OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Seventeenth Edition - July 2014

Q2 2014

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

IN THIS ISSUE...

QUESTIONS...

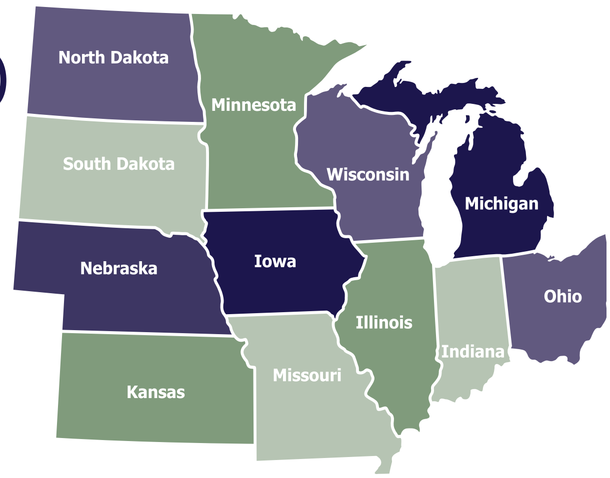
Contact us at:

312.473.3982
888.563.7349

F. William Schwarz, III
bill@otsiketacapital.com

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

ON THE ROAD



In May, we had a great opportunity to travel around the Midwest. We met with six companies—five of which are currently in the portfolio. Meeting with the Chief Financial Officers and Chief Executive Officers face-to-face creates an opportunity for dialogue and helps in our evaluation of the management and companies. Let us walk you through our time on the road.

In Elkhart, Indiana, we made a stop at Patrick Industries. Patrick is a newer holding for the Fund and is building a first-rate supplier business for recreational vehicle (RV) OEMs. Elkhart is the hub of all things RV in the Midwest, and Patrick Industries has been strategically building its portfolio through acquisitions. This conservative, well-run company has done an amazing job over the last couple of years with increasing their revenue from each RV sold. While we see some risks to integration of the acquisitions, we also see long-term opportunities in growing a business that remains at the front of the discretionary curve to an aging, active population.

Our sit-down included speaking with their Director of Financial Reporting and Investor Relations. We were impressed by the responses and forecasts for business. Having added this position to the portfolio in the last 12 months, we look forward to Patrick being a stalwart for the next couple of years. When we return to Elkhart in the future, we look forward to an on-site tour of their production facility.

Our next stop was Aurora, Illinois, marking our third visit to Cabot Microelectronics. We sat down with the Chief Executive Officer, the Executive Vice President of Business Operations and the Head of Investor Relations. Most of you are familiar with Cabot Micro, as it has been a holding for over three years in the Fund. The company services the microchip marketplace with industry-leading slurry technology and tunable polishing pads. Our visit included questions around the future of the "chip" business, and we were encouraged by the vision for the next several years. The growth of Internet-directed devices should continue to drive the need for CMP services.

Our first day in Illinois would not be complete without a friendly dinner with one of the limited partners. We appreciate all of the hospitality that our partners show us throughout the year.

Continued on page 2...

Continued from page 1...

Day two had us in downtown Chicago for an afternoon meeting with Inteliquent. Our meeting had to be in the afternoon due to their earnings announcement and conference call that morning. Much to our pleasure, the company exceeded our expectations for the quarter and announced promising developments for the foreseeable future. Our afternoon meeting with the new CFO would be in a more relaxed atmosphere.

In many circumstances, a new CFO to an organization can bring negative connotations. Fortunately for our partners and us, the changing of the guard at Inteliquent brought positive results for our performance numbers. We took stock of the new CFO and focused on his thoughts for the direction of the company, and we were impressed with the tenor of the meeting.

Inteliquent's business has been cyclical over the last three years to say the least. The company struggled with an ill-timed purchase and disagreements with their largest client. That is now in the rearview mirror and the prospects look good for this telecom company. The disagreements with their client have been resolved, the ill-timed purchase has been sold for cash, and the company's balance sheet looks stronger than our original purchase date. Inteliquent looks to leverage the business that has been created via the ever-growing cell phone market, and we are excited about their prospects.

Departing Chicago in the afternoon took us as far as Des Moines, Iowa. We can say that the Midwest is planting a lot slower than they have over the last couple of years. We believe the growing season will be more traditional this year, if the weather cooperates. We have more on that below.

