OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Fourteenth Edition - October 2013

Q3 2013

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

IN THIS ISSUE...

QUESTIONS...

Contact us at:

312.473.3982
888.563.7349

F. William Schwarz, III
bill@otsiketacapital.com

Frederick P. Rollins, Jr.
fred@otsiketacapital.com

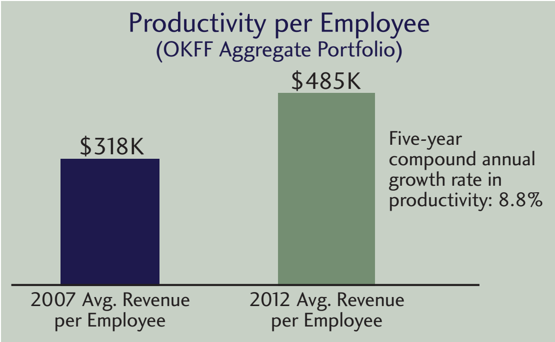
Non·es·sen·tial: *not entirely necessary*

The third quarter ended with 800,000 government employees finding out that Uncle Sam thinks they're nonessential. For most, learning that you're nonessential would be a bummer. Learning that your vacation won't end until Republicans and the Obama administration find common ground—double bummer.

We would be lying if we didn't say that it troubles us (just a little) to see that our federal government has almost a million nonessential personnel. On the bright side, the number of nonessential personnel doesn't appear to be growing. During the 1995/96 government shutdowns, the estimated number of furloughed workers was the same as it is today.

All of this talk about personnel got us thinking about what our portfolio companies are doing to manage their own human capital. In the private sector, a fair amount of management time is spent attempting to minimize the number of nonessential personnel. The managers running the businesses in our portfolio are no exception. In analyzing companies, we pay close attention to the number of employees a company has and their productivity. Small companies tend to be slow to hire and fast to fire. Productivity matters. The chart at the right looks at two measures of aggregate productivity for the companies in our portfolio.

Culture influences how companies think about their workforces. In the Midwest, there is a strong belief in focusing on productivity—not employment. The "belt tightening" philosophy is hardwired into the DNA of the Midwest. Belt tightening is not a universal strategy, and certainly not one the government finds attractive.



We like this philosophy for surviving tough times and think it helps provide us a greater margin of safety as stockholders. We see productivity advantages as a way to generate a significant portion of our long-term investment returns. During the downturn, labor productivity in the Midwest increased even as the economy shrank. That was absolutely not the case outside our region. Both Europe and Asia saw their labor productivity decrease, as employment failed to decrease as significantly as output. After five years of global economic malaise, the Midwest has created a significant productivity gap with the region's largest competitors.

Too often, investors overlook the power of compounding productivity and the competitive advantages it creates. The taxpayers would benefit if government would develop a "productivity" versus "employment" mindset. Until that day, the best we can hope for is that a new generation will learn that it is never good to be considered nonessential by your employer.

HOUSING FROM A DIFFERENT ANGLE

Everyone has to have a place to live. Shelter is important for people, as well as an important economic driver of the domestic economy. At Otsi Keta, we keep a close watch on what is happening in the sector and like to dig into the data that isn't on the news every night. In previous investor letters, we have shared our thoughts that before things get better, they get less bad. Housing is turning the corner, and we feel it will be a tail wind for the economy going forward. (As always, we recommend homes as places to live…not as an asset class in your investment portfolio.)

Below is a chart of sheriff deeds and warranty deed sales for the county in Michigan where our current office is located. For those not familiar with the terms, a sheriff deed is a home that has been purchased in foreclosure, and a warranty deed is typically a transaction between two willing parties.

The data shows two things we like:

1. 24 months of declining sheriff deeds
2. Warranty transaction levels getting back to their 2007 levels

The return of liquidity (houses being bought and sold between willing participants) should reduce the perceived risk for buyers and have a positive effect on prices.

OUR PORTFOLIO

Portfolio Aggregated Comparison

		(~OKFF Fund)	Russell 2000
Equity Valuation	Market Cap. ($mm)	9083.1	1,779,194.1
	P/E	9.5x	53.2x
	P/Tang BV	2.7x	3.8x
Margins	Gross Margin %	37.4%	28.7%
	EBITDA Margin %†	14.0%	11.1%
	Earnings from Cont. Ops. Margin %	5.2%	2.4%
Enterprise Valuation	TEV ($mm) †	9,448.6	2,030,381.1
	TEV/Total Revenue (LTM) †	0.6x	1.4x
	TEV/EBITDA (LTM) †	4.3x	12.2x
	TEV/EBIT (LTM) †	5.1x	20.8x
Profitability	Return on Capital %	34.7%	5.0%
	Return on Equity %	32.3%	4.7%
Coverage	Current Ratio	1.8x	1.5x
	EBITDA/Interest Exp. †	10.0x	4.7x
	(EBITDA-CAPEX)/Interest Exp. †	10.0x	2.5x

Watch List Financials are updated nightly. Only public companies are included in financials.
†Banks are not included in Watch List financial calculation.
Source: S&P Capital IQ

The Window Indicator

Mesabi Miner first laker to be converted to LNG-diesel dual fuel operation

9/25 - Interlake Steamship has chosen Toromont engines from Caterpillar-MaK as it converts its 1,004-foot Mesabi Miner to LNG-diesel dual fuel operation. Taylor-Wharton will supply the LNG fuel tanks, four of which will be mounted vertically in the vessel's tail.

