OTSI KETA QUARTERLY

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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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"The only function of economic forecasting is to make astrology look respectable."
— John Kenneth Galbraith, Canadian-American economist

THE YEAR BEHIND AND AHEAD

This past year was a strong one for our fund, up 12.73% and outperforming its benchmark, the Russell 2000 Index, by 271 basis points. This performance underscores our belief in the quality of the companies we invest in and their ability to deliver positive results. Fundamentally and financially, these companies exceeded expectations, and we anticipate they will continue to do so. With the economy expanding at a 3% real growth rate and nominal growth approaching 6%, we expect sustained double-digit improvements in operating profits, driven by robust demand and efficient execution. With the portfolio trading at 12.5 times earnings at year end, we see the potential for multiple expansion as well.

Looking ahead to 2025, the investing landscape is marked by a higher degree of uncertainty than usual. Our portfolio companies have demonstrated impressive resilience, bolstered by improved earnings quality and operational performance. However, we continue to believe the market is not fully reflecting the improvements in their valuations, presenting an attractive opportunity.

Volatility, while often perceived negatively, can offer significant benefits. It creates opportunities to buy fundamentally strong companies at attractive prices during periods of market dislocation. With discipline and a medium-to-long-term perspective, we expect to leverage these moments to build on our positions in undervalued assets. Historically, such strategies have proven rewarding, especially when backed by robust economic growth.

Much of this year's uncertainty stems from the anticipated changes under the new administration. Questions about tariffs, trade policies and shifts in regulatory and tax frameworks dominate discussions. Reductions in taxes and deregulation, if enacted, could serve as catalysts for growth, benefitting both shareholders and the broader economy. These shifts, however, may challenge entrenched political business models, adding an additional layer of unpredictability.

Ultimately, uncertainty is a constant in investing. The heightened volatility we anticipate this year only underscores the importance of staying disciplined and focused on fundamentals. By prioritizing companies with strong financials and long-term potential, we expect to navigate these challenges, capitalizing on opportunities that arise in the midst of a dynamic and evolving market.

In 2024, we started with a whimper at the Fund and ended with strength (notwithstanding the final week of trading). We stand with a larger cash position than in past years, which gives us plenty of dry powder to go hunting for value names. Patience is a virtue in these pricier markets, but we still love where value stands overall.

SANITY AND EFFICIENCY IN U.S. GOVERNMENT SPENDING

In the last three months, DOGE (Department of Government Efficiency) has been the topic du jour in the financial media. We aren't sure if the $2 trillion number is possible, but we agree that our current path makes little sense. As the U.S. federal government faces mounting deficits and an ever-growing national debt, the question arises: Is the current system of spending truly the best we can achieve? In a nation with a $26 trillion economy, it seems inconceivable that inefficiencies, redundancies and waste cannot be addressed to create a more effective and fiscally sustainable government. By emphasizing efficiency and targeted reforms, our country can restore fiscal balance without jeopardizing essential services or economic stability.

In 2023, federal revenues reached $4.5 trillion, roughly 17% of GDP, while expenditures totaled nearly $6.2 trillion, or 24% of GDP. This spending included vital programs such as Social Security, Medicare and defense, but also reflected inefficiencies and a lack of accountability in many areas. The resulting $1.7 trillion deficit underscores the urgent need for reforms that go beyond temporary fixes or minor adjustments. That is a pretty big miss, if you were hoping to balance revenue and expenses like businesses and households hope to do every year. In fact, if we wanted balance, we missed the spending number by almost 40%. Ouch.

Everybody knows there are inefficiencies and redundancies. Examples include:

- **Overlapping Programs:** Numerous federal agencies operate similar or overlapping programs, leading to unnecessary administrative costs. For instance, there are over 40 federal workforce development programs spread across multiple agencies, each with its own bureaucracy.

- **Procurement Inefficiencies:** The federal government is one of the largest purchasers of goods and services in the world, yet outdated procurement processes and lack of competitive bidding often result in higher costs.

- **Improper Payments:** In FY 2022, the government made over $200 billion in improper payments, including fraud, errors and payments to ineligible recipients. Addressing this alone could generate significant savings.

