OTSI KETA QUARTERLY

Fiftieth - July 2023

OTSI KETA CAPITAL

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

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QUESTIONS...

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We are delighted to commemorate a significant milestone in our journey as we proudly release our 50th investor letter for Otsi Keta Focus Fund L.P. This momentous occasion serves as a testament to our unwavering commitment to delivering exceptional results and fostering lasting relationships with our esteemed investors. Over the past years, our team has navigated through various market conditions with prudence and diligence, resulting in consistent growth and success. As we reflect on our accomplishments and embrace new challenges ahead, we extend our heartfelt gratitude to each and every investor who has placed their trust in us. We remain steadfast in our pursuit of excellence and look forward to the continued prosperity of Otsi Keta Focus Fund L.P.

ADOPTING THE RIGHT MINDSET IN RESURGENT MARKET

Our thinking may seem a bit out of step with the investing masses. Investors are under-appreciating the improvements businesses made in the last 36 months. Given the general malaise people are feeling, we continue to find hidden gems we think will outperform over the business cycle. We have added a number of new, under-valued companies to our portfolio in the last year, all of which have strong profits, generate significant free cash flow and have quality balance sheets.

Few companies are going to be able to out earn last year, but most are outperforming our expectations for sales and profit. We continue to be impressed with the way management teams have spent their "COVID-generated profits" on shareholder-friendly pursuits. The investments they made are improving the economics of their businesses and have left them financially stronger than they were pre-COVID.

The divergence between company fundamentals and current market valuations, outside the largest technology players, only makes sense if you believe the economy is going to go into a deep and prolonged recession. We are not seeing signs of that potential wreckage today. Even with our recent out-performance year to date, we don't think prices have caught up with the business improvements.

It's a curious phenomenon in the investing world—people consistently under-investing in market recoveries. We suppose it's human nature. Historically, in the early innings of a recovery, when opportunities abound, investors remain hesitant, skeptical and reluctant to fully embrace the potential gains that lie ahead. Why is it that people consistently under-invest in market recoveries? It is not based on fundamentals or sound logic; in fact, we have a few thoughts on the subject. Mostly out of our desire not to be infected by a bias that would prevent us from adopting a strategic mindset and seize the opportunities that lie within.

Current Portfolio Holdings Key Fundamentals - Aggregated ($ in Millions)

	PRE-COVID - 2019	**TODAY** - (LTM)	DELTA
Total Reported Revenue	$17,591	$27,718	$10,127
Operating Income	$801	$4,060	$3,259
Operating Margins	4.55%	14.60%	1005 BPS%
Net Debt (Year End)	$1,499	$(1,000)	$(2,499)

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Firstly, it's important to acknowledge the profound impact that past experiences have on investors' thinking. Memories of previous market downturns, losses incurred and the emotional toll they exacted can leave deep scars on the psyche. Lingering doubt and fear can paralyze us, creating a hesitancy to fully commit to the market, even when it shows signs of bouncing back. Overcoming these psychological barriers is crucial to unlocking the potential of a recovery.

Uncertainty is another key factor that hampers investors' willingness to dive back into stocks during a recovery. The early stages of a market rebound are often characterized by ambiguity. Will the recovery be sustained? Are positive indicators merely temporary? These questions loom large, making it challenging to gauge the true trajectory of the market. It's human nature to crave certainty, and the absence of it can create hesitation and reluctance to invest.

Timing the bottom is an elusive pursuit that many investors grapple with. The fear of catching a falling knife—the fear of investing too early, only to experience further declines—can be paralyzing. This fear leads some to adopt a wait-and-see approach, delaying their entry into the market until clear signs of stability emerge. However, this cautious stance can result in missed opportunities during the early stages of a recovery, as the most substantial gains often occur in the initial rebound.

Media influence and the herd mentality play significant roles in shaping investor behavior. Headlines, news reports and market commentary can sway sentiment and create confusion. The fear of missing out or the fear of being caught in another downturn can push investors to make irrational decisions or follow the crowd, rather than conducting thorough analysis. Succumbing to these influences can lead to under-investment, as investors may fail to recognize the opportunities presented by a recovering market.

