OTSI KETA QUARTERLY

OTSI KETA CAPITAL

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Q1 2018

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

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QUESTIONS...

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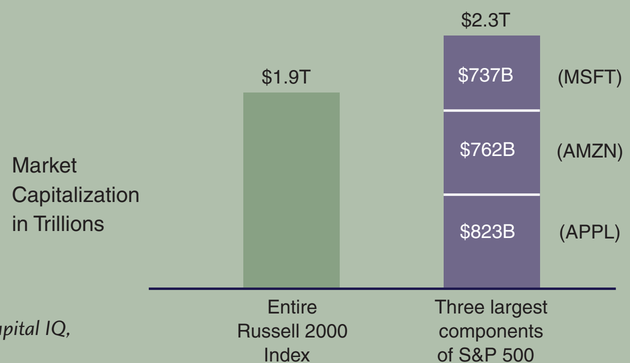
A HOBSON'S CHOICE

In the late 1500s, an Englishman named Thomas Hobson had an extensive stable of horses. Hobson rented to customers in need—the equivalent of a rental car. Hobson was a pragmatic gentleman, who also knew a bit about marketing. As the story goes, Hobson's extensive selection of mounts, rumored to be about 40, attracted potential patrons who wanted a great deal of choice. Customers believed they would be able to pick from any of the steads available. Not so, as it turns out. When customers came to the livery to rent, they learned the only choice they would have was to take the horse closest to the door or none at all. So while the patrons had free choice, it was a take-it-or-leave-it proposition. Today, we refer to something as a Hobson's choice when we really have no choice at all.

Hobson wasn't trying to be difficult, just pragmatic. He didn't want his best horses overworked. If Hobson had been a money manager, he might have worried a bit about how concentrated, in a handful of few names, investment portfolios are becoming. Concentration risk is something we think about often. Usually, it is in the context of customers or industries. This quarter, we thought about the famous livery keeper due to the incredible performance and size of the top three components of the S&P 500. These three large capitalization companies have been carrying the market and, in general, beating the pants off our returns. In fact, we see a fair number of funds overweighting the names and enjoying returns in excess of their benchmarks. We can't tell you if they will continue to outperform, but we did some math. We were pretty surprised to learn that the three largest S&P components have a higher combined market capitalization than the entire Russell 2000.

Market Capitalization Comparison



Source: S&P Capital IQ, OKC Analysis

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Their size and strength have created a Hobson's choice, of sorts, for most investors and fund managers. If a manager wants to keep up with any of the broader indexes, they must by default own the names. Perception becomes reality, as a greater percentage of capital is passively invested in index and index tracking ETFs that hold the names. Our crystal ball remains in the shop, so we don't know how this will work out over the long term. The questions we are asking ourselves are: How much growth and profit do you need to create a company with a trillion dollars of sustainable market capitalization? How comfortable will society be with companies that are this successful? Why the heck didn't we own lots of shares of the FANG companies in our personal accounts?

While thinking about the large cap universe makes for interesting discussion, we remain focused day to day on the small-cap world. As you know from your recent quarterly statements, we had a tough quarter on both an absolute basis and a relative basis. We are going to have many more positive and negative quarters. We continue to have confidence in our holdings and their management teams. In the short and medium term, stock prices don't always track the fundamentals; over longer periods, we believe the value is always reflected.

