OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Twenty-Third Edition - January 2016

Q4
2015

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

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QUESTIONS...

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Dear Investing Partners and Friends:

Otsi Keta Capital LLC celebrated its five-year anniversary this past year. Starting the Fund in 2010 brought out plenty of doubters in our timing for such an investment. However, the Midwest was what we knew best, and we have always been contrarian in our thinking. Or better put, we always are intrigued in an investment or idea when everyone is telling us “no.”

We are proud of our 9.97% annualized return since inception and are looking forward to celebrating milestones with our partners for many decades to come. The Midwest continues to be a compelling story, and we continue to hold out an extremely unique vehicle to make such an investment.

Two-thousand fifteen started out at a brisk pace in relationship to the markets and the good feelings going around in the investment world. Our portfolio saw a tailwind of strong earnings reports across the board in the first quarter. The momentum started to taper off in the second quarter, but we were buoyed by the strong fundamentals and positive company visits we attended. The year was looking solid.

The third quarter came upon us like a storm in the middle of Lake Huron: suddenly and without warning. The pressure of dropping commodity prices put a damper on expectations, as some of our holdings were fairly or unfairly caught up in the shifting economy. Fortunately, holdings in defensive names, like Smith & Wesson, continued to support a weakened portfolio. We were not excited to release third quarter numbers.

The end of the year turned around as we had anticipated. Five-plus years of running a fund, and 20-plus years of overall experience in the markets, allowed us to weather another brief storm. Returning the portfolio to relative flat for the year was a win in our opinion, and we started to anticipate the need for more cash to take advantage of potential dislocations on the horizon.

We think the most important element of investing is risk management. We believe having a significant stake in the outcome of any investment is the most effective way of aligning the interests of the investment manager and client. We are not just managers, but OKFF investors —we and our families represent over 30% of the Funds assets. We will have both up and down years, and we know our investors take solace in knowing the managing partners are invested shoulder to shoulder with the limited partners.

As the new year begins, we are pursuing new holdings for the portfolio. We expect that all K-1s and copies of the annual audit will be in partner mailboxes in March. Thanks again for allowing us to work with you and your families in this unique endeavor.

All the best,

Frederick P. Rollins, Jr Partner	F. William Schwarz, III Partner

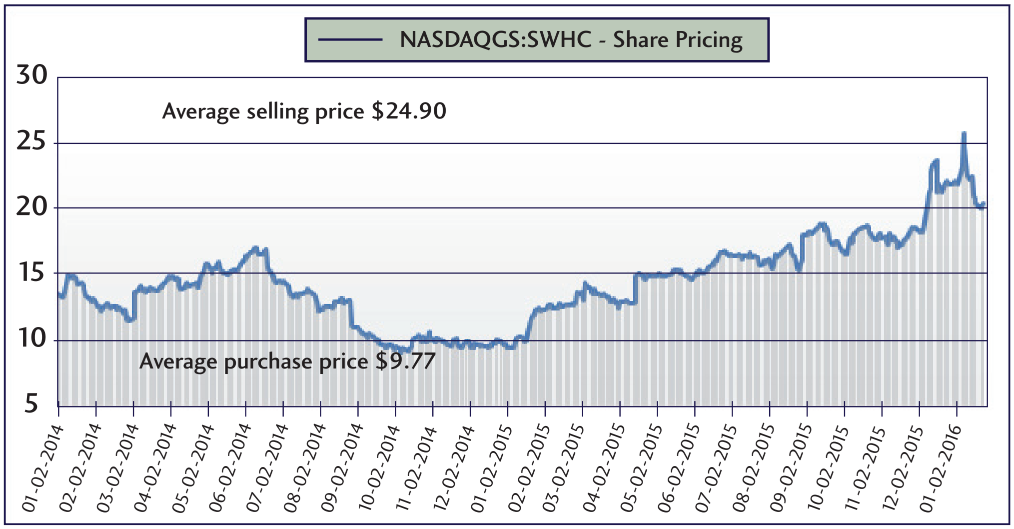
OUR PORTFOLIO

The Fund ended 2015 with 13% of its assets in cash. We would like to say we saw the early January swoon in stock prices coming—but that would be self-delusion, something we try hard to avoid in managing our investors' capital. Our cash position grew primarily from year-end tax loss selling, as we sought to lower investors' tax exposure from capital gains. In past letters, we have described ourselves as tax sensitive, but not tax focused. Translated, that means we will wait a day or two to sell a position, if it will create a long-term gain versus a short-term gain, or if we can push a gain into the next tax year.

