OTSI KETA QUARTERLY

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...

Contact us at:

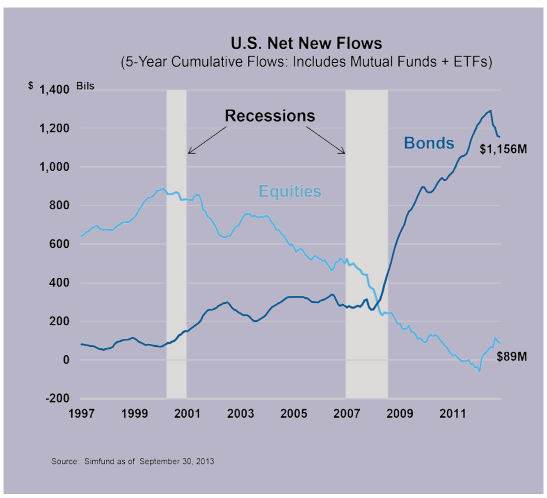
312.473.3982
888.563.7349

F. William Schwarz, III
bill@otsiketacapital.com

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

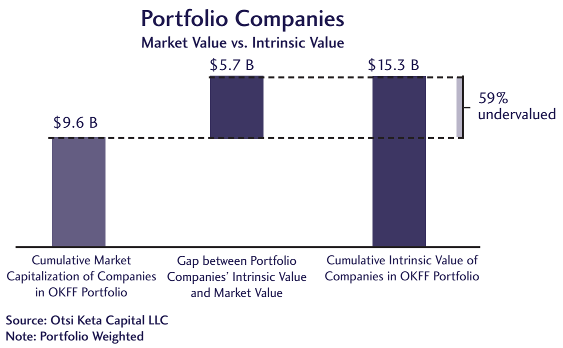
LOOKING OUTSIDE THE HERD

Reading the paper and watching the news today can make you think the world, as we know it, is ending. It's not true, but it is believable. The public at large is worried—about their investments, about the competency of their government and, if we, as a country, are becoming France. This "country in decline" malaise and the financial crises of 2008 are having a real impact on investor preferences. The chart below looks at net inflows into both equities and fixed income.



The investing herd is buying bonds; we have never been herd guys. It is difficult to buy cheap when everybody is trying to buy the same stuff. The country's aging demographics should continue to drive money into bonds. That should be good news for Otsi Keta—more people searching for yield means less focusing on capital appreciation.

We believe our current portfolio has the potential to perform well in the current environment. We look for companies with the potential to double in value over the next three to five years. The chart below shows the aggregated intrinsic value calculation for companies in the portfolio, based on our valuations, compared to recent market valuations. The current portfolio is 59% undervalued.



It is hard to be bearish on well-run companies in the Midwest. In fact, we are rather bullish for 2014. Interest rates are low, labor is cheap, commodity costs are declining, energy supply is booming, and productivity continues to out strip our competitors around the world. From a macro standpoint, we ignore Washington and suggest most do the same. One macro issue we won't be ignoring is housing. Housing has typically represented 25% of the country's economic output and has been performing well below normal for the last five years.

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2014: TAX PERCENTAGES DOWN AND BUSINESS POTENTIAL UP

A MIDWEST UPDATE

New legislative actions taken in 2013 across the Midwest look to impact the region in a positive fashion. As reported in a Stateline Midwest story, a return to growing state revenue collections allowed legislators to focus on tax policy—most commonly tax cuts.

In at least five states, legislatures chose to reduce income tax rates. In a sixth state, Iowa, lawmakers reached an agreement on reform for their property tax system. Let us walk you through some of the changes occurring in the Midwest.