Lastly, emotional biases often cloud judgment and hinder rational decision-making. Fear, greed and the desire to avoid further losses all can influence our investment choices. Emotions tend to amplify during periods of market uncertainty, making it even more challenging to make objective decisions. Emotional biases can lead to under-investment as investors succumb to impulsive actions or choose to stay on the sidelines rather than seize the potential gains that arise during a recovery.

We know that successful investing requires discipline, resilience and a long-term perspective. Overcoming these barriers is not easy, but it is necessary to position ourselves to capture the potential gains that a recovery offers. By acknowledging and addressing our psychological biases, staying informed, conducting thorough analysis and maintaining a prudent strategy, we can navigate the challenges of under-investment and tap into the remarkable opportunities that arise in market recoveries.

In the category of "What Are We Thinking," the prevailing topic centers around interest rates, which has been a prominent theme throughout the year. It is crucial to recognize that the connection between interest rates and stock market valuations is not always straightforward or immediate, despite what experts may suggest. Various other factors come into play, such as economic conditions, inflation expectations, geopolitical events and company-specific considerations, all of which can impact stock prices. Moreover, the stock market involves a diverse array of participants with varying investment strategies, further complicating the relationship between interest rates and stock market valuations.

In an environment where interest rates are rising due to central banks aiming to control inflation or tighten monetary policy, the stock market tends to encounter certain challenges. Instances of groupthink among investors can result in history essentially repeating itself or displaying familiar patterns. In the current scenario of increasing interest rates, we believe that investors have been behaving in line with historical patterns.

Initially, there is heightened volatility in the stock market as it enters a rising interest rate cycle. Investors make adjustments to their portfolios and re-evaluate risk factors. The concerns stem from potential higher borrowing costs, decreased corporate profits, and the possibility of an economic growth slowdown. Consequently, stock prices may decline or become more erratic.

Different sectors of the stock market may respond divergently to rising interest rates. For instance, sectors sensitive to interest rates, such as utilities, real estate and consumer staples, known for their stable dividends and high debt levels, may underperform as increased borrowing costs affect their profitability. On the other hand, sectors like financials may benefit from higher interest rates since they can potentially earn greater profits on lending activities.

During a period of rising interest rates, investors may also seek defensive stocks that are less affected by interest rate changes. Defensive sectors like healthcare and consumer discretionary may perform relatively better, as they tend to be less sensitive to interest rates.

We prefer to steer clear of the trends that sway the investing crowd and remain focused on the underlying value of each business. Our long-term returns are driven by identifying excellent companies trading at a discount to their fair value.

The Window Indicator

We thought we would start out the second quarter letter with reporting on some of the traditional cargo we spy out the window. This cargo consists of iron ore, limestone, salt, wheat and the occasional container ship or repurposed freighter hauling windmill parts or mega yachts from the Southern regions for the boating season. We will focus on the commodities that are tracked.

Iron Ore

Shipments of iron ore were markedly higher in June and have been tracking above average for the 2023 shipping season. The Lake Carriers' Association reports numbers that are 47.8 percent higher year-over-year and 12.7 percent above the 5-year average for June. Unfortunately, the year-to-date numbers don't look as positive with numbers of 13.8 million tons that are down 44 percent from the previous year.

The price for the raw and the finished goods are playing into the numbers, as inflation has reared its head in this space.

Limestone

Shipments of limestone were lower in June and have been tracking below average for the 2023 shipping season. The Lake Carriers' Association reports numbers that are 17.6 percent lower year-over-year and 17.4 percent below the 5-year average for June. The year-to-date numbers don't look positive either, with numbers of 8.1 million tons that are down 16.9 percent from the previous year.

The interesting tracking with limestone is that the numbers come from U. S. quarries along with quarries from Canada. Again, we see the effects from the interest rate environment and inflation with this commodity as well.

As far as containers and yachts, who knows? The containers are certainly a curious sight, and the yachts are always pretty to look at.

Profile of a Great Lakes Freighter

M/V Arthur M. Anderson
Part of the Great Lakes Fleet

Length	767 feet Originally 647 feet until 1975
Beam	70 feet
Depth	36 feet
Midsummer Draft	27 feet

Some of the waterways are only a guaranteed depth of 27 feet.

