OTSI KETA QUARTERLY

OTSI KETA CAPITAL

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Q4 2012

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

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QUESTIONS...

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WHY THE MIDWEST?

Fourth of four articles in a series for 2012

Times, they are a changing. That can be said throughout the country, but particularly in the Midwestern United States. Michigan and Indiana became the fifth and sixth right-to-work states in the 11-state, target footprint for Otsi Keta Focus Fund LP, joining Iowa, Tennessee, Nebraska and South Dakota.

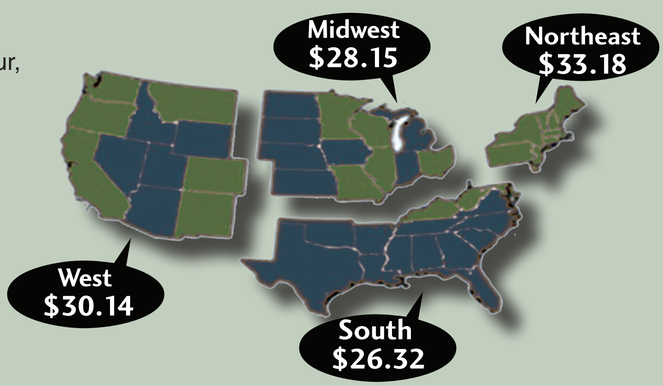
Having states like Michigan and Indiana pass legislation of this type is a watershed event for the Midwest. It speaks to a political will and belief that structural reforms are important to economic success. We see this legislation as pro-business and enhancing competition for a region of the country that has been slower in establishing a new economy and labor landscape in the last two decades. As the chart below shows, the Midwest pays significantly higher average labor rates than the southeastern portion of the U.S. Over time, structural reforms like right-to-work laws will attract greater business investment to the Midwest. A recent *Wall Street Journal* article noted "private-sector employees in right-to-work states earned an average of $738.43 a week in the past 12 months, 9.8% less than workers in states without such laws."

The Bottom Line

Employer cost per worker per hour, including wages and benefits, for September 2012.

States with right-to-work laws

States where employees at unionized workplaces are required to pay dues



Source: Labor Department

The Wall Street Journal

The biggest change affecting business, in both the Midwest and the nation, will be the new healthcare system, which starts in 2014. All of our experience and research tells us implementing this program, to quote the popular vernacular, will be "a hot mess." We believe larger enterprises will keep their health programs in place, choosing to preserve current benefit levels, while avoiding the potential loss of employee engagement. Initially, most of our portfolio companies are expected to maintain their plans, avoiding the perception of leaving dedicated workers to navigate newly organized exchanges on their own.

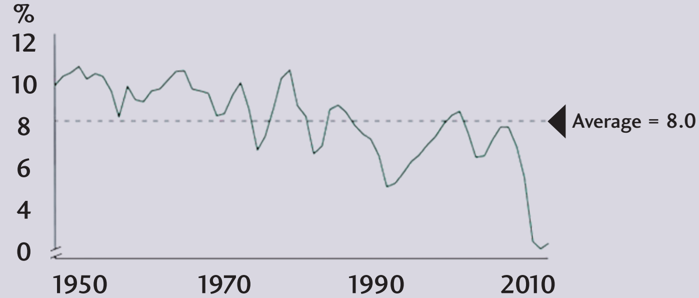
Continued on page 2...

ON OUR MINDS FOR 2013

For the businesses in our portfolio, 2012 was a good year—2013 will be better. While we claim no special powers for divining the future of the markets, we do spend our days analyzing the prospects of individual companies with a close eye on where and how they compete. The businesses we own are well positioned for the current economic environment. We expect market values will continue to swing up and down, driven by the emotions of a world with debt and employment on its mind. Below is a list of what is on our mind heading into 2013:

1. We believe modest revenue growth, accompanied by well-contained costs, will provide greater earnings leverage and profitability than markets are expecting. The big expenses for most businesses, labor, materials and energy are not expected to rise in 2013.
2. Strong balance sheets and disciplined capital spending programs will allow enhanced levels of capital to be returned to shareholders through dividends and share repurchase programs.
3. Pricing will continue to be incredibly stable in areas where our holdings compete. Slow growth in recent years has instilled greater cost and investment discipline in management teams. Margins will remain at attractive levels and near the high end of historical ranges.
4. Competitive entry by new players and aggressive incumbents will remain non-existent in many areas of the real economy. Capital spending remains at a fraction of its historic levels and has dropped significantly in recent periods.

U.S. net domestic fixed investments as a percentage of GDP, 1950-2011



Sources: Thomson Reuters Datastream; U.S. Bureau of Economic Affairs; BCG Analysis. **Note:** Net domestic fixed investments are fixed investments (purchases of residential and nonresidential structures and of equipment and software by private businesses, nonprofit institutions and governments) minus consumption of fixed capital (the decline in the value of the stock of fixed assets due to wear and tear, obsolescence, accidental damage and again).

5. Consumers will increase their spending on big-ticket items like homes and cars after a five-year break from large capital commitments. We aren't going back to the go-go days of the real-estate bubble, but affordability should drive increased demand.
6. Businesses are going to struggle with Obamacare. It won't just be about the politics; it will be about the complexity and decisions that need to be navigated. We would not be surprised to see significant delays as the federal government attempts to implement this incredibly complex program.
7. Headlines out of Washington will continue to erode confidence in our elected officials.