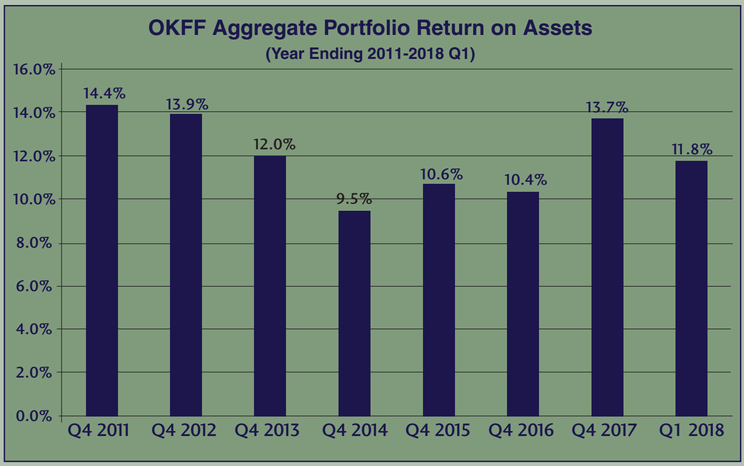
We suspect the next couple quarters will be volatile and should give us a chance to take advantage of the more emotionally inclined by investing in assets that are cheap and selling those that are fully priced. Our portfolio is highly concentrated in domestic companies, which will benefit from the recent tax changes, but are also being impacted by the uncertainty surrounding NAFTA and tariffs.

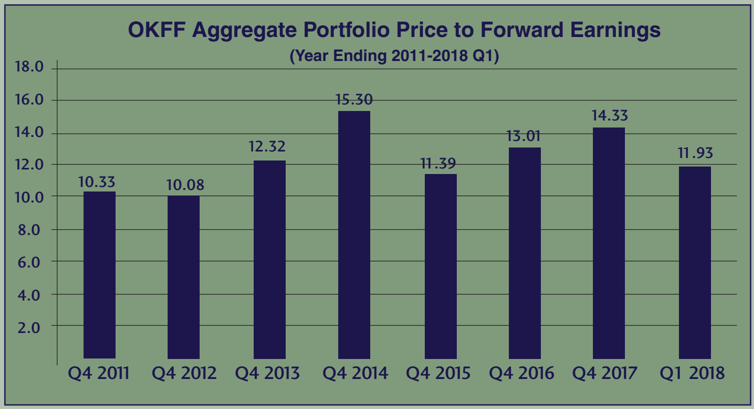
Being underweight in financial and technology, this quarter negatively impacted a portion of our performance. Financials and technology have been outperforming the index. We have no plans to adjust our investment process as we are bottom-up stock investors and believe in finding undervalued companies…not trying to guess which sectors will lead and follow.

Performance by Sector of the Russell 2000

Sectors of the Russell 2000	One Year Cumulative Return	Three-Year Cumulative Return	Five-Year Cumulative Return
Financials	2.85%	26.18%	73.83%
Healthcare	35.90%	35.80%	148.70%
Industrials	17.52%	25.36%	80.95%
Technology	17.58%	47.36%	129.21%
Consumer Staples	0.70%	12.18%	93.78%
Consumer Discretionary	15.68%	15.45%	73.39%
Energy	-17.55%	-38.50%	-48.72%
Utilities	8.44%	21.92%	68.33%
Materials	14.70%	36.36%	76.58%

The current market has, at least temporarily, overlooked what we feel are some smartly undervalued holdings. The charts below look at our portfolio on an aggregated basis. At the end of the first quarter, our portfolio was trading just under 12 times forward earnings with an average return on assets of 11.8%. For some perspective, Morningstar tracked the Russell 2000 index at roughly 21 times forward earnings and had minimal returns on average assets at the end of Q1.





The Window Indicator

This year, we are opening the window early. There is some follow-through news to report about the HBI plant in Toledo, and we wanted to update the readers on the start of the 2018 shipping season. Also, there is activity in the fleet with our neighbors to the north (Canada). Let's open the window and see what is happening for early 2018.

TOLEDO, OHIO – As reported last year, Cleveland-Cliffs Inc. is building a $700 million dollar hot-briquetted iron production plant in Toledo, Ohio. Groundbreaking for its construction was on April 5. This will add jobs to the Midwest and, more importantly, ensure current jobs in the Midwest for years to come. This plant will be one of the world's most modern and efficient ironmaking plants. This construction also works in concert with an updating of the pellet plant in Silver Bay, Minnesota. The Northshore facility is currently under construction and will directly benefit a holding of Otsi Keta Focus Fund LP. We will be keeping a close eye on the construction of these two facilities.