During the first week of January, our cash position increased to 20% through the sale of our holdings in the gun maker Smith & Wesson (SWHC). The sale, while very timely, was based on the company reaching and exceeding our estimate of its intrinsic value, not a macro market call.

Our holding period for SWHC was approximately 14 months, shorter than our typical three-year target. We purchased the position in November of 2014 for an average cost of $9.77. The company's stock price had been dropping over several months in reaction to two quarters soft long-gun sales and some aggressive competitor pricing in the handgun segment. While many investors exited the stock, we saw the situation differently. From our perspective, the company had maintained pricing discipline in the face of some irrational pricing and channel stuffing by competitors. Further, SWHC had strengthened an already strong balance sheet and was coming to market with a number of new and improved product offerings. Product cycles in small companies are disproportionately important. We saw the decline as an opportunity to buy.

We sold all of our exposure in Smith & Wesson between January 5 and January 14, 2016, for an average selling price of $24.90. Just as we believed, the market had overreacted to bad news in November of 2014, and the opposite was happening in early January of 2016. The regrettable and senseless terrorist acts in San Bernardino put a spotlight on gun regulations, specifically with the goal of making it harder to purchase guns. Nothing stokes handgun sales more than the potential restriction of purchase, however unlikely. The stock began trading more on emotion than value—we were able to take advantage of the situation and lock in a 154% gain on our investment. Smith & Wesson is a fundamentally strong company and we would be buyers again at the right price.



As mentioned in our opening letter, we have a positive view for the year ahead and expect to redeploy our currently high cash levels at valuations that are attractive in both the short- and long-term. We continue to focus on the things that matter in compounding capital, specifically buying quality companies when they're selling at a significant discount to our estimate of intrinsic value. While the market's recent volatility is unsettling in the short-term, it frequently creates opportunities for our Fund and your capital to outperform.

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OTSI KETA FOCUS FUND, LP PORTFOLIO STATISTICS	OKFF Portfolio	Russell 2000
Price/Perspective Earnings	11.39	18.09
Price/Book Ratio	1.78	1.81
Return on Assets %	10.64	1.09
Return on Equity %	18.64	7.10
Return on Capital %	13.10	4.20
Total Enterprise Value/EBITDA	6.60	11.70
Projected EPS Growth - 5 year %	13.03	12.56
Dividend Yield %	1.23	1.54
Average Market Cap $ mil	566.92	1,485.22

Of Note Last Quarter...

Key activities over the last quarter plucked from the news:

October 1: ConAgra expects $300M of savings from a move to Chicago from Omaha, cutting 1,500 positions at their new headquarters.

October 1: Minnesota economic indicators turned up. Durable goods producers, including metal manufacturers and computer and electronic equipment producers, experienced upturns in activity.

October 7: Maintenance at a Midwestern refinery causes retail gas prices to spike in many Midwestern states.

October 16: Indiana Governor Mike Pence (R) unveils a $1 billion funding plan to fund road projects for the next four years.

November 12: A large mid-November storm causes havoc on the roads in the Midwest. Snow and ice temporarily shut down major roadways in Iowa and Nebraska. (Where did it all go in December?)

December 4: The Economic Outlook Symposium (EOS) consensus outlook projects U.S. real GDP growth to slightly increase in 2016. Inventory levels are expected to rise at a slower pace, and residential investment is projected to rise at a strong pace. The unemployment rate is expected to rise slightly higher in 2016.

The translation to the Fund:

- Taxes continue to be a focus with the holdings in the portfolio. It is not lost on us that a company would relocate for a significant cost advantage for the company and the workers. On a more macro level, we have always believed that an ultimate reduction in the corporate tax rate would be a significant tailwind to the portfolio. Moves like ConAgra's are not lost on our politicians.
- The portfolio is well positioned to take advantage of infrastructure projects domestically and even to a lesser degree abroad. Indiana's announcement gives us more conviction that we will be on the right side of funding like the one mentioned.
- Snow, ice and other conditions that accompany a Midwestern winter are beneficial for a couple of our holdings in the portfolio. Personal inconveniences in the Midwest can lead to higher profitability in the portfolio.