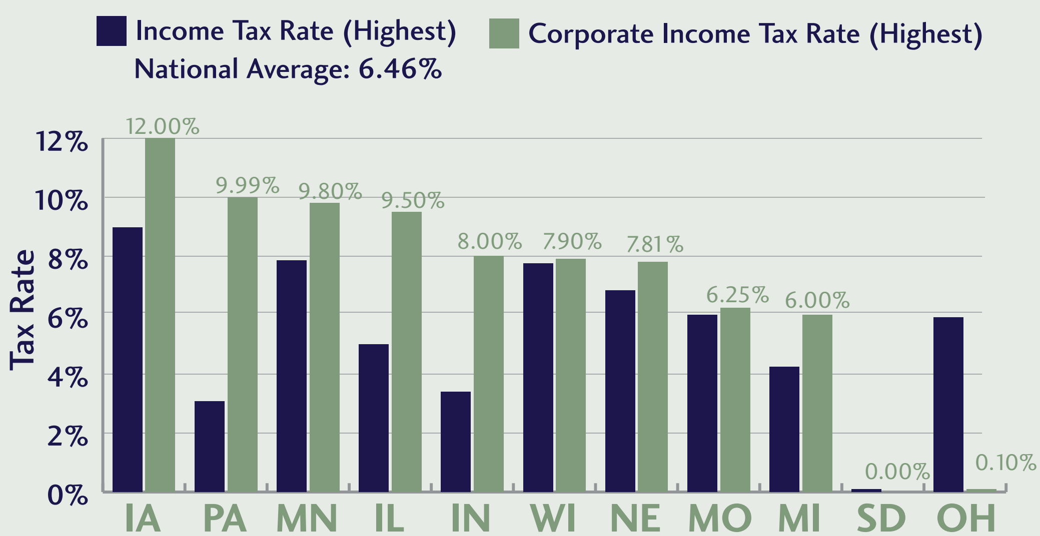
In Indiana, the governor made a reduction in the state's flat income tax. Lawmakers agreed to reduce the percentage from 3.4 percent to 3.23 percent over the next four years. They also eliminated the inheritance tax for the state. This could see some favorable address changes from Illinois to Indiana in 2014.

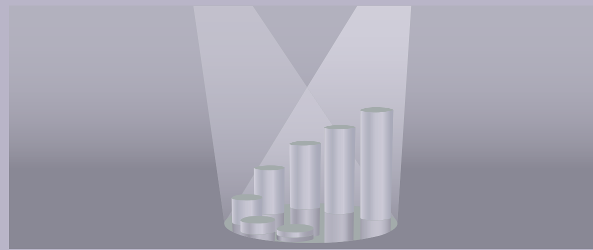
Wisconsin and North Dakota are two states that will see income tax rates fall in 2014. In Wisconsin, there will be rate cuts in all their tax brackets, while North Dakota will see about a 20% reduction in all of their tax tiers.

We always find tax reform a refreshing topic and one to take notice of across our region. What we believe most Midwestern states are realizing is the expansion of business with the more tax-friendly approach, i.e. putting the money into the hands of the private sector. We have always espoused using the wealth creators in the region to grow the economy versus using the wealth takers to manage business. We applaud the regional governments recognizing their roles and taking advantage of good fiscal management within states that has resulted in a surplus.

What we will keep our eye on is the ripple effect for the rest of the region. If the states that have made changes in 2013 become the economic leaders going forward, our belief is that the surrounding states will have to adopt a similar strategy. That would be advantageous for all involved.

More to come?...





Portfolio Spotlight

Valassis, Inc. (ticker: VCI)

Business:

Valassis is a leader in intelligent media delivery, providing over 15,000 advertisers proven and innovative media solutions to influence consumers wherever they play, shop, buy and share. Valassis precisely targets its clients' most valuable shoppers, offering unparalleled reach and scale. Valassis subsidiaries include Brand.net, a Valassis Digital Company, and NCH Marketing Services, Inc. RedPlum is its consumer brand.

Stock-Market Value:

$1.84 billion ($34.04 per share)

What's Happening:

On December 18, 2013, Harland Clarke Holdings Corp., a leading provider of best-in-class integrated payment solutions and marketing services, agreed to purchase all the outstanding shares of one of the fund's holdings, Valassis, Inc., based in Livonia, Michigan, for cash.