SHIPPING SEASON – The fleet got off to a quick start as the locks for the Soo and the St. Lawrence Seaway are now open. The remaining carriers on the U.S. and Canadian side quickly got their fleet in service to haul for the continued strong economy in the Great Lakes region and the Midwest. The word out of Duluth is that 2018 will be as strong, if not stronger, than the 2017 season for iron ore. 2017 was the port of Two Harbors, Minnesota's best year in the last 10, according to the Duluth Seaway Port Authority. The Port Authority public relations director, Adele Yorde, was quoted as saying, "There is no indication that the strong demand for iron ore is going to decrease anytime soon."

CANADA – Canada Steamship Lines has seen the effect of an improving economy. The deck officers went on strike for approximately one week. Their boats were suspiciously absent from the window previous to a Canadian news source confirming a strike. Freighters quickly started to show up in winter ports as the strike was being resolved. As of April 27, the news services are reporting a return to normal operations, as the strike has been settled. We are assuming the complaint was not over the quality of meals on board!

On a separate note, the Algoma fleet continues to update their vessels. The AlgoLake, AlgoSteel and the Algoma Olympic have been retired and sold for scrap. The boats will be towed overseas later in May.

That is the news from the Window for the beginning of the year. Should be an interesting season. See you in July!

U. S. Steel Industry's Capacity Utilization Rate		
Steel Market Snapshot (millions of metric tons)	**2011-2016 Average**	**2017 Annualized**
Total Demand for Steel in U.S. (production + imports-exports)	105.5	107.3
U.S. Annual Capacity	114.4	113.3
U.S. Annual Production (liquid)	84.6	81.9
Capacity Utilization Rate (percentage)	74.0	72.3
Imports and Exports (millions of metric tons)		
Imports of Steel to U.S. (including semi-finished)	31.8	36.0
Exports of Steel from the U.S.	10.8	10.1
Percent Import Penetration	30.1	33.8
Production at Various Utilization Rates (millions of metric tons)		
Maximum Capacity	114.4	113.3
Production at 75% Capacity Utilization	85.8	85.0
Production at 80% Capacity Utilization	91.5	90.6
Production at 85% Capacity Utilization	97.2	96.3

MARKET REALIST

Source: Census Bureau, Commerce Department, AISI

OUR PERFORMANCE

For the first quarter ended March 31, 2018, the Otsi Keta Focus Fund was down 5.34% versus the Russell 2000 Value Index at (0.40)%. Since inception, the Fund has returned 134.27%. 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.

Just a reminder, our performance "benchmark" has always been the Russell 2000 Index as indicated below. The Russell 2000 Value Index more closely represents the style of company that is found within our portfolio. Because we are loathe to change our paperwork to update our "benchmark," Otsi Keta will continue to focus on beating both indexes going forward.

Fund Name	ROR 1st Quarter 2018	Annualized 5-year return	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**(5.34)%**	**10.85%**	**134.27%**
Russell 2000 Index (^RUT)	(0.40)%	9.96%	127.52%
Russell 2000 Value (^RUJ)	(3.09)%	7.75%	92.54%

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%.

Portfolio changes for Otsi Keta Focus Fund L.P.

Additions:

- Smart Sand Inc (SND)
- Nutri Systems (NTRI)
- Capella Education Co (CPLA)

Reductions:

- Ishares Russell 2000 ETF (IWM)
- Cooper Tire & Rubber (CTB)

The "additions" can refer to equities that were added to or new positions that were established. For the first quarter, all of the additions were with current holdings.

The "reductions" refer to positions that were downsized or eliminated. In the case of the Ishares holding, this was a liquidation. The Cooper Tire position was a reduction in the quarter.

From time to time, the Ishares ETF is used as a placeholder for cash as new research is being worked out. This allows the Fund to be engaged with the market instead of sitting in cash.

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