Leaving Des Moines early the next day had us traveling to Lincoln, Nebraska, for a late morning meeting with National Research Corporation (see annual meeting packet if you are an LP in the Fund). NRCI is in the business of measuring satisfaction of patients in the health care space. Medicare and Medicaid require health organizations to survey their patients and submit the findings. As health care becomes more centrally controlled, we expect the level of surveying to increase.

We sat down with the chief executive officer and the chief financial officer, which constitutes the whole front office. They gave us ample time to walk through what we think is a very exciting business with plenty of growth opportunities. We have a sense that they are positioned in the right place at the right time for tremendous growth over the next three to five years. We have put our money where our mouth is as well!

Omaha, Nebraska, was our final stop before we could relax and enjoy some down time at the Berkshire Hathaway annual meeting (this is what we consider a mini vacation). Gabelli & Company was helpful to arrange analyst meetings during the afternoon and include us in the mix. We had an opportunity to sit in on Lindsay Corporation's presentation, as well as that of their competitor, Valmont Industries.

As a reminder, Lindsay Corporation generates their primary revenue by producing and selling pivots (sprinklers) for farmers, among other things. They had been coming off a record year for agriculture and tempered everyone's expectation for this year in the agriculture arena due to commodity prices that are more in line with historical averages. Fortunately, this company has some embedded options in other businesses that could bode very well for this year and beyond. We are happily holding on to this longer-term holding in the portfolio.

The Berkshire Hathaway annual meeting was very insightful, and gave Fred and me plenty to talk about during our 12-hour drive home. We wouldn't plan these trips if we didn't love our jobs. We appreciate the partners' confidence in letting us represent you out on the road. We look forward to sharing our next trip with you.

The Window Indicator

We found an article from *Crain's Business Cleveland* written by Dan Shingler that we wanted to share with you. The article speaks to the beginning of the shipping season going on outside our window. It is also very poignant in focusing on the business that sits within the portfolio; namely, the Silver Bay, Minnesota-based trust that supplies the iron ore that is referenced.

"Most folks know that, in Cleveland, winter lasts a long time. But through May?

Apparently so, at least in terms of its impact on shipping. Even though Lake Erie and the rest of the Great Lakes were ice-free in May, the lingering effects of an icy winter still were affecting shipping.

In Cleveland, 6.4 million tons of iron ore were delivered in May—ore that was needed quickly to resupply stockpiles at ArcelorMittal's Cleveland steel mill. Had there been less ice on the lakes in the previous months, however, that total would have been higher.

The total would have been about 600,000 tons more, but three, 1,000-foot-long U.S.-flag lakers were out of service for a combined 65 days in May to repair damage suffered in the heavy ice that covered the Lakes in March and April, reported the Cleveland based Lake Carriers Association.

That followed a winter when ore shipments were cut in half, and were brought to a standstill during some particularly tough stretches of weather, the association previously reported.

For now at least, fairly high water levels are enabling ships to come into port, and up the Cuyahoga River, with larger loads. But the river still needs dredging, and ships still are not carrying as much ore as they used to.

Rising water levels did allow for bigger loads than a year ago, but dredging remains very much needed, the association reported. The largest iron ore cargo to move in May totaled 67,293 tons, an increase of 2,800 tons compared to a year ago. However, in May of 1997, a time when water levels were approaching near record highs and allowing vessels to load to almost their full draft, the top ore cargo totaled 69,961 tons, and before the season was out, some loads would top 72,000 tons."

Year-to-date, the Great Lakes' ore trade stands at 12.7 million tons, a decrease of 26% from the like period a year ago, due to winter ice, according to the association.

We have seen improvements in traffic since this article was published on June 10. Look for improved sentiment in our 3rd quarter "indicator." Happy Summer!

OUR PORTFOLIO

If you want to learn about a company's priorities, look at where they spend their operating cash flow. We think this advice is sage and useful when investing. A single quarter of data can be misleading, but the last 12 months are often indicative of direction. As we have espoused in our previous letter, staying focused on a business' real economics is more valuable than focusing on the minute-by-minute change in share price. We recently compared our aggregated portfolio from the fourth quarter of 2010 with the current portfolio. Aside from today's portfolio generating 30% higher operating cash flow, the mix of how companies are investing has shifted. On average, our portfolio companies continued to add cash to their balance sheets and directed a greater percentage of dollars to capital expenditures and share repurchases than four years ago.

