OTSI KETA QUARTERLY

Fifty-first - January 2024

OTSI KETA CAPITAL

Q1 2024

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

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QUESTIONS...

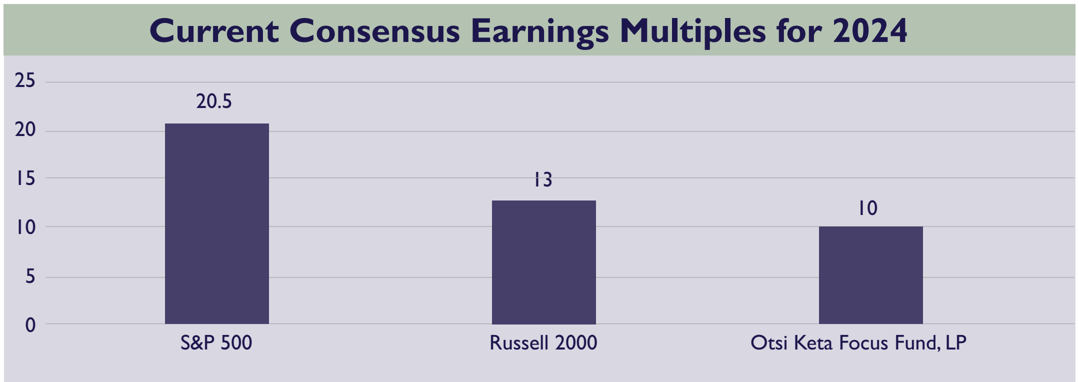
F. William Schwarz, III
bill@otsiketacapital.com
810-247-3133

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

In the first quarter 2024, the companies in Otsi Keta's portfolio reflected the Tolstoy principle: "All happy families are alike, every unhappy family is unhappy in its own way."

TOLSTOY PRINCIPLE

Our portfolio and small capitalization value stocks took a breather this quarter. The broader market embraced stronger-than-expected economic data, and the S&P 500 took off. This move created a bigger performance gap between the performance of large/growth and small/value companies. By performance gap, we mean stock price. Our portfolio of small capitalization companies saw business fundamentals improve, but the stock prices haven't immediately reflected what we considered good business results.



The divergence in price performance created a large multiple discount between our portfolio and the market as a whole. This multiple discount implies that investors are willing to pay almost twice as much for the same dollar of earnings over the next 12 months for large capitalization companies compared to small capitalization companies.

That is a big difference that we expect will close to our benefit over time. Higher multiples mostly reflect higher earnings expectations. Currently, analysts are projecting low double-digit profit growth on mid-single-digit revenue growth for the S&P 500; we expect similar performance from our holdings. So, we aren't concerned about the quarter's stock price performance.

What is keeping a lid on small company stock prices if it's not fundamentals? Our best analysis says it is a combination of three things:

1. The belief that interest rates will stay higher for longer
2. Continued weakness in regional banks where small companies go for bank loans and credit
3. Investor confidence decline