We don't believe reforming federal spending requires abandoning essential programs or slashing the safety net for vulnerable populations. Instead, it demands a comprehensive approach to improving efficiency:

- **Streamlining Agencies:** Consolidating redundant programs and agencies can reduce administrative overhead while maintaining or improving service delivery. For example, merging duplicative programs in education, healthcare and workforce development could save billions annually.

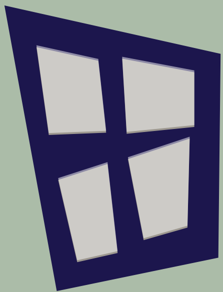
- **Modernizing Technology:** Investing in modern technology can improve efficiency, reduce errors and streamline government operations. From digitizing records to implementing AI-driven systems for fraud detection, technology offers immense potential for cost savings.

- **Improving Oversight:** Enhancing oversight and accountability mechanisms can reduce waste and ensure taxpayer dollars are used effectively. Independent audits, performance evaluations and stricter penalties for fraud are critical steps in this direction.

The U.S. federal government's current fiscal trajectory is unsustainable, but solutions do not require extreme measures or draconian cuts. Instead, they demand a commitment to sanity and efficiency. By identifying and addressing inefficiencies, the government can restore fiscal balance, maintain essential programs and rebuild trust with the American people.

Efficiency is not just a financial imperative—it's a moral one. Taxpayers deserve a government that operates with accountability, purpose and effectiveness. With bold leadership and a focus on common-sense reforms, the U.S. can chart a smarter, more sustainable path forward.

The Window Indicator



With the shipping season winding down, the window becomes quieter. The locks that control most of the activity closed for the season: St. Lawrence Seaway closed January 5 and the Soo Locks closed January 15. Seasonal maintenance will be performed, and the locks will open in the spring.

Numbers are starting to come in to summarize the activity on the Great Lakes. The Port of Duluth-Superior, which accounts for most of the tonnage, saw a total of 26 million tons of cargo this season, down about 5% from last year. This breaks down to a decline of approximately 10% in iron ore. Steel still had a good year in 2024, but was coming off an exceptional year in 2023. Twenty-one-and-a-half million tons of iron ore moved through the port.

A new export facility has broken ground in Milwaukee. This port will primarily see distilling grain shipped from its docks. The already-functioning docks in Milwaukee saw an increase in shipped agricultural products for 2024, though numbers were not available. The Port of Green Bay saw slight decreases in cargo shipped for this year with numbers down about 4% through November. Finally, the limestone reports out of the Badger State saw modest decreases from last year. As reported in previous letters, limestone plays an active role in the production of steel.

Fleet layups started in November with approximately 25% of the North American fleet already at the docks for the winter. Modest ice is being seen in Lake Superior with no trace of it outside my window on the mighty St. Clair River. Layups have an ordinary cadence this season.

With that, there is no more to report. We will draw the shade, throw a log on the fire and hold a green eye of jealousy to those in warmer climates. Happy New Year!

Financial Performance Analysis: 14-Year Monthly Overview

The two tables below show a comprehensive analysis of our monthly performance over the past 14-years. The first table provides aggregated performance against our benchmark over standard performance periods and the second provides performance for every month of the fund's history.

FUND PERFORMANCE

	OKFF**	Small-Cap Value Index	Small-Cap Index
Since Inception Cumulative	407.77%	160.20%	231.76%
Since Inception Annualized	11.72%	6.74%	8.52%
3-Year Annualized	5.35%	-0.32%	-0.23%
5-Year Annualized	16.60%	5.07%	5.98%
10-Year Annualized	11.17%	4.94%	6.35%
YTD	12.73%	5.73%	10.02%

