OTSI KETA QUARTERLY

Fifty-third edition - July 2024

OTSI KETA CAPITAL

Q2 2024

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

IN THIS ISSUE...

QUESTIONS...

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

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

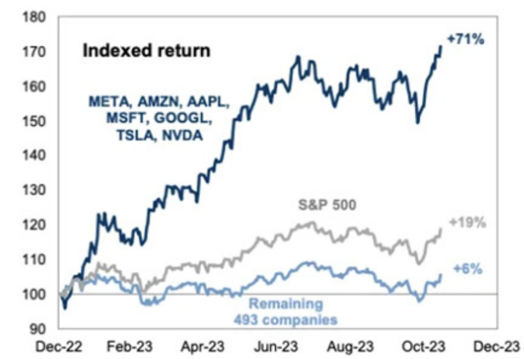
"JUST KEEP SWIMMING" - *Finding Nemo*

A small group of high-growth, successful companies are generating most of the broader market's performance. Think Nivida, ARM Holdings, etc. This outperformance has captured investors' attention. The bias has been for new money to flow into what has been working since January. It has left small capitalization companies, our area of focus, under-owned by institutional and retail investors. The lack of interest has contributed to a disappointing first half of the year for the Fund. As you can see from the accompanying charts that run through 2023 the dominance of a few firms had reached historic levels, today their concentration in the low 30s

Exhibit 22: Share of largest seven companies' market cap in S&P 500 is at an all-time high

Source: Compustat, Goldman Sachs Global Investment Research

Exhibit 23: The Magnificent 7 have led the index higher in 2023



Source: FactSet, Goldman Sachs Global Investment Research

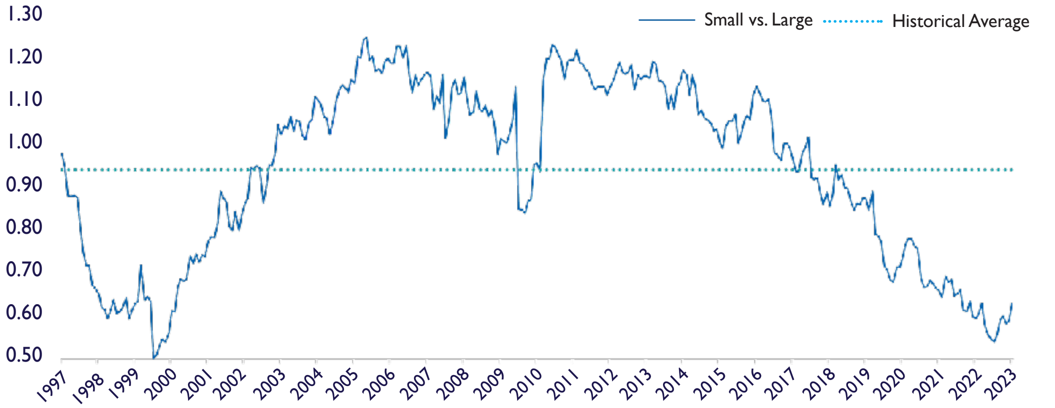
With over a decade running the Fund, we have seen this environment before. Business and sentiment cycles create headwinds to short-term performance while setting the stage for superior returns further on the horizon. Small companies are selling at a significant discount to their large company brethren based on earnings multiples. It is not unusual for small companies to trade at higher earnings multiples than bigger companies, but at the end of the quarter they were at a discount, and an unusually large one.

The graph on the next page put together by our friends at Aristotle Funds captures the historic nature of the discount through 2023.

Continued on page 2...

