OTSI KETA QUARTERLY

Forty-eighth Edition - January 2023

OTSI KETA CAPITAL

Q4 2022

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

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QUESTIONS...

F. William Schwarz, III
bill@otsiketacapital.com
810-247-3133

Frederick P. Rollins, Jr.
fred@otsiketacapital.com
810-357-8566

"In investing, what is comfortable is rarely profitable."
— Robert Arnott

VOLATILITY REMAINS

What we got right this year did not translate into great investment performance for our investors. Our portfolio companies in aggregate grew their revenues 13.7% and their operating profit 25.1%. Operating profit growth was substantially more than we forecasted. Based on that fundamental performance, their aggregated stock prices dropped 20%. It happens. It serves as a reminder that markets always reflect more than just a business' fundamentals.

Market conditions changed quickly as a result of macroeconomic news, geopolitical events, company earnings reports and other factors, making it difficult to predict how individual stocks or the entire market would react in the short term. We definitely got some things wrong, but the basic gist of the year was what looked cheap, got cheaper. While we acknowledge that this condition may continue into 2023, we believe the companies we hold currently will benefit from strong earnings, solid balance sheets and a low expectation market.

One of the metrics we track the closest is operating profit. Operating profit excludes a lot of things like taxes, interest on debt, capital expenditures and extraordinary items. These are important, but can distract you from how a company makes its money. Operating profit is the closest approximation you can get to a company making acceptable profits doing its core business. On the basis of operating profit levels and growth, we had a heck of a year. Unfortunately, we play in a league that insists on keeping score in stock price performance. In that department, we just barely beat our benchmark on a year-to-date basis.

	Our Projection for 2022	Actuals for 2022
Aggregate Revenue Growth	20.5%	13.7%
Aggregate operating profit growth	13.6%	25.1%
Operating Profit Margin Percentage	16%	17%

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Market fluctuations are inevitable, and it can be difficult to stay invested in stocks during years like we just had. However, as Peter Lynch famously said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." We plan to stick to our knitting. Stocks tend to go up over time because of the power of compounding. Companies that are publicly traded usually reinvest their earnings and profits back into their businesses, allowing them to grow and increase their value. Additionally, stocks benefit from inflation, as the prices of goods and services tend to increase over time. As companies increase their value, the value of their stocks also increases, and shareholders benefit from the appreciation of their investments. Which reminds us that markets in the short term don't always reflect the true value of a business, but over time markets usually get it about right.

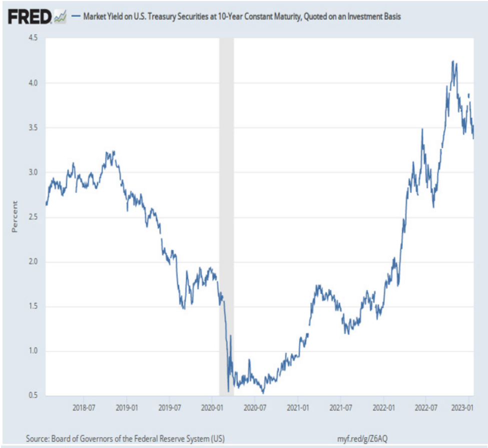
Outlook for 2023:

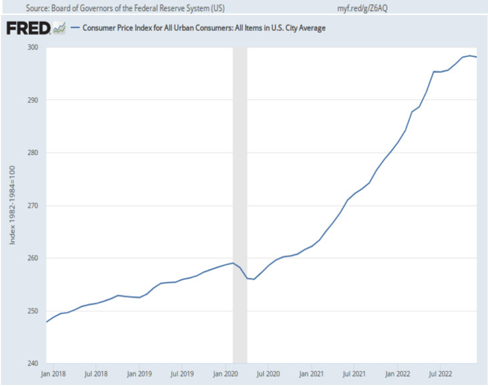
Consistent with our previous letters, we still believe there is a good chance that we get a recession during this tightening cycle. However, our belief remains that any recession will be shorter and shallower than historical slowdowns. Wage inflation lagged the high single-digit increase in consumer prices last year, supporting operating profit growth. Labor costs are consistently the largest component of a company's cost structure. The mismatch in wages and pricing contributed positively to our portfolio companies' earnings outperformance in 2022. We are expecting the reverse to be true for 2023, as companies meet higher wage demands at a time of decelerating inflation.

