OTSI KETA QUARTERLY

Thirty-First Edition - January 2018

OTSI KETA CAPITAL

Q4 2017

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

F. William Schwarz, III
bill@otsiketacapital.com

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

"Two ways. Gradually, then suddenly."

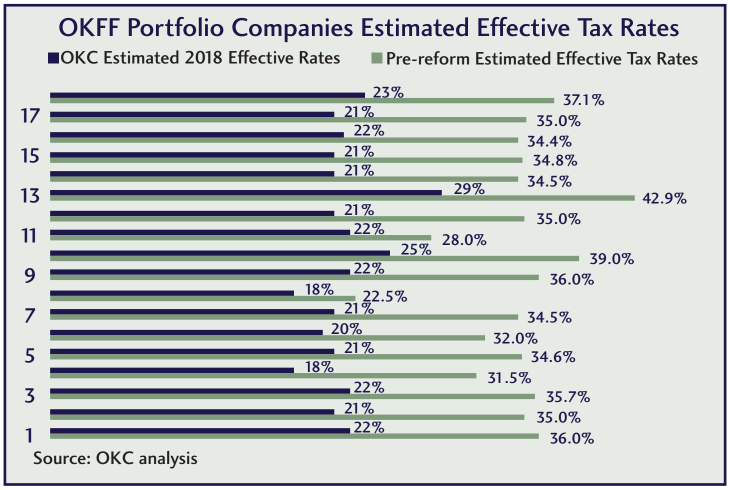
– The Sun Also Rises, Hemingway

Hemingway's famous dialogue referred to the subject of bankruptcy, but we think it describes the impact of recent tax reforms on businesses and the economy. For the companies currently in our portfolio, reducing federal tax rates from 35% to 21% is a big, positive impact on cash flow generation. We do not believe that this impact has fully been priced into the value of our holdings. We expect that will change as our portfolio companies and other public companies discuss the impact of tax reform on earnings calls. We believe it takes longer for information to get reflected in smaller companies as compared with their larger capitalization brethren.

We come by this belief honestly. In December, our portfolio didn't react to the passing of the tax bill. In January, our first portfolio company provided guidance regarding the impact of tax reform on their business.

This particular company announced its 2018 estimated effective tax rate of 23%, down from 35%, in the prior year. The company in question is a leading manufacturer of electric raceway products for non-residential construction and renovation markets (think conduit for protecting wiring, etc.). The company's announcement was predictable, but yet the marketplace didn't react significantly until the company made an official announcement. After the announcement, the company's stock price jumped.

Gradually, then suddenly. Apparently the market looks a lot more efficient from the banks of the Charles than from the banks of the St Clair River. As the chart below shows, our portfolio currently has a high effective tax rate. Prior to tax reform passing, we were expecting the average rate in our portfolio to be 34.4%. With passage, we expect the effective rate will be between 21.5% and 22.5%.



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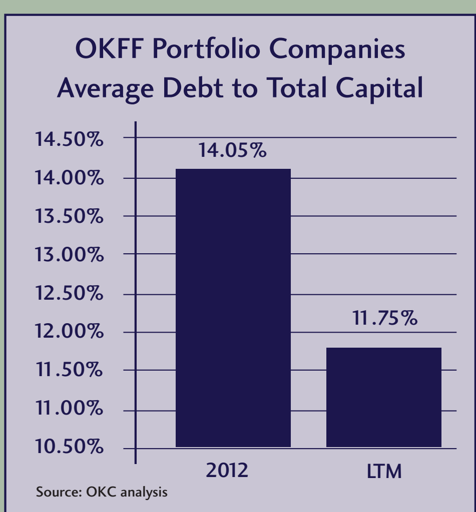
We expect the overall economy will benefit as companies share their margin improvements with employees through higher wages and benefits, as well as increased aggressiveness in courting new business. Already 165 companies have announced wage hikes, benefit increases and bonuses linked to tax reform. Some politicians referred to the $1,000 average each employee has received as crumbs, but we don't think that is how the people receiving the surprise bonuses will feel. It won't change the world, but it will move the needle a bit.

