OTSI KETA QUARTERLY

Sixteenth Edition - April 2014

OTSI KETA CAPITAL

Q1 2014

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

IN THIS ISSUE...

QUESTIONS...

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RETURN ON CAPITAL

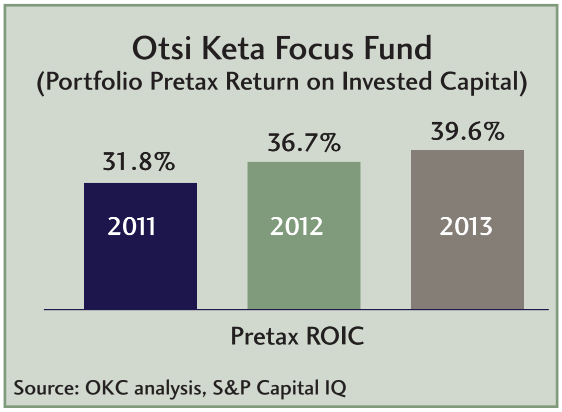
Are we buying good businesses? Are we paying attractive prices?

We continuously ask ourselves these two questions and use the answers to drive OKFF forward. Trolling the Midwest in pursuit of investment opportunities for the last four years has given us a unique perspective.

Businesses capable of earning consistently high returns on invested capital are still the exception, but there are more than we originally thought. We are fortunate that much of the investment world has shown limited interest in midwestern, small capitalization companies. The lack of available research continues to reduce institutional investor interest and allows us to accumulate shares in great, small companies with strong balance sheets at attractive valuations.

We prefer high quality and a low price, but if forced to favor one, we favor quality. A good business provides us with more investment safety than just a deeply discounted purchase price. While no single ratio or metric is 100% perfect, we think pretax return on invested capital (ROIC) can tell us something about business quality. We use pretax numbers to equalize differences in company capital structures and tax rates that make comparing companies and industries difficult. Higher returns being preferred, all things being equal, to lower returns.

Competition over time should drive excess returns down; when returns on capital stay high, we are usually interested. We recently completed a look-back study on the companies in our portfolio. We looked at both the level and trend over the last 36 months.



As the graph above illustrates, capital returns have increased significantly from 2011. During this same period, our portfolio companies increased total capital deployed by 11% and increased capital expenditures by 27%. Companies continue to be conservative in their expansion plans, causing capital returns to remain high. We believe our current portfolio is one of the strongest we have owned since inception.

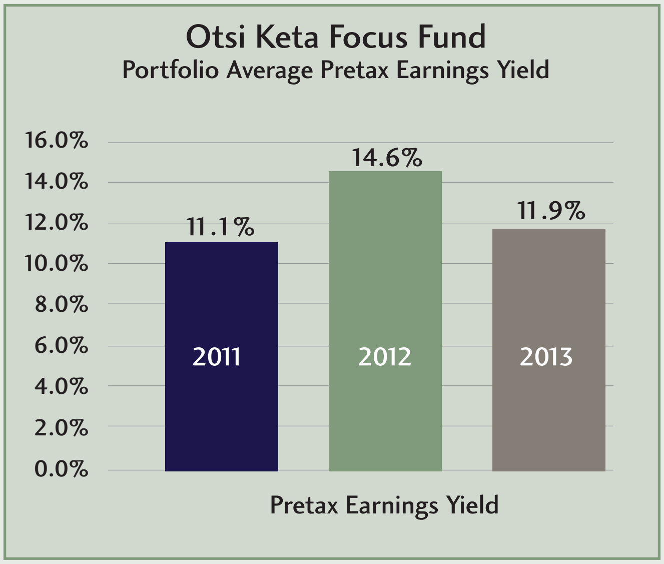
Continued on page 2...

Continued from page 1...

That brings us to our second question—are we paying attractive prices? We think we are. Shown in the chart at the right, as part of the same look-back study, we used the same time periods to determine the portfolio's average pretax earnings yield.

The current portfolio is generating a greater pretax earnings yield today than it did in 2011 (but less than in 2012). We recognize that two ratios don't guarantee your investment is undervalued or sure to appreciate, but they're measures we watch closely.

To value a business, you have to be able, with some confidence, to make assumptions about its future. As Yogi Berra was fond of saying, "It's tough to make predictions, especially about the future." We agree. Our strategy revolves around being as certain as we can about the quality of the business and its growth prospects and then being patient, waiting for the market to give us a chance to buy at a discount to fair value.



PORTFOLIO STATS

	OTSI KETA FOCUS FUND	Russell 2000 Index
Equity Valuation		
P/E	15.0x	62.3x
Price/BV	2.7x	2.3x
P/Tang BV	3.9x	4.0x
Margins		
Gross Margin %	36.5%	29.2%
EBITDA Margin %†	13.3%	11.2%
Earnings from Cont. Ops. Margin %	7.1%	2.4%
Net Income Margin %	7.5%	2.4%
Leverage		
Total Debt/EBITDA†	0.6x	3.8x
Total Debt/Equity	21.3%	110.0%
Total Debt/Capital	17.6%	52.4%
Enterprise Valuation		
TEV ($mm)†	9220.8	2228365.1
TEV/Total Revenut (LTM)†	1.0x	1.5x
TEV/EBITDA (LTM)†	7.4x	13.3x
TEV/EBIT (LTM)†	9.1x	23.1x
Profitability		
Return on Assets %	17.8%	2.2%
Return on Equity %	18.3%	4.5%
Coverage		
Current Ratio	1.7x	1.6x
EBITDA/Interest Exp.†	20.6x	4.6x
(EBITDA-CAPEX)/Interest Expense	20.6x	2.4x

Source: Financial Aggregates S&P Capitallq

EXITS IN THE FIRST QUARTER

ITT Educational Services Inc. - Capital gain/(loss) over entire holding period: 70%

ITT Educational Services (ESI) is an Indiana-based company that provides post-secondary degree programs in the United States. It offers master, bachelor, associate and career-oriented education programs in various fields.