MONTHLY FUND RETURNS BY YEAR*

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2010					-1.98%	-2.85%	2.55%	-4.25%	8.51%	5.40%	5.50%	2.31%	**15.42%**
2011	-1.40%	1.42%	4.72%	0.68%	-2.29%	-0.91%	-4.52%	-2.04%	-8.48%	12.22%	-0.09%	0.44%	**-1.60%**
2012	7.56%	1.54%	3.18%	-1.87%	-6.62%	4.00%	0.66%	0.30%	2.75%	-3.09%	0.74%	2.05%	**10.99%**
2013	4.05%	-0.14%	3.14%	-2.59%	3.74%	1.67%	7.10%	-2.50%	5.04%	6.31%	0.49%	0.75%	**30.00%**
2014	-6.18%	6.74%	1.60%	-3.36%	-0.10%	2.58%	-5.66%	3.11%	-3.60%	11.11%	-0.12%	2.51%	**7.49%**
2015	-2.22%	5.37%	0.88%	0.21%	-2.37%	-0.13%	-3.46%	-2.91%	-5.64%	7.93%	0.57%	-0.20%	**-2.69%**
2016	-2.95%	3.91%	2.34%	2.26%	-2.01%	1.42%	5.36%	0.66%	-2.12%	-6.30%	12.10%	2.77%	**17.54%**
2017	-1.16%	1.57%	0.11%	4.82%	-3.84%	3.48%	0.38%	-2.74%	9.02%	3.14%	1.53%	-2.93%	**13.41%**
2018	2.83%	-6.49%	-1.56%	-1.75%	3.34%	0.06%	3.81%	2.88%	-3.17%	-5.70%	1.75%	-10.45%	**-14.56%**
2019	11.99%	4.54%	-1.53%	0.26%	-11.98%	7.31%	-1.92%	-7.58%	6.41%	5.16%	2.07%	6.75%	**20.65%**
2020	-3.35%	-3.59%	-20.69%	22.69%	12.13%	3.63%	1.88%	4.16%	-2.33%	1.68%	12.59%	8.35%	**35.45%**
2021	7.69%	6.83%	3.83%	0.84%	1.95%	4.31%	-1.98%	0.22%	-2.84%	7.53%	2.19%	1.29%	**36.09%**
2022	-6.83%	5.95%	-5.90%	-7.74%	2.00%	-6.84%	8.86%	-3.06%	-10.82%	3.77%	3.01%	-3.73%	**-21.14%**
2023	9.50%	0.59%	-3.96%	-3.83%	0.21%	13.91%	0.78%	-2.72%	-0.52%	-4.15%	8.34%	11.83%	**31.53%**
2024	-3.50%	3.94%	-1.78%	-5.29%	4.58%	-2.79%	9.05%	-2.96%	2.41%	4.33%	10.90%	-5.24%	**12.73%**

*Fund performance numbers are net of all fees and expenses and accrued performance allocations fee structure was 1.5%/20% from inception through 2016.
**Fund performance numbers are net and 1.5%/10% using a blended formula. Performance was formally 20% through 2016.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2024, the Otsi Keta Focus Fund was up 9.65% versus the Russell 2000 Index up 0.01%. Since inception, the Fund has returned 407.77%. 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 2024	Since Inception Annualized	5-Year Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**9.65%**	**11.72%**	**16.60%**	**407.77%**
Russell 2000 Index (^RUT)	0.01%	8.52%	5.98%	231.76%
Russell 2000 Value (^RUJ)	(1.58)%	6.74%	5.07%	160.20%

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 Update: Fourth Quarter Review

The fourth quarter was an active and reflective period for the Fund. As the year ends, we evaluate our investments—celebrating wins and addressing underperformers. A strong quarter, as shown in the accompanying chart, sharpens this decision-making process.

Portfolio Exits

We exited Hudson Technologies (HDSN), International Seaways (INSW) and Metallus Inc. (MTUS) for the following reasons:

- **Hudson Technologies (HDSN):** Regulatory delays weakened our thesis that government rules would drive changes in the refrigerant gas market. We remain cautious about investments reliant on regulatory action.
- **International Seaways (INSW):** Timing challenges in the petroleum shipping sector led to a quicker-than-expected exit, allowing for tax loss harvesting. The company remains in our bullpen for potential reentry.
- **Metallus Inc. (MTUS):** Despite its niche in steel, the company's aging infrastructure and looming capital expenditure needs prompted us to exit. We'll continue to monitor it from the sidelines.

Looking Ahead

We're building positions in three new investments, though their names remain undisclosed while we complete purchases. Unallocated cash is parked in a money market account as we explore fresh opportunities or revisit past ideas that may now offer value.

As we recalibrate for the year ahead, we remain committed to disciplined and strategic investing in an ever-changing market.

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