The long-term question of how sustaining tax reform will be to the economy and the markets hangs on capital allocation. Only a portion of the tax savings will go to employees. The rest should benefit stockholders through higher dividends, buybacks and capital investment in new opportunities. We expect buybacks to benefit significantly in year one, with capital purchases being a close second. It will take time for management teams to find and execute on investable projects. In conversations we had as late as December, few folks were expecting tax reform to be passed.

Getting a competitive corporate tax rate is essential for domestic companies to compete globally. Moving to a territorial system will reduce the number of inversions as well. Tax reform was a massive fundamental change in how we do business in the U.S., and it will take awhile longer for the market to recognize and monetize all of the short-, medium- and long-term benefits.

Interest Rates Are the Big Potential Risk

With the economy growing, regulation being reduced and tax reform enacted what could possibly go wrong? Just about anything, including interest rates. We have been and continue to be cautious of small companies with high debt-to-capital ratios. Many companies have taken advantage of low interest rates to borrow and used the proceeds to reduce their share count. While we haven't owned many of the current portfolio companies for five years, we did a look back on our current holdings' debt-to-capital ratios from 2012. If you believe interest rate risk could be a negative catalyst, we think it is prudent to keep leverage low. Higher rates will reduce the valuations of equities, but long dated bonds with small coupons could get rocked. The news from our look back was positive, while three companies had increased their leverage, seven companies decreased their leverage and eight remain debt free.



Debt to Capital Ratio by OKFF Holding

Position	Debt to Total Capital 2012	Debt to Total Capital 2017 TTM	Impact on Leverage
1	2.20%	1.70%	Decreased
2	11.90%	0.10%	Decreased
3	15.80%	4.80%	Decreased
4	25.80%	6.70%	Decreased
5	29%	21.30%	Decreased
6	32.30%	19.80%	Decreased
7	48%	32.40%	Decreased
8	30.90%	42.10%	Increased
9	43%	61.50%	Increased
10	No Debt	9.30%	Increased
11	No Debt	No Debt	No Change
12	No Debt	No Debt	No Change
13	No Debt	No Debt	No Change
14	No Debt	No Debt	No Change
15	No Debt	No Debt	No Change
16	No Debt	No Debt	No Change
17	No Debt	No Debt	No Change
18	No Debt	No Debt	No Change

Portfolio Spotlight

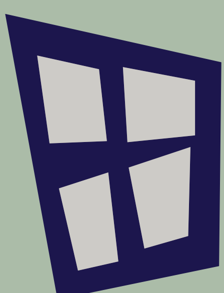
Omega Protein Corporation (former ticker: OME)

Business: Omega Protein Corporation develops, produces and delivers products to enhance the nutritional integrity of foods, dietary supplements and animal feeds worldwide. It operates in two segments: Animal Nutrition and Human Nutrition. The Animal Nutrition segment produces animal nutrition products, including fish meal products that are primarily used as a protein ingredient in animal feed for swine, aquaculture and household pets. This segment also offers fish oil for animal and aquaculture feeds, additives to human food products and dietary supplements and fish soluble to bait manufacturers, as well as for use as an organic fertilizer and as an additive in fish meal. The Human Nutrition segment produces plant- and marine-based specialty oils, Omega-3 fish oils and specialty dairy proteins and other related products. The company sells its products in the Americas and internationally.

Stock-Market Value: $500 million ($22.00 per share)

What's Happened: As of December 19, Cooke Inc., a New Brunswick company and parent of Cooke Aquaculture Inc., has acquired all the outstanding shares of Omega Protein Corporation for $22.00 per share. The offer represented a premium of 32.5% to the stock closing price on October 5, 2017.

Key Numbers: Otsi Keta acquired its shares in over the last 14 months paying $15.75 - $25.90 per share. We exited the position after the deal was announced at an average price of $22.03 per share, as the market took the price above the offer, on speculation that another bidder would emerge. The deal closed in the fourth quarter of 2017.



The Window Indicator

The Great Lakes fleet started lay-up this year beginning in November. Most of the early lay-ups were the non-iron ore fleet. As steel prices continue to rise, the demand seemed to maintain at the ports of Detroit, Cleveland and Chicago/Gary. Boats were still trickling by the window as of January 12, as heavier-than-normal ice was slowing down the remaining fleet.