Key Numbers:

Under the definitive agreement, Harland Clarke will acquire all of the outstanding common stock of VCI for $34.04 per share in cash. The purchase price represented a 20% premium over the closing stock price of $28.30 as of December 17, 2013, and enterprise value/EBITDA multiple of 6.9 times. The deal is expected to close by the first quarter of 2014.

Investment Thesis:

Valassis appeared to be caught between its legacy businesses, oriented around direct mail and print, and the emerging digital world. OKC believed the legacy business was being undervalued in the marketplace and would provide significant future cash flows. Further, the market was not fully valuing consumer and geographic data that the legacy business had captured over years of operation; data that would be equally important for the creation of new mobile and digital marketing programs for clients.

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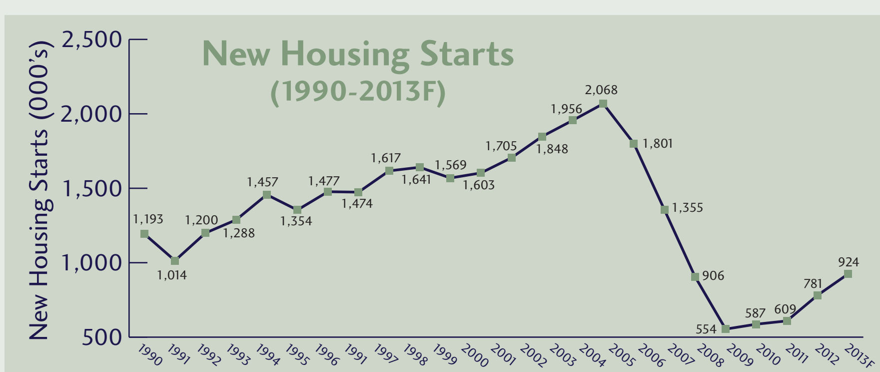
Housing may never return to its peak, but things have a way of getting back to average. Over time, kids will move out of their parents' homes and immigration will continue to grow (by tens of thousands in Michigan, if the governor gets his way). Housing starts returning to 1.4 – 1.5 million per year will be a significant boost to our economy.



We don't have a crystal ball and can't predict the level of the S&P 500 on any given day or year. What we can do is avoid the general and focus on the specific, while maintaining a three-to-five year time horizon for investing in 2014.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2013, the Otsi Keta Focus Fund was up 7.64%. Year to date the Fund is up 30.00%. Since inception, the Fund has returned 63.87%. 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.

Fund Name	Morningstar Rating	ROR 4th Quarter 2013	ROR YTD Dec. 31, 2013	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**4 star**	**7.64%**	**30.00%**	**63.87%**
Royce Special Equity (RYSEX)	4 star	(2.68)%	18.41%	57.95%
Buffalo Small Cap (BUFSX)	4 star	(1.53)%	32.48%	65.43%
Russell 2000 Index	N/A	8.37%	37.00%	73.08%
Russell 2000 Value	N/A	8.76%	31.87%	61.94%

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.

The Window Indicator

The shipping season has begun to wind down for 2013. Freighters started to “lay up” for the year starting in November. 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. Two Thousand Thirteen was a slower season than 2012. The iron ore and coal trade had the most impact: iron ore demand from steel producers and the curbing of coal use in Canadian utilities.

On a housekeeping note, 2013 saw the scrapping of four older freighters: Algoma Provider, Algoma Quebecois, Richelieu, and Saguenay. These Canadian flagged freighters saw the effects of the scaled back coal trade and the demands of operating efficient vessels in the Great Lakes.

The locks in Sault Ste Marie (the soo) will be closing on January 15, 2014. Routine maintenance will be performed on the locks in the off-season, and, weather permitting, they will reopen the latter half of March 2014.

The 2014 season will be influenced heavily by two factors: the economy and water levels. We are seeing positives on both fronts. The economy continues to improve despite the headwinds that continue from Washington, and the lakes continue to rise as we head into a more traditional winter. Traditional winters bring a better ice cap to preserve our fresh water. As for Washington, we don’t know what to say.

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

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

OTSI KETA CAPITAL