Continued from page 1

Relative P/E (Last 12 Months): Russell 1000 vs. Russell 2000 Indices



Source: FactSet as of 12/31/2023. Chart is based on the relative price-to-earnings (P/E) ratio. P/E ratios utilized are based on trailing 12-month earnings. Small caps are represented by the Russell 2000 Index, which measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which itself is made up of nearly all U.S. stocks. Large caps are represented by the Russell 1000 Index, a subset of the Russell 3000 Index, and consists of the 1,000 top companies by market capitalization in the U.S. The **price-to-earnings (P/E) ratio** is the ratio for valuing a company that measures its current share price relative to its per-share earnings. **Relative P/E** compares the current absolute P/E to a benchmark or a range of past P/Es over a relevant time period.

The negative investor sentiment toward all things small is driven by interest rate fears and inflation. Small companies are more reliant on bank lending for growth, and rates have remained higher for longer than many were predicting. High inflation, particularly labor inflation, impacts small companies sooner due to higher labor costs as a percentage of goods produced. We admit this doesn't sound great now, but we are only paying $.39 for the same dollar of earnings that investors are paying for the S&P 500. We think the discount, over 50 percent, is simply too great to be ignored for long.

Relative P/E's Ratios for the Fund and Market Benchmarks

	Otsi Keta Focus Fund, LP	Russell 2000 Index (IWM as Proxy)	S&P 500 Index
Trailing P/E Ratio	10.8	15.9	27.5
Relative Discount to the Benchmarks	n/a	.68	.39

**Source: Macrotrends available history*

We might agree with those who say value is not a catalyst. We might even agree with John Maynard Keynes' famous line, "the markets can remain irrational longer than you can remain solvent."

Interest rates will moderate and administrations will change, allowing investors to profit from the superior price discounts being offered. We expect second-half performance to be driven by modest sales growth and flat operating margins and two to three points of multiple expansion multiple expansion.

Channeling Benjamin Graham

Benjamin Graham, known as the father of value investing, approached investing with caution and discipline. His investment philosophy emphasizes the importance of thorough analysis, margin of safety and a long-term outlook. We use all of these ideas in constructing the Fund's portfolio.

With a slow start to the year, we remind ourselves of his philosophy around maintaining a long-term perspective. Graham advocated for longer time investment horizons, emphasizing that short-term market fluctuations often do not reflect a stock's true value. This approach is particularly relevant for small-cap stocks, which may experience greater volatility and fluctuations in price compared to larger, more established companies.

Graham was fond of pointing out the distinction between investing and speculation, the latter being a poor substitute for investing. Investing involves careful analysis and consideration of intrinsic value, while speculation relies more on market sentiment and short-term price movements. We will continue to reassess our investments as markets and sentiments change, but for now we are going to channel Mr. Graham and stay disciplined.

Impact of Potential Right-Leaning Leadership on the Midwest Economy

These are our early thoughts on first-order impacts if a change in political direction comes in November. As we often remind ourselves, a week in politics is a lifetime in the real world.

1. **Industry Focus:** The Midwest's diverse industrial base, including manufacturing, agriculture, energy and technology stands to benefit from right-leaning policies like tax cuts and deregulation. Reduced regulations on manufacturing could boost production and job growth in states like Michigan and Ohio.
2. **Agriculture:** As a major agricultural hub, the Midwest could see significant benefits from policies favoring farm subsidies, trade agreements and relaxed environmental regulations, supporting rural economic growth.
3. **Energy:** States like North Dakota and Oklahoma, prominent in oil and natural gas production, could experience economic boosts from policies promoting energy exploration and production.
4. **Infrastructure:** Emphasizing private-sector involvement and cost-efficiency in infrastructure development, right-leaning approaches could improve transportation and logistics infrastructure, benefitting various industries.
5. **Labor Policies:** Labor policies typically support business interests, influencing wage growth, job creation and the overall business environment.
6. **Trade and Tariffs:** The Midwest, with its manufacturing and agricultural exports, is sensitive to trade policies. Administrations may implement protectionist measures or negotiate trade agreements, impacting export-dependent industries.

Overall, while these policies aim to stimulate economic growth through reduced government intervention and business support, outcomes depend on dominant regional industries and broader economic conditions, including global trade dynamics, technological advancements and demographic trends.