What attracted us to ESI was their tremendous financials. ESI maintained ROICs of over 20%, along with a pretax earnings yield above 20%. The company was flagged as extremely undervalued by our metrics, and the sector the company was in (for-profit education) was out of favor with the investing community. All of these factors allowed OKFF to buy into a company for a fraction of its fair value and achieve a solid return for the portfolio over a nine-month period.

The company held solid over several quarters with continued cost cutting and metrics that were starting to level out. ESI started to see better conversions with students achieving degrees due to a scholarship program they were initiating. This all added to promise that the top-line growth would be accomplished over the next 12 to 24 months.

We exited the holding in a shorter time period than planned due to the cloudy nature of government funding that returned to the for-profit education sector. The Obama administration revised its regulatory package related to for-profit colleges, rewriting a proposal that the education industry blocked in court almost two years ago.

The agency redrafted a key provision of the regulations that a judge cited in striking down the rule in July 2012. The concern within this change cites protecting students within the for-profit education space. Not enough degrees were being obtained compared with the debt that was being acquired during the student’s tenure.

We feel we have the ability to research company-specific information. When the longer arm of government decides to weigh in on an industry or a specific company, we take our investment and move on.

DFC Global Corp. - Capital gain/(loss) over entire holding period: (27%)

DFC Global (DLLR) is a Pennsylvania-based company that provides retail financial services to unbanked and under-banked consumers and small businesses. The company’s primary products and services include unsecured short-term consumer loans, secured pawn loans, check cashing, gold buying and Western Union money transfer and money order, as well as foreign currency exchange, reloadable VISA prepaid debit cards and electronic tax filing.

What attracted us to the company was the high pretax earnings yield, coupled with the broad exposure to North America. The business had a highly competent management team that was pushing for exposure into new frontiers for their business. This gave the fund a touch of global exposure from a Midwestern-based company.

The components of their business that became visible after our purchase were their ability to get refinancing in the debt marketplace and the changing environment to rollover loans. There was a refinancing that was reported for first quarter of the fiscal year that turned sour shortly after the announcement.

The business was built on rollover loans with clients. Some key indications were coming from the financial services space that the rollover loan environment was changing.

We exited the business because it did not perform in the marketplace as it appeared it would fundamentally. We enter every holding with a level of knowledge that is superior to the street’s knowledge for that moment in time. However, sometimes that is not enough to translate into a profitable position.

Material Sciences - Capital gain/(loss) over entire holding period: 45%
Valassis Communications - Capital gain/(loss) over entire holding period: 28%

These two companies have moved on to greener pastures via acquisition and were featured in past portfolio spotlights. While we rarely applaud an acquisition in our portfolio due to the general nature of loving our holdings, we appreciate the opportunity to realize profits for our partners from time to time.

OUR PERFORMANCE

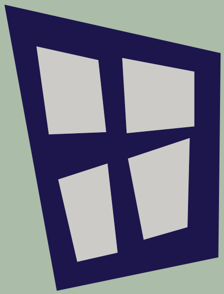
For the first quarter ended March 31, 2014, the Otsi Keta Focus Fund was up 1.75%. Year to date the Fund is up 1.75%. Since inception, the Fund has returned 66.75%. All of the Otsi Keta Focus Fund numbers mentioned are net of all fees and expenses. Please see the table below to review the performance of Otsi Keta Focus Fund Limited Partnership.

Fund Name	Morningstar Rating	ROR 1st Quarter 2014	ROR YTD March 31, 2014	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**4 star**	**1.75%**	**1.75%**	**66.75%**
Royce Special Equity (RYSEX)	3 star	(0.76)%	(0.76)%	67.43%
Buffalo Small Cap (BUFSX)	3 star	(3.48)%	(3.48)%	69.91%
Russell 2000 Index (^RUT)	N/A	0.81%	0.81%	74.50%
Russell 2000 Value (^RUJ)	N/A	1.29%	1.29%	59.36%

Source: Morningstar, Otsi Keta Capital, Yahoo Finance, Russell Investment

*Note: All OKFF performance data is shown net of all fees and expenses.

Correction: In the prior newsletter there were some statistics that were reported in error. The quarterly return for the Royce Special Equity Fund (RYSEX) was 6.29%, not (2.68%) and the Buffalo Small Cap (BUFSX) was 7.24%, not (1.53%). Consequently, the YTD and Inception from May 7, 2010, were also reported in error. RYSEX year to date was 29.37%, not 18.41%, and the BUFSX year to date was 44.32%, not 32.48%. The inception for RYSEX was 68.71%, not 57.95%, and the BUFSX for the same period was 76.04%, not 65.43%. We take pride in reporting accurate statistics for our competitors, and we apologize to our readers for the one-time mistake in our letter.



The Window Indicator

While we typically do not start updating this column until the second quarter, this winter could hardly be classified as "typical." The Midwestern United States, including the Great Lakes, endured extremely cold weather (the Detroit area broke the snowfall record set in 1880-1881).

The locks in Sault Sainte Marie opened on schedule to allow the Coast Guard cutters into Lake Superior to break the ice. It appears that the ice in the northern-most Great Lake is still somewhere from one to three feet thick. This phenomenon is causing the shipping industry to move through sections of Lake Superior under a cutter convoy containing five to 10 lakers trailing the cutters. This is projected to be the case until early May. The steel and utility industry are anxiously awaiting their commodities.

We promise to fire up the Window Indicator during the second quarter letter. Right now, the window is open, but there seems to be little to see. See you next quarter.

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