On January 12, the Toledo City Planning Commission approved a critical step toward the construction of the iron processing facility referenced in the last letter. The plant will employ between 120 and 130 personnel and will receive the raw materials by boat. This bodes well for the Superior-based ports that supply the traditional plants on the Great Lakes. Increased demand from a new plant should keep the "window" active for years to come.

The St. Lawrence Seaway officially closed the week of January 7. This coinciding with the Soo Locks closure on January 15 will bring traffic to a virtual halt on the Great Lakes until late March. Though with the current ice conditions, the Coast Guard cutters for the U. S. and Canada seemed to have more than enough work on their hands.

Ice in the Great Lakes put a quicker end to the season for most of the fleet. Heavy ice in Lake Superior caused some shipping companies to throw in the towel before final runs could be made. Safety over profit at the end of the season. The Window will be closed until the second quarter of 2018. Have a safe and happy winter!

Fun Facts from saultstemarie.com

- 90% of the world's iron ore moved through the Soo Locks.
- The Soo Locks have no pumps and are 100% gravity fed.
- Poe Lock requires 22 million gallons of water to lift or lower a boat.
- The Soo Locks close from January 15 to March 15 each year for repairs.
- It would take 584 train cars to move 70,000 tons of cargo, or just one 1,000 foot freighter.
- The Paul R. Tregurtha is the largest freighter on the Great Lakes at 1013.5 feet.
- The bedrock at the Soo Locks is 1,000 feet thick and the type of rock is reddish sandstone.

OUR PERFORMANCE

For the fourth quarter ended December 31, 2017, the Otsi Keta Focus Fund was up 1.65% versus the Russell 2000 Index at 2.99%. Year to date, the Fund was up 13.41%, outpacing the comparable index by 27 basis points. Since inception, the Fund has returned 147.48%. All 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 versus competitive indexes.

Just a reminder, our performance "benchmark" has always been the Russell 2000 Index as indicated below. The Russell 2000 Value Index more closely represents the style of company that is found within our portfolio. Because we are loathe to change our paperwork to update our "benchmark," Otsi Keta will continue to focus on beating both indexes going forward.

Fund Name	ROR 4th Quarter 2017	ROR YTD Dec. 31, 2017	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**1.65%**	**13.41%**	**147.48%**
Russell 2000 Index (^RUT)	2.99%	13.14%	128.42%
Russell 2000 Value (^RUJ)	1.54%	5.81%	98.68%

Sources: Otsi Keta Capital and Russell Investment
*Note: All OKFF performance data is shown net of all fees and expenses and is based on an investment with the maximum charge of 1.5%/10%.

The fourth quarter of 2017 started out strong after a great September. November saw modest strength, but December proved to be difficult as the portfolio processed earnings releases and the market waited for completed tax reform.

Sometimes our opinion and the "street's" opinion differ when earnings are released for our portfolio companies. December was a stark reminder that great numbers and solid prospects do not translate into immediate gains. This provided us with better opportunities to add to positions that we loved. Having good research and a fair value barometer allow us to confidently weigh into the marketplace during stock pull-backs.

The new corporate tax rates will take some time to work into the marketplace. We are excited about 2018. The portfolio is positioned well to take advantage of any tailwinds the market will pass our way. The sail is up, so to speak, and we are prepared to catch the wind that should be blowing our way. Happy New Year!

MONTHLY FUND RETURNS BY YEAR*

	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%**
2016 - OKFF	-2.95%	3.91%	2.34%	2.26%	-2.01%	1.42%	5.36%	0.66%	-2.12%	-6.30%	12.10%	2.77%	**17.54%**
2017 - OKFF	-1.16%	1.57%	0.11%	4.82%	-3.84%	3.48%	0.38%	-2.74%	9.02%	3.14%	1.53%	-2.93%	**13.41%****

*Fund Performance numbers are net of all fees, expenses and accrued performance allocations. Fee structure was 1.5%/20% from inception through 2016.
**Fund performance numbers are net and 1.5%/10%.

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

312.473.3982

Frederick P. Rollins, Jr.
Partner
direct: 810.357.8566
fred@otsiketacapital.com

OTSI KETA CAPITAL