It will be the first such project on the Great Lakes. No timetable for the project was given.

These details were revealed at HHP Summit 2013 in Chicago on September 17 by Interlake president Mark Barker. His firm owns eight and operates nine Great Lakes cargo ships.

The key to the plan, which has been contemplated for several years, was the participation of Shell as a supplier-partner. "That's what really catapulted this project to the next level," Barker said in Chicago.

Shell is building a natural gas liquefaction and multi-modal fuel delivery facility, one of three in North America, at Sarnia, Ontario.

The Mesabi Miner will be fitted with twin Caterpillar-MaK 6M 46DF Toromont engines, replacing venerable PC2.2 Pielsticks. The four Taylor Wharton tanks will each be able to hold 200 cubic meters, or 52,800 gallons, of liquefied natural gas. -- *HHP Insight*

The information from HHP Insight is an interesting development for shipping going forward. With the introduction of liquefied natural gas to shipping, a revolution could be taking place on the Great Lakes. At a bare minimum, it will lessen our dependence on foreign energy over time. The Mesabi Miner will be refitted at a U. S. shipyard, which will supply jobs domestically.

Another interesting development this summer revolves around the cargoes of the Great Lakes freighters. Shipments from U. S. ports for iron ore totaled 5.1 million tons, a decrease of 6 percent compared to a year ago. Coal, on the other hand, has risen this year over 16 percent through July. With Ontario discontinuing the use of coals in their province, it bodes well for the sales of coal domestically this year.

We are not surprised by the lag from iron ore this year. A mill in Cleveland is partially shut down this fall while they install updates, and we have recently seen the conversion of a traditional steel mill to a "mini mill" in Ohio. These two events would put a strain on shipping of the raw material. The mini mills use a lot of scrap metal versus raw iron ore in their processes.

We look forward to wrapping up the shipping season in the fourth quarter letter. We will continue to look out the window.

OUR PERFORMANCE

For the third quarter ended September 30, 2013, the Otsi Keta Focus Fund was up 9.68%. Year to date the Fund is up 20.77%. Since inception, the Fund has returned 52.24%. 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.

We are always please when institutions take notice of our fund. Particularly when it shines a light on our performance and potential. During the third quarter, Morningstar, the fund rating service, rated us a four-stars in their long-only hedge fund category. The Morningstar Rating for funds describes how well a fund has balanced return and risk or volatility in the past. We are proud to receive the rating and look forward to bettering it.

Fund Name	Morningstar Rating	ROR 3rd Quarter 2013	ROR YTD Sept. 30, 2013	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**4 star**	**9.68%**	**20.77%**	**52.24%**
Royce Special Equity (RYSEX)	4 star	8.25%	21.68%	58.80%
iShares Russell Microcap Index (IWC)	N/A	11.55%	31.86%	63.93%
Russell 2000 Index	N/A	9.85%	26.42%	59.72%
Russell 2000 Value	N/A	7.05%	21.25%	44.66%

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

OUR CHANGES

We have two events—one past and one future—that both are positives for Otsi Keta Capital LLC. The first event came to pass on September 23, 2013. This date signified the first day we were be able to advertise! Now, that does not mean you will see our spot during the next Super Bowl. However, it has allowed us to improve our website (www.otsiketacapital.com). You will be able to see a more robust site with our updated fact sheet and our proprietary “Where We Fit in your Portfolio” that we have shared with institutions for the last two years.

The second item is a consolidation of our mailing addresses. At inception of our Fund, the state of Michigan had a complex law for funds of our type, where Illinois and Indiana had a simpler, straightforward structure for our business. We chose Illinois as our headquarters due to its proximity to partners and its financial center, which allowed for robust meetings over the past three years.

The State of Michigan has streamlined their structure as of the beginning of 2013. We have diligently worked through the details of moving our entity from Illinois to Michigan. We are proud to say that our official move will be happening during the fourth quarter this year. With this move, our office address in Chicago will discontinue, and our address in Michigan (110 South Third Street Saint Clair, MI 48079) will become our sole mailing address.

What does this means to our partners and our prospective partners? A streamlining of our operations, with no changes occurring to how we run our Fund. Whoever said change was a bad thing?

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

888.563.7349
312.473.3982

Frederick P. Rollins, Jr.
Partner
direct: 810.357.8566
fred@otsiketacapital.com

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