Unloading Boom

Conveyor Length	262 feet
Capacity	25,300 tons
Engine Power	7700 shp steam turbine

The ship entered service in 1952 built by the American Shipbuilding Company in Lorain, Ohio. Originally the vessel sailed under the Pittsburgh Steamship Division of U. S. Steel. Its namesake was a director of U. S. Steel and Vice Chairman of J. P. Morgan & Co.

The freighter's ominous claim to fame was being the last contact of the Edmund Fitzgerald that was lost in Lake Superior in November of 1975. She was sailing in the same treacherous conditions, but survived.

The Anderson was converted into a self-unloader in 1982 and currently sails the Great Lakes hauling primarily stone. She can be seen out the window every five to 10 days, depending on her destination. She received a $4 million dollar upgrade in 2019, and hopefully will be sailing for many years to come.

Year-to-Date 2018-2023 Iron Ore Shipments for U.S. Carriers (through June)

Port	2018	2019	2020	2021	2022	2023	Average 2018-2022
Duluth, MN	2,903,098	3,299,081	3,122,148	3,208,568	2,160,592	3,499,255	**2,938,697**
Superior, WI	4,591,148	4,131,178	3,207,323	4,762,549	3,839,519	4,850,880	**4,106,343**
Two Harbors, MN	6,173,539	6,765,237	5,674,773	6,630,395	4,874,410	6,135,912	**6,023,671**
Silver Bay, MN	2,314,162	1,904,750	1,626,192	1,964,363	712,212	536,769	**1,704,336**
Marquette, MI	2,516,029	2,484,623	1,954,568	2,813,645	1,706,723	2,809,626	**2,295,118**
Cleveland, OH	1,215,107	1,103,229	1,261,635	1,325,311	491,212	2,023,344	**1,079,299**
Ashtabula, OH	437,543	504,803	340,802	28,553	--	--	**262,340**
Total	**20,150,626**	**20,192,901**	**17,187,441**	**20,733,384**	**13,784,668**	**19,855,786**	**18,409,804**

OUR PERFORMANCE

For the second quarter ended June 30, 2023, the Otsi Keta Focus Fund was up 9.77% versus the Russell 2000 Index up 4.79%. Since inception, the Fund has returned 297.66%. 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 2023	Since Inception Annualized	3-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**9.77%**	**11.05%**	**17.02%**	**297.66%**
Russell 2000 Index (^RUT)	4.79%	8.16%	9.43%	180.96%
Russell 2000 Value (^RUJ)	2.54%	6.27%	13.17%	122.76%

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 quarter:

Portfolio Highlights		
Position	**Activity**	**Comments**
Argan Inc.	Added	A North American engineering, construction and maintenance company in the power generation space. A former holding that was reinvested second quarter of 2022. A highly anticipated sector of the economy.
Hudson Technologies	Added	A refrigerant services company that is an interesting play on the constant changes surrounding the environmental rules to the different gases.
Sensus Healthcare Inc.	Added	A medical device company that manufactures and sells radiation therapy devices. A micro-cap play that should bear fruit.
Titan International Inc.	Initiated	Manufacturer of wheels, tires and undercarriage systems and components for off-highway vehicles. The company occupies the agriculture, construction, and consumer segments. Midwestern based.
DCP Midstream Partner, LP	Exited - Company acquired	Deal closed on June 16.
First Foundation Inc.	Exited	A regional bank and asset manager.
Triumph Bancorp, Inc.	Exited	Financial and technology company focused on payments, factoring and traditional banking.

Conclusion

The second quarter started off slowly, with May contributing a little upside to the quarter. Recognition of the companies in the portfolio started to hit stride in June. Earnings continue to be steady as some companies have experienced tough comparisons year-over-year.

Backlog for the portfolio companies continues to be robust by and large. We were able to find a new value name in Titan International (TWI), and slowly added to the holding throughout the end of the quarter. We added to Hudson Technologies in the beginning of the quarter as it pulled back due to general market conditions. Our Sensus Healthcare holding was completed in the beginning of the quarter.

We are encouraged by the early summer moves of the small-cap market space as the markets try and broaden the rally. This should be a rather typical summer as the market focuses on the late innings of the Fed tightening cycle. We like where the portfolio is currently positioned.

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