was featured in a prior Window. We are looking forward to seeing her pass by the Window in the future. She is currently still at the Fincantieri yard in Sturgeon Bay, Wisconsin.

And finally, Lake Carriers' Association is reporting that shipments of iron ore were down over 20% in May. Twenty twenty-two continues to lag prior years as the country struggles to get its feet under it post-pandemic. We could get political at this point, but the weather is too nice out the Window. So, we will grab a cold beverage and a good book and see you in the fall. Have a great summer!

OUR PERFORMANCE

For the second quarter ended June 30, 2022, the Otsi Keta Focus Fund was down 12.34% versus the Russell 2000 Index down 17.50%. Since inception, the Fund has returned 253.59%. 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 2022	Since Inception Annualized	3-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**(12.34%)**	**10.46%**	**18.38%**	**253.59%**
Russell 2000 Index (^RUT)	(17.50%)	7.96%	2.92%	154.05%
Russell 2000 Value (^RUJ)	(15.73%)	6.50%	4.13%	115.10%

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. The figures are blended with a former maximum charge of 1.5%/20%.

Fund Activity

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

Portfolio Highlights

Position	Activity	Comments
Johnson Outdoors	Initiated	Well-known outdoor enthusiast brand with strong fundamentals and management. Second go-around with the company.
Argan, Inc.	Added	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.
Triumph Bancorp, Inc.	Added	Innovative bank in the traditional and fintech space. Innovator in the factoring business with the transportation industry.
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.
Compass Minerals	Trimmed	Essential minerals company with a consistent component (salt) and an imbedded option (lithium). We believe that the "option" makes this an undervalued investment.
Legacy Housing Corp.	Trimmed	Number four producer of manufactured homes in the United States. Great fundamentals coupled with a management team in transition.
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.
M Y R Group, Inc.	Trimmed due to Fair Value	A Midwest-based construction company servicing the energy generation sector.

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 some in the portfolio that remained undervalued, trimmed one due to our nine percent rule and trimmed others to reflect our concerns with the current economy. We continue to look for opportunities amongst the noisy market and feel confident that the market will expose some excellent opportunities in the second half of the year.

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