In 2010, the aggregated companies in our portfolio were spending less than 50% of their cash flow on capital expenditures and share repurchases. Today, the portfolio companies are spending 77% of their cash flow in those areas. Companies have slowed their spending on special dividends and debt repayment. We feel this can be correlated to the gap between 2008-2009 and today. Businesses have become more comfortable taking advantage of potentially "once-in-a-lifetime" interest rates. While we have never espoused leveraging a small company in the debt market, we think it is good business sense to maintain financial leverage during this period in time.

See chart on page 4...

OUR PERFORMANCE

For the first quarter ended June 30, 2014, the Otsi Keta Focus Fund was down less than 1%. Year to date the Fund is up .77%. Since inception, the Fund has returned 65.13%. 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.

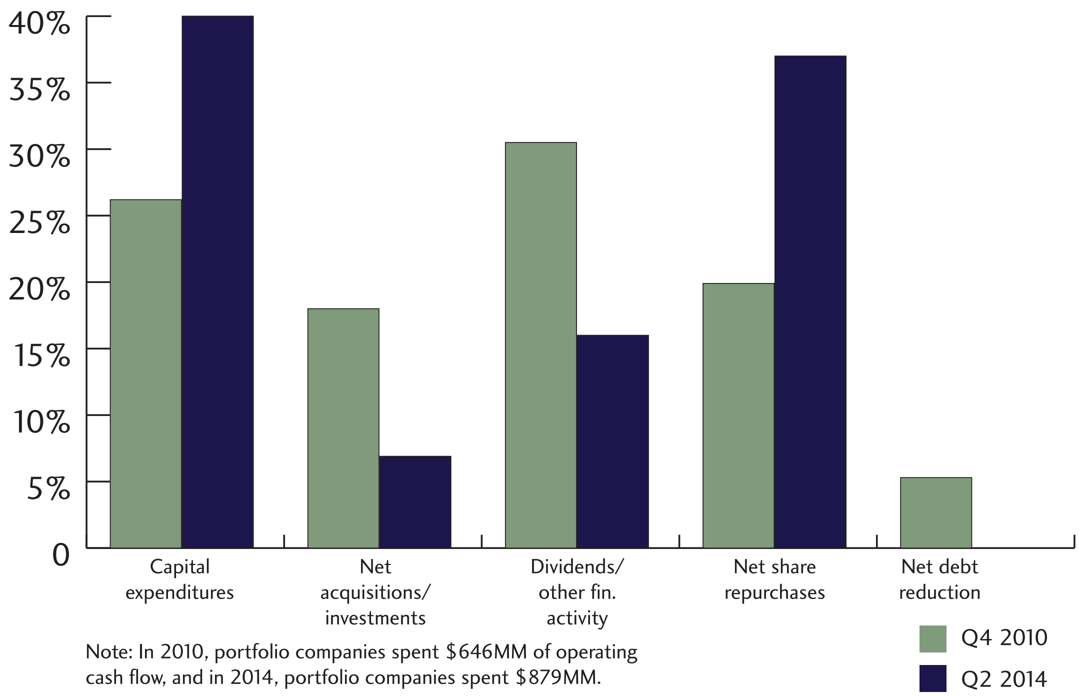
Fund Name	Morningstar Rating	ROR 2nd Quarter 2014	ROR YTD June 30, 2014	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**3 star**	**(0.97%)**	**0.77%**	**65.13%**
Royce Special Equity (RYSEX)	3 star	0.93%	0.16%	66.40%
Buffalo Small Cap (BUFSX)	3 star	(0.86)%	(4.31)%	65.48%
Russell 2000 Index (^RUT)	N/A	1.70%	2.52%	77.45%
Russell 2000 Value (^RUJ)	N/A	1.85%	3.16%	57.63%

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

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

Continued from page 3…

How Portfolio Companies Invest their Operating Cash Flow (LTM Q4 2010 and Q2 2014)



Note: In 2010, portfolio companies spent $646MM of operating cash flow, and in 2014, portfolio companies spent $879MM.

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