We currently project mid-single-digit revenue growth for the aggregate portfolio, with slightly negative operating profit growth in 2023. We expect the majority of returns this year to be driven by investor recognition that macro fears are overshadowing attractive valuations. We believe multiples in the portfolio will come up to market multiples, resulting in favorable price appreciation.

Interest rates will remain front and center for us in 2023. We expect higher interest rates to improve the attractiveness of current earnings to investors, as unprofitable companies become less desirable. It is hard for us to imagine rates remaining below inflation forever. With inflation running about six percent and interest rates running below four percent, we think it is plausible for rates to rise and inflation to cool, ending the year for both at around five percent.

Inflation Table and Interest Rates





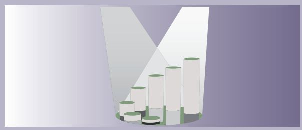
Sentiment

Investor sentiment is the real unknown in 2023. One thing to keep in mind as we absorb the negative media coverage, historically investor discomfort and returns look positively correlated. It is said the market climbs a wall of worry. Below, we remember a few of those worries since we started the fund.

Everybody wants to take advantage of the market's opportunities, but sometimes the signs don't say what you were hoping. As Warren Buffett has said, "The stock market is a device for transferring money from the impatient to the patient." The table below sheds light on how that can happen.

Media Headlines	Dates	Closing Price S&P 500
United States loses prized AAA credit rating from S&P – Reuters	August 5, 2011	1,199
Stocks slammed as Dow erases 2012 gains - CNN	June 1, 2012	1,278
Asian Markets Plunge as Oil Prices Collapse – CNN	October 16, 2014	1,863
Dow ends wild day down 1,175 points, largest point loss in history – USA Today	February 5, 2018	2,649
Stocks Plummet as Coronavirus Crisis Deepens – BBC News	March 9, 2020	2,745
Market starts year	January 3, 2023	3,824

Portfolio Spotlight



DCP Midstream (Ticker: DCP)

Business Description:

DCP Midstream is a Fortune 500 natural gas company dedicated to meeting the energy and consumer needs of our society. With a focus on technology and innovation, they safely and reliably operate a strong and diversified portfolio of logistics, marketing, gathering and processing assets across nine states. Headquartered in Denver, Colorado, they are one of the largest natural gas liquids producers and marketers, and one of the largest natural gas processors in the United States, with over 90 years of industry leadership. DCP is committed to shaping a strong company culture and sustaining business strategy to meet producer customer and downstream user consumer needs and to drive long-term unitholder value. The owner of DCP's general partner is a joint venture between Enbridge and Phillips 66. (From DCP Midstream LP investor relations.)

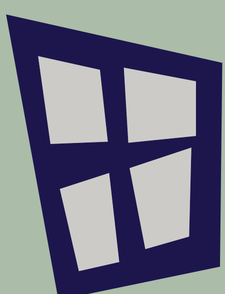
What's Happening:

On January 6, 2023, Phillips 66 and DCP Midstream LP announced a definitive agreement to which Phillips 66 will acquire all of the publicly held units of DCP Midstream LP for $41.75 in cash. This increased the non-binding offer for DCP units that was made in 2022 for $34.75.

The factors that caused the Fund to hold their position after the $34.75 offer were based around the "non-binding" language, and the natural gas market that had risen substantially causing the fair value of the company to be closer to $44.00 per unit in our modeling. We feel confident that the deal will be consummated for $41.75 per unit, as Phillips 66 is already a major shareholder of the pipeline. This transaction is also more of a "tuck-in" acquisition for the larger oil company's portfolio.

We continue to look for companies that fit the domestic value description for Otsi Keta Focus Fund LP. We were very pleased for the Fund and the partners on this particular investment.

The Window Indicator



January 16, 2023

Today marked the end of the 2022 shipping season for the Great Lakes, as the last vessel, the tug and barge Ashtabula/Defiance, cleared the Soo Locks. They were downbound to Burns Harbor, IN, with a load of taconite for one of the steel mills. There currently is one freighter still operating in Lake Superior, but will winter in either Thunder Bay, Ontario, or the Algoma steel docks around Sault Ste. Marie, Ontario.

The typical maintenance on the locks will be performed over the next two months with the season starting toward the end of March. Weather will dictate the official opening date, but March 25, 2023, is the planned opening; stay tuned!