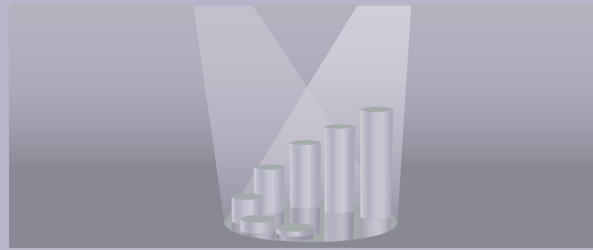
We will keep everyone informed as the year progresses.

...Why the Midwest? continued from page 1

Healthcare exchanges are where the rubber will hit the road for Obamacare. The Midwest is seeing a mixed bag of state participation. For those new to the exchange concept, the Kaiser Family Foundation helps us out by telling us in 2014, "Exchanges will serve primarily individuals buying insurance on their own and small businesses with up to 100 employees, though states can choose to include larger employers in the future. States are expected to establish Exchanges—which can be a government agency (like Michigan will) or a nonprofit organization—with the federal government stepping in if a state does not set them up."

Practically, we will be looking for two items out of this framework. Smaller companies will be looking to leverage this new environment to improve their bottom line; choosing to pay the $2,000 dollar fine instead of the higher average cost of their current plans. Secondly, if and when the exchanges become reliable and consumer friendly, more companies, including those in our portfolio, are likely to migrate their employees to state-run insurance exchange programs.

Times, they are a changing



Portfolio Spotlight

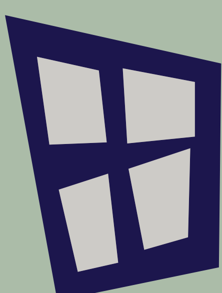
Young Innovations, Inc (ticker: YDNT)

Business: Young develops, manufactures and markets supplies and equipment used by dentists, dental hygienists, dental assistants and consumers. The company is a leading provider of prophy angles and cups, liquid surface disinfectants, dental micro-applicators and obturation units designed for warm vertical condensation. In addition, the Company offers a line of diagnostic products that includes panoramic X-ray machines and related supplies.

Stock-Market Value: $314 million ($39.50 per share)

What's Happening: On December 4th, Linden Capital Partners, a Chicago-based private equity firm, agreed to purchase all the outstanding shares of one of the fund's holdings, Young Innovations, Inc., based in Chicago, IL.

Key Numbers: Under the definitive agreement, Linden will acquire all of the outstanding common stock of YDNT for $39.50 per share in cash. Otsi Keta acquired its shares in Young over the last nine months, paying $30 - $35 per share. We exited the position after the deal was announced at an average price of $40 per share, as the market took the price above the offer, on speculation that another bidder would emerge. The deal is expected to close in the first quarter of 2013.



The Window Indicator

The shipping season has begun to wind down for 2012. Freighters started to "lay up" for the year starting in early December. Most of the fleet is still on the Great Lakes for the most important part of the season, the time of the year when their runs are contributing to profit. 2012 was a close image to 2011 with some variances month to month due to weather, and we assume economic speculating. It's 2013 that could prove interesting.

Toward the end of the year, we saw one of the mining companies announce the idling of two of their four crushing lines (that would be Northshore Mining Company in Silver Bay, Minnesota). This is a reflection of soft iron ore prices, and a soft market predicted for the beginning of 2013 affecting the receiving company Arcelor Mittal in Cleveland and Indiana Harbor. The Cleveland mill makes steel bars amongst other items, and the Indiana Harbor facility makes steel plate.

What does all this mean as we look out the window going forward? Lighter traffic into Cleveland and Indiana Harbor for sure. It could be a precursor to the fleet being slower in returning to service for 2013. We'll let you know.

On a housekeeping note, 2012 saw the scrapping of two older freighters: the Gordon C. Leitch and the Algocape. Both ships will be towed over to Turkey for scrapping. Of course, we have been keeping you up on the new arrivals of ships from China's shipyards to take their place this year. The locks in Sault Ste Marie (the soo) will be closing on January 15, 2013. Routine maintenance will be performed on the locks in the off season, and, weather permitting, they will reopen the latter half of March 2013.

We look forward to updating you on more of our musings out the Window. See you in Q2.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2012, the Otsi Keta Focus Fund was down 0.37%, or 179 basis points less than the Russell 2000 index (see below). Year-to-date the Fund was up 10.99%. Since inception, the Fund has returned 26.06%. All of the 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.

2012 was an interesting year, to say the least. As you can deduce from the numbers below, professionals on Wall Street had a difficult time navigating their investments. While we can never speak to others' performance, we can shed light on our portfolio. OKFF continues to under weight the small cap financial sector in the Midwestern United States. As managers, we embrace companies that fit our disciplined screening process and consider them for the Fund. To date, we have had difficulty finding attractive opportunities in the financial sector. The very strong equity appreciation in the financial sector had us playing from behind for most of the year. We are still very proud of our overall numbers, and we look forward to a robust 2013.

Fund Name	Morningstar Rating	ROR 4th Quarter 2012	ROR YTD December 31, 2012	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**N/A**	**-0.37%**	**10.99%**	**26.06%**
INVESCO Van Kampen Small Cap (VSMIX)	4 star	-8.10%	6.65%	15.11%
Royce Special Equity (RYSEX)	4 star	-4.22%	7.26%	21.30%
Buffalo Small Cap (BUFSX)	4 star	-4.02%	13.00%	14.79%
Russell 2000 Index	N/A	1.42%	14.63%	26.34%
Russell 2000 Value	N/A	2.56%	15.49%	19.31%

Source: Morningstar, Otsi Keta Capital, Russell Investment (Russell data dollar weighted)
*Note: OKFF performance data is shown net of all fees and expenses.

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