OTSI KETA QUARTERLY
OTSI KETA CAPITAL
Twenty-First Edition - July 2015

Q2 2015

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

IN THIS ISSUE...

QUESTIONS...

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ON THE ROAD

"Somebody once said that in looking for people to hire, you should look for three qualities: integrity, intelligence and energy. And, if they don't have the first, the other two will kill you." – Warren Buffett

As you know from former letters, we enjoy getting out on the road and meeting with the management of the companies we hold. We are also big fans of meeting with companies who compete and buy from companies in our portfolio. Last month we met with three companies situated across the supply chain for the RV industry. If you have always wondered where the majority of these recreational items come from, we encourage you to head down I-69 to the Michigan/Indiana border, head west on I-80 and keep your eyes open as you approach Elkhart, Indiana. You will be amazed that most of the ecosystem surrounding the RV industry is located within 100 miles of Elkhart, Indiana.

We have been invested in the industry through a supplier for about 18 months, and the holding has performed well. The intention of our trip was to sharpen our understanding of the competitors and customers in the marketplace.

Our trip started at the Recreational Vehicle Hall of Fame (this is not a typo, there actually is a Recreational Vehicle Hall of Fame housing industry history and product anthologies). The rest of our trip took us through the facilities for Thor Industries, Lippert Components (a division of Drew Industries) and Patrick Industries. Thor Industries is a large OEM, while Lippert and Patrick are tier one suppliers and support the production through their product lines.

All three companies took full advantage of the 2008-2009 economic downturn. Both Patrick and Drew purchased competitors and broadened their product portfolios, while Thor expanded its production footprint by purchasing the plants of weaker competitors. All of the businesses continue to keep an open eye for opportunities in their respective industry.

While this wasn't our first time through RV plants and supplier facilities (we have met with Patrick three times since we initiated our position in 2014), the comparison of the three companies' facilities in close succession gave us a different perspective. The mix of capital to labor in the RV industry heavily skews toward labor. The industry uses a lot of labor and a modest amount of automation. The concentration of the industry geographically presents a unique challenge for finding workers during periods of expansion. It appears anyone around Elkhart who wants to work in the industry already has had three jobs in it.

Continued on page 2

Continued from page 1

The labor turnover rate for all three companies runs in excess of 50%, but all are making strides to improve retention. Their facilities show fluid, operating shop floors that continue to fine tune manufacturing for efficiencies. We believe the industry will have to raise capital spending on automation going forward to maintain high returns on capital given the ever-tightening labor market. The high level trends in the industry have been strong, and the demographics of the industry are hard not to like.

	2005	2011
Number of U.S. households owning an RV	7.9 million	8.9 million
Household ownership rates of RVs	8.0%	8.5%
Average age of all RVs	12.7 years	14.2 years
Average time consumers have owned their current RV	6.6 years	8.4 years
Age of typical RV owner	49 years	48 years
Average income of RV owner	$78,000	$75,000

Seven in ten RV owners plan to purchase another RV to replace their current unit, with 37% of these expecting to purchase a new RV. Current owners intending to purchase either a new or used RV plan to purchase every five years on average.

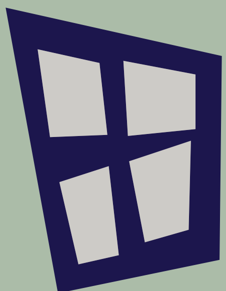
That last sentence tells us we are fishing in the right pond. As the aging demographics of the country push us toward more discretionary purchases, and the current market potentially looking for a new RV, our investment in this space should have our two-to-three-year run still in place.

Patrick Industries is a leading manufacturer and supplier of building and component products to the recreational vehicle, manufactured housing and industrial markets. They have 37 manufacturing (not all in Elkhart) and 16 distribution centers with approximately 3,500 employees.

Thor Industries was the least known of the threesome. They actually assemble the RVs for final sale. We were impressed and amazed at the “assembly line” of this facility. As mentioned above, automation has not descended on the RV industry; manual labor rules the day. Teams paid on a piecework basis do many of the assembly tasks. We won’t say everyone in the plant was running, but the vast majority were working at a pace that would make a gym membership unnecessary.

After talking with the CEO and CFO of each company, the simple takeaway was they believe we are in the fifth or sixth inning of a nine-inning game. We agree, and wouldn’t be upset to see extra innings. From a new investment standpoint, we have not added any additional capital to the space, but will continue to follow the industry and players closely hoping to get additional exposure if the market gets irrationally bearish on the companies over the coming months.

Until we are on the road again. Enjoy the summer!



The Window Indicator

Commodity hauling continues at a brisk pace on the Great Lakes this shipping season. A cold winter, with subsequent ice, does not hamper demand for the products that are hauled via water. In fact, the robust ice coverage has led to higher water levels across all five Great Lakes. This helps with the efficiency of the lakers.