Twenty twenty-two was a different year than the last few with the advantage of not having to fight Covid-19 with personnel on the boats. The price of commodities kept the activity out the window somewhat muted as demand was slowed by price. The tremendous strength of the U.S. dollar did not help that equation.

From the Lake Carriers Association

Around the holidays, a "massive bomb cyclone" impacted the Great Lakes with unplanned early ice. With multiple icebreakers unavailable from both the United States and Canada, shipping was delayed by days at the end of the season. Captains of vessels in some instances had to rely on their own equipment to free themselves. Another call out was made by the shipping companies to add another ice breaking vessel to the fleet in the United States. Unfortunately, if a vessel was ordered tomorrow the lead time would be upwards of 11 years.

We will keep you apprised of the developments.

The Numbers

Great Lakes iron ore shipping was down in 2022. The final numbers came in as the industry saw a weather-curbed December add to a slower year. The year-end total for iron ore was 42.3 million tons, a decrease of 18 percent compared to 2021. Compared to the trade's five-year average, 2022 was down 17.9 percent.

Shipments of limestone were down for 2022, too. Loadings from U.S. quarries totaled 23 million tons, a decrease of 1.9 percent compared to 2021. These numbers were also slightly below their five-year average. Indications from Canadian quarries were softer for 2022 as well.

Well, as we wait for the ice to slide by the window, we will throw another log on the fire and wait for the activity to resume in April 2023. Stay warm!

OUR PERFORMANCE

For the fourth quarter ended December 31, 2022, the Otsi Keta Focus Fund was up 2.90% versus the Russell 2000 Index up 5.80%. Since inception, the Fund has returned 242.44%. 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 4th Quarter 2022	Since Inception Annualized	7-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**2.90%**	**10.21%**	**10.39%**	**242.44%**
Russell 2000 Index (^RUT)	5.80%	7.90%	6.47%	162.00%
Russell 2000 Value (^RUJ)	7.79%	6.42%	6.07%	119.96%

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 fourth quarter. Here's a look at the activity during the fourth quarter:

Portfolio Highlights

Position	Activity	Comments
Insteel Industries	Added	Major player in the wire reinforcing market. We anticipate an increase in business due to construction and infrastructure projects.
DRS Technologies	Initiated	Aerospace and defense company with critical technology in the sensing and mission platforms.
RCM Technologies, Inc.	Initiated	Consulting in the Engineering, Health Care and Life Sciences sectors.
Timken Steel Corp.	Initiated	Alloy, Micro Alloy and Carbon Steel manufacturer.
Neogen Corp.	Exited	Food and animal safety company that was repriced in a merger. New entity exceeded our market cap requirements.
Smith & Wesson Brands, Inc.	Exited	High profile firearm manufacturer that underperformed in the portfolio and had reduced prospects.
Triumph Bancorp, Inc.	Trimmed	Financial and technology company focused on payments, factoring and traditional banking.
Encore Wire Corp	Trimmed due to 9% Rule	Excellent business in the electrical cable and wire market.
M Y R Group, Inc.	Sold Covered Calls due to valuation	A Midwest-based construction company servicing the energy generation sector.

Conclusion

We feel the portfolio is well-positioned for 2023 and the current administration in the United States. We initiated three new names into the portfolio as 2022 ended and added to a company that we started investing in during the third quarter (Insteel). Our game plan is directed around the available cash that will come from the two soon-to-be acquired companies, Meridian Bioscience and DCP Midstream LP. We are actively looking at the prospects of our banking names and some underperforming holdings.

Underperformance is never a standalone reason to exit or trim a company. However, if the business or the environment that the business operates within changes (see Smith & Wesson), we will act accordingly for the benefit of the partners. We still see a lot of shifting sands in the economy for 2023. A shakeup in our federal government plays into our thinking as well. As always, we will remain fluid in our research and attempt to set up 2023 as a nice recovery to a bumpy 2022.

F. William Schwarz, III
Partner
direct: 810.247.3133
bill@otsiketacapital.com

Otsi Keta Capital, LLC
110 South Third Street
Suite 206
Saint Clair, MI 48079

Frederick P. Rollins, Jr.
Partner
direct: 810.357.8566
fred@otsiketacapital.com

OTSI KETA CAPITAL