The Window Indicator

The Soo Locks at Sault Ste. Marie officially closed at midnight on January 15, 2016. This officially put the 2015 shipping season in the books. Toward the end of November, the U. S. flagged fleet started to see early winter lay-ups. These early terminations were a direct result of pressure from foreign steel being imported to the United States, and a waning interest in coal at U. S. power plants.

The fleets' down months will see plenty of activity at U. S. shipyards. Domestic vessel operators have committed more than $110 million for maintenance and overhauls to an aging fleet. Maintenance and repair will total approximately $60 million and repowering and environmental improvements will total around $50 million.

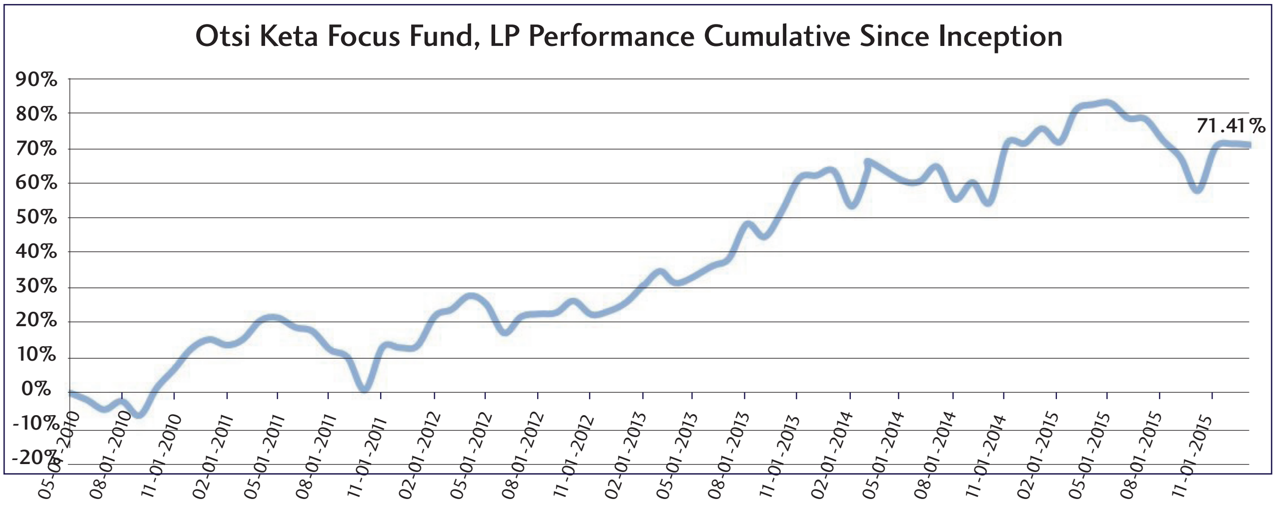
Two U. S. flagged steamships, the John G. Munson and the Herbert C. Jackson, will be repowered with state-of-the-art diesel engines, according to the Lake Carriers Association. They go on to say, the James R. Barker and Lee A. Tregurtha will be fitted with exhaust gas scrubbers. If you recall, this same fleet, Interlakes, introduced the first hybrid freighter last season, the Mesabi Miner.

The major shipyards seeing this activity are located in Wisconsin, Pennsylvania and Ohio. Smaller activity will be taking place in shipyards located in other midwestern port states, including Michigan.

Off-season investment in the fleet bodes well for a stable 2016 shipping year. The window is closing on another exciting year, and we look forward to reporting again when we see activity outside of our window.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2015, the Otsi Keta Focus Fund was up 8.33%. Year-to-date the Fund was down 2.69%. Since inception, the Fund has returned 71.41%. 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.



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%	-3.46%	-2.91%	-5.64%	7.93%	0.57%	-0.20%	-2.69%

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

We have returned 9.97% annualized over our five-and-one-half-years' existence. We invest with a value bias in the smaller company, domestic marketplace.

As always, we continue to manage our portfolio with the objective of compounding your capital over time. Our disciplined approach allows us to shift out of investments that have exceeded our expectations and into new names that look to have great potential for the coming years. We appreciate our limited partners' confidence, and we are always available for a meeting with someone who is looking to come on board.

Happy New Year!

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