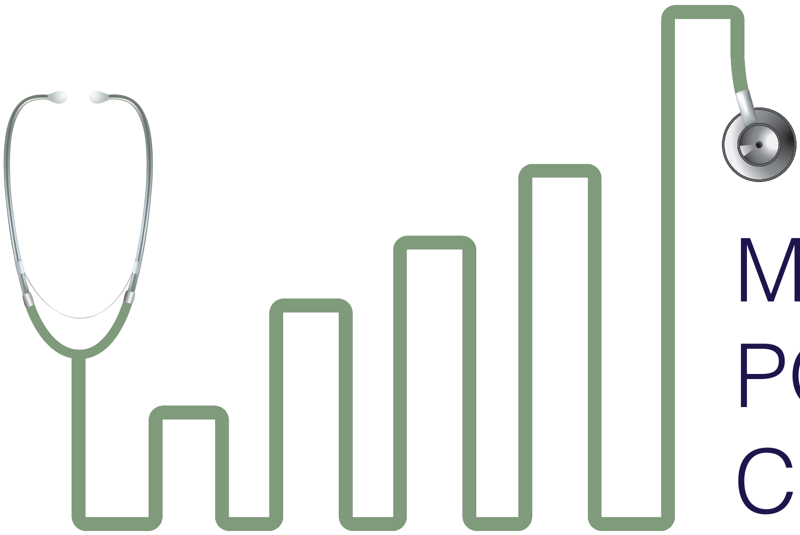
Limestone, coal and iron ore are being hauled at an elevated pace compared to last season. The prices of commodities are not helping the miners, but the volumes hauled speak to the economy continuing to muddle along and improve.

Due to the cold winters over the last two years, the U. S. government is looking to commission a second icebreaker for the Great Lakes. This would come at a cost of around $151 million. Adding this type of ship to the Coast Guard fleet would ensure better efficiencies early and late in the shipping season.

On an interesting side note, the car ferry Badger, sailing out of Ludington, Michigan, to Wisconsin, was just designated as the continuance of U. S. 10. This would be one of only two U. S. highways with a ferry service/connection.

The Badger has been mired in controversy over the last decade, as it remains the last of the coal-fired vessels on the Great Lakes. It was, until recently, allowed to dump its fly ash into Lake Michigan during crossings. One might be appalled at this practice being allowed, until you consider that virtually every vessel was practicing this process on the Lakes years ago.

Rest assured, the ash is now properly disposed, and the Lakes continue to thrive. See you next quarter.



MID-YEAR PORTFOLIO CHECK-UP

The first half of the year was challenging. Disruptions occurred both inside and outside our borders. Supreme Court rulings, Iranian nuclear talks and the Greek debt crisis were enough to make even optimistic folks like ourselves shake our heads in disappointment. What was easy to miss in this negative noise was an improving U.S. economy. While inflation remained low and employment continued to grow, a strengthening consumer segment emerged with the confidence to spend on big-ticket items like cars and homes. A stronger consumer segment typically leads to stronger economic growth—which is what we expect to continue over the second half of the year and throughout most of 2016. We recognize that a stronger economy doesn't necessarily lead to higher stock prices, but we think it will help our portfolio outperform the market as a whole.

In evaluating the portfolio, we consistently ask ourselves where capital appreciation will come from, and are we getting an appropriate return for the risks we are taking.

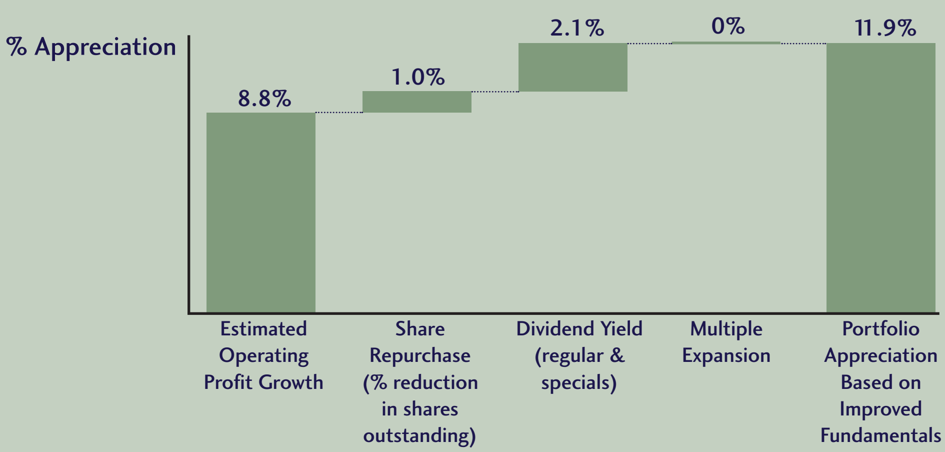
At the end of the second quarter, we evaluated the portfolio's appreciation potential based on a constant multiple projection. We assume that for the next 12 months the valuation multiple stays constant and capital appreciation is solely driven by per share economic improvements. The analysis has the benefit of focusing on the fundamental drivers of appreciation. We also believe this relatively simple analysis is conservative, given our penchant for buying companies at multiples to earnings that are well below the market averages.