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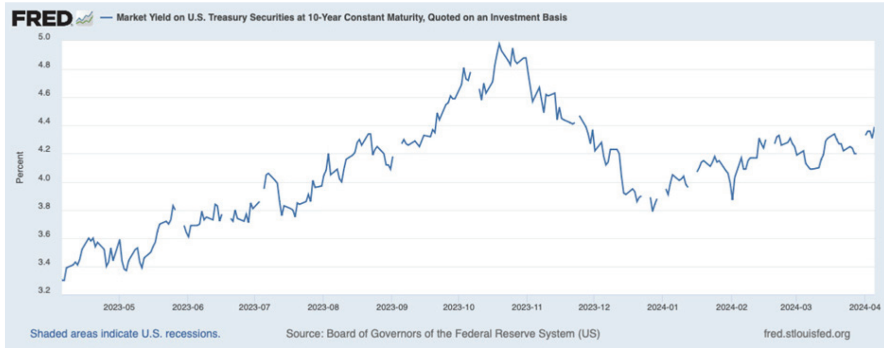
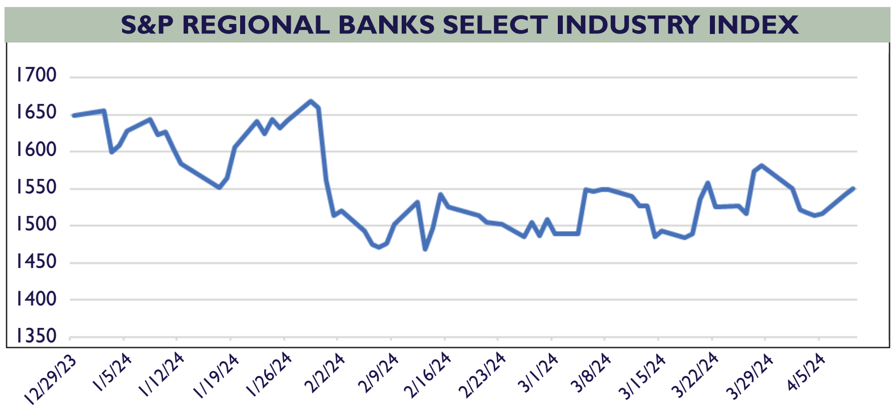
We currently think interest rates will stay higher for longer. Inflation is going to be tough to tame and it's important we slay that dragon. Many were expecting multiple Federal Reserve rate cuts this year and had baked that into their stock valuation models. We have no cuts baked into our models. We aren't big Federal Reserve watchers, but we keep a close eye on 10-year bond yield and don't see long rates coming down significantly this year.



Regional banks provide the bulk of the credit and bank loans to small capitalization companies. Over the past year, these financial institutions grappled with a perfect storm of challenges. First, as the Federal Reserve raised rates to combat inflation, regional banks faced raising deposit costs. Attracting and retaining deposits became costlier, squeezing profit margins. Second, their substantial exposure to office building loans heightened risk. Lastly, jitters emerged as bank failures like Silicon Valley Bank compounded the crisis, emphasizing the need for liquidity, vigilance and risk management. The weakness in regional banks hurt and continues to weigh on investor sentiment toward smaller companies.



The economy is pretty good, but people feel it might not last. That is driving the investor sentiment decline, but the consumer says otherwise. In the aftermath of COVID benefits, the impulse to cling to an elevated lifestyle persists, buoyed by a mixture of psychological comfort, societal expectations and apprehension about deviating from the status quo. COVID money got consumers into different spending routines. The data says they are sticking to the higher spending even after COVID money has left their bank accounts. You would think as guardians of their financial destinies, people would exercise restraint and foresight, prioritizing long-term prosperity over transient comforts. You would be wrong. Our identities and social standings are often intertwined with our lifestyles, fostering a reluctance to alter them even in the face of adversity. We know the government doesn't do frugal, but the American consumer doesn't seem to embrace it either.

Overall, the market landscape this quarter has exemplified the Tolstoy principle—showcasing unique challenges and opportunities within different sectors. While our portfolio and small capitalization value stocks experienced a breather amidst a broader market surge, we remain optimistic about the future and anticipate this gap will close to our benefit over time. We maintain our focus on fundamental analysis and long-term growth prospects. As the economy continues to show resilience, albeit amidst lingering uncertainties, we recognize the importance of prudent financial management and remain committed to navigating these fluctuations with strategic foresight.

OUR PERFORMANCE

For the first quarter ended March 31, 2024, the Otsi Keta Focus Fund was down 1.48% versus the Russell 2000 Index up 4.81%. Since inception, the Fund has returned 343.75%. 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 2024	Since Inception Annualized	10-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**(1.48)%**	**11.14%**	**10.28%**	**343.75%**
Russell 2000 Index (^RUT)	4.81%	8.62%	6.12%	216.05%
Russell 2000 Value (^RUJ)	2.33%	6.86%	4.68%	151.83%

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%.