The Window Indicator

Ice Breaker Budget Update

In the latest budgeting round for a new Great Lakes Ice Breaker (GLIB), the U.S. Coast Guard initially requested $55 million. However, only $20 million was allocated in the announced budget. Recognizing the vital role of this vessel in Great Lakes shipping, Representative John James of Michigan proposed an amendment to secure the remaining $35 million.

While $55 million in today's economy aims to cover the new ice breaker, its critical importance to maintaining Great Lakes shipping lanes for the U.S. economy cannot be overstated. We await further updates on this crucial development.

Shipping Insights

Iron ore shipments saw a slight decline in May, but remained higher compared to 2023 levels. Conversely, limestone shipments surged significantly, marking a 30% increase for May and over 40% year-over-year growth.

M/V Michipicoten: A Legacy

The M/V Michipicoten, named for "big bluffs" in the Ojibwe language, is part of Canada's Lower Lakes Towing Fleet. Built in 1952, originally as the Elton Hoyt 2nd, it was completed in Chicago due to freighter shortages. Converted to a self-unloader in 1980, it narrowly escaped scrapping.

Sold in 2003 and repowered in 2010, the M/V Michipicoten recently made headlines with a 13-foot hull gash while carrying iron ore from Two Harbors, MN, to Sault Ste Marie, ON. After inspection in Thunder Bay, ON, it's now at Frasier Shipyard in Superior, WI, undergoing a thorough dry dock assessment.

Despite the incident, its 72-year journey as a Great Lakes freighter has been remarkable. Stay tuned for updates on its continued operations. Enjoy your summer!

Continued from page 3

OUR PERFORMANCE

For the second quarter ended June 30, 2024, the Otsi Keta Focus Fund was down 3.71% versus the Russell 2000 Index down 3.62%. Since inception, the Fund has returned 327.30%. 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 2024	Since Inception Annualized	5-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**(3.71)%**	**10.80%**	**14.92%**	**327.30%**
Russell 2000 Index (^RUT)	(3.62)%	8.18%	5.50%	204.61%
Russell 2000 Value (^RUJ)	(4.18)%	6.42%	4.84%	141.31%

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	
Exited Positions	**Comments**
Encore Wire	Sold for s slight premium above $290 buyout offer due to regulatory concerns.
Boise Cascade	Sold due to inflated price relative to fair value amidst lumber market commodity drop; potential future consideration.
Cavco Industries	Sold as share price outpaced fundamentals; company placed in "bullpen" for future assessment.
Initiated Positions	**Comments**
International Seaway	Acquired due to strong balance sheet and leadership in crude oil transport via ocean vessels.
Phototronics Inc.	Purchased at value following temporary market downturn; consolidator in photomask market with strong management.
Frontdoor, Inc.	Invested in response to demand for home warranties amid housing market dynamics; bullish on sector prospects.
Hyster-Yale, Inc.	Re-entered after a decade; bullish on lift trucks and potential in hydrogen fuel-cell business.

Conclusion

As we navigate through 2024, the economy, especially in the small-cap value sector, remains unpredictable. Mega-cap tech firms continue to dominate headlines, often overshadowing smaller players. Uncertainty in interest rates has left the small-cap compass spinning.

We anticipated a second-quarter rebound in our last communication, but the landscape remains volatile. Monitoring our portfolio alongside market gyrations reinforces our confidence in its composition. However, stability in inflation and interest rates is crucial for sustained performance, as these factors can disrupt smaller companies.

With an upcoming election adding to the uncertainty, we prefer to steer clear of speculation. Historically, small caps lead in economic recoveries, though forecasts of significant gains this year have proven elusive.

As always, we advocate enjoying summer with loved ones. In periods of market downturns and volatility, our portfolio has historically provided opportunities to deploy investment capital wisely.

Opinion concluded. See you in the fall!

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