The graph below this article is based on an aggregated forecast derived from individual investment in our portfolio. The three drivers we find most useful are operating profit growth, share repurchase and dividend yield. We believe the current portfolio's fundamentals should drive a low double-digit return before any improvement in valuation multiples.

The current portfolio trades at about 15 times trailing earnings compared to the Russell 2000 index, which is trading well north of 20 times. It may take some time for the macro environment to stabilize, but we continue to see appreciation potential in the portfolio and identify attractive new investment opportunities.

Appreciation Potential Based on Improving Portfolio Fundamentals

Constant Multiple Next 12 Months

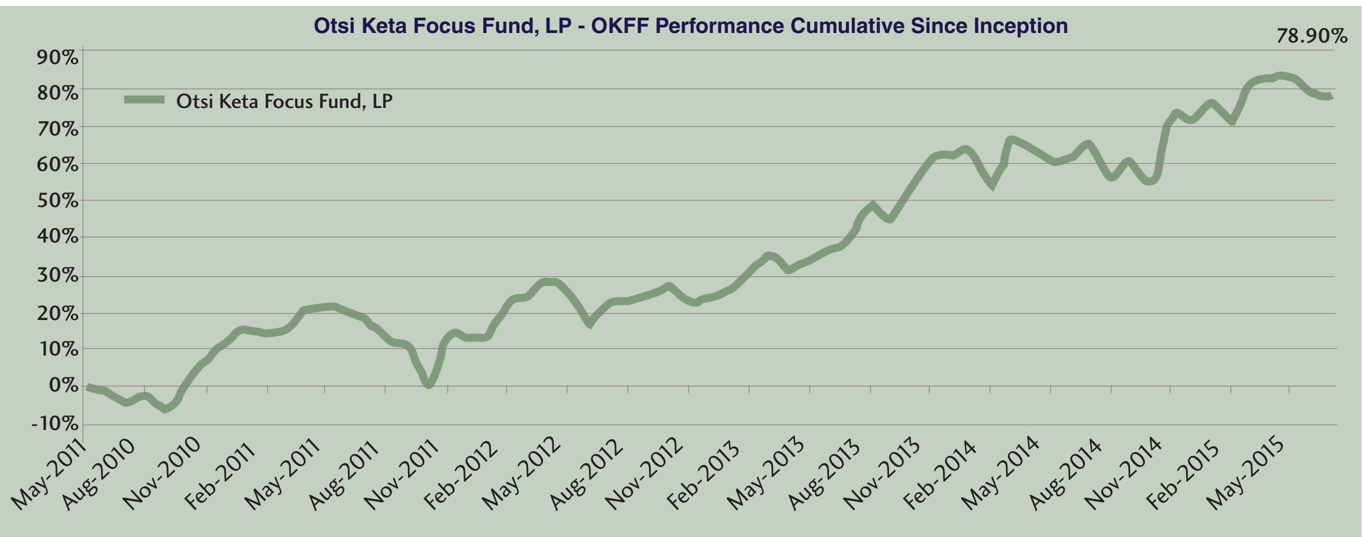


OUR PERFORMANCE

For the second quarter ended June 30, 2015, the Otsi Keta Focus Fund was down 2.29%. Year to date the Fund is up 1.56%. Since inception, the Fund has returned 78.90%. 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	ROR 2nd Quarter 2015	ROR YTD June 30, 2015	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**(2.29)%**	**1.56%**	**78.90%**
Russell 2000 Index (^RUT)	0.09%	4.09%	86.52%
Russell 2000 Value (^RUJ)	(1.69)%	(0.22)%	60.35%

Sources: Morningstar, Otsi Keta Capital, Yahoo Finance, Russell Investment
*Note: All OKFF performance data is shown net of all fees and expenses and is based on an investment between $250,000 and $999,000.



Monthly Fund Performance*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010 - OKFF					-1.98%	-2.85%	2.55%	-4.25%	8.51%	5.40%	5.50%	2.31%	**15.42%**
2011 - OKFF	-1.40%	1.42%	4.72%	0.68%	-2.29%	-0.91%	-4.52%	-2.04%	-8.48%	12.22%	-0.09%	0.44%	**-1.60%**
2012 - OKFF	7.56%	1.54%	3.18%	-1.87%	-6.62%	4.00%	0.66%	0.30%	2.75%	-3.09%	0.74%	2.05%	**10.99%**
2013 - OKFF	4.05%	-0.14%	3.14%	-2.59%	3.74%	1.67%	7.10%	-2.50%	5.04%	6.31%	0.49%	0.75%	**30.00%**
2014 - OKFF	-6.18%	6.74%	1.60%	-3.36%	-0.10%	2.58%	-5.66%	3.11%	-3.60%	11.11%	-0.12%	2.51%	**7.49%**
2015 - OKFF	-2.22%	5.37%	0.88%	0.21%	-2.37%	-0.13%							**1.56%**

*All "Fund Performance" numbers are net of all fees, expenses and accrued performance allocations.

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