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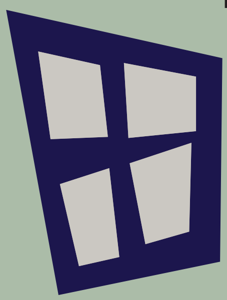
The Window Indicator



The locks in Sault Ste Marie officially opened on March 25. The vessel Joseph L. Block was the first to come through at 6 p.m. as the shipping season starts to ramp up. As of April 8, most of the fleet has been returned to duty from the winter lay-up. Unfortunately, a couple of vessels from the 2023 season have been retired and headed to the scrap yard: Algoma Transport, Tecumseh and Joseph H. Thompson (barge).

Year-end numbers for 2023 from Lake Carriers Association

The year-end 2023 total for iron ore was 51.1 million tons, an increase of 20.7 percent compared to 2022.

Also, Lake Carriers report that $120 million has been invested into the U. S. fleet that sails on the Great Lakes for the 2024-25 shipping season. This is a remarkable amount of money given the off-season lasts only two months.

M/V American Spirit

The MV American Spirit entered service in 1978 as the self-unloading freighter George A. Stinson for the National Steel Corporation of Cleveland, Ohio. She sailed under the management of Hanna Mining Company hauling taconite (iron ore pellets) for the steel firm. In 2004, after bouncing around from various lease and sub-lease situations, she was acquired by American Steamship Company, and renamed the American Spirit at Bay Shipbuilding honoring the spirit of the company's workers and the spirit of America, according to the American Steamship Company's president.

The freighter has routes that take her from ports in Lake Superior to ports of call in Lake Michigan and Lake Erie, including stops in the Detroit River. She hauls primarily iron ore to this day and is a frequent guest outside the "window."

Part of the Rand Logistics Fleet (Formerly American Steamship Company)

Length	1004 feet
Beam	105 feet
Depth	50 feet
Midsummer Draft	28 feet

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

Capacity	62,400 tons
Engine Power	16000 bhp diesel

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Fund Activity

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

Portfolio Highlights		
Position	**Activity**	**Comments**
Encore Wire	Assigned at $200 via option expiration	Our overweighted position at year's end in a beloved company of the portfolio was called away the third week of January via option writing. This was mentioned as we neared year end to hold individual positions under 9% of the portfolio.
Enact Holdings, Inc.	Initiated	This Genworth subsidiary is a private mortgage insurance company insuring prime-based, individually underwritten residential mortgage loans; contract underwriting services for mortgage lenders; and mortgage related reinsurance products. It primarily serves originators of residential mortgage loans.
Cross Country Healthcare	Added	Added due to positive business progress.
Hudson Technologies	Added	Should benefit from regulatory clarity.
Mueller Industries	Added	Continued strength in copper prices..
Timken Steel Corp. (Now renamed Mettalus, Inc.)	Added	This was a current holding in a sector that we like with inflation and economic readings. This is an under-followed name in the mini-mill steel arena.
Titan International, Inc.	Added	Announced strategic acquisition in adjacent space.
Wabash National Corp	Added	Strength in backlog and capacity utilization.
Onewater Marine, Inc.	Exited	This well-run company is not in a favorable environment for margin expansion. This holding will remain in the "bullpen" for future consideration.
Sensus Healthcare Inc.	Exited	A company that was on the small end of small cap never delivered the growth that we projected for their products.
Winmark Corp.	Exited	The oldest holding in the portfolio (initiated in 2011) grew well beyond our fair value projection and we moved on. A well-run company that will remain in our "bullpen" for future consideration.

Conclusion

Twenty twenty-four has started out with a mega-cap headwind blowing in the face of the other market-cap sectors of the market. We see a bright future for the small-cap market as the overall market digests the ever-changing interest rate hike projections (I think the "professionals" are down to a potential three). The portfolio has always held profitable companies in the small-cap arena, which insulates us from some of the market gyrations due to interest rates. However, no one is ever completely immune.

We believe that the second and third quarters will be a shot in the arm to the portfolio as investors ultimately look for a high-quality, well-valued company over the latest buzz. Time will tell, but we do love our history with this projection.

Oh yeah, there is an election coming up (in case all your media devices have been destroyed). That should put us into "interesting" mode come the fourth quarter. All exciting situations to look forward to. Well, back to filling the sandbags at the home office! Enjoy your spring!

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