OTSI KETA QUARTERLY

OTSI KETA CAPITAL

Thirty-Fifth Edition - January 2019

Q4 2018

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

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QUESTIONS...

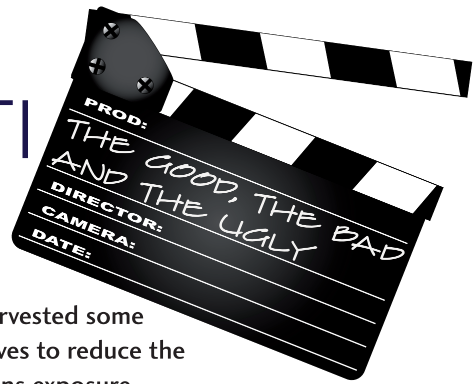
Contact us at:

312.473.3982

F. William Schwarz, III
bill@otsiketacapital.com

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

2018 WAS A 1967 CLASSIC SPAGHETTI WESTERN



It started good, got bad and the finish was a bit ugly. The fourth quarter was challenging and fraught with a considerable amount of investor pessimism—all of it, the macro kind. The list of macro worries was long and garnered robust coverage from the pundit class. Fears about trade, the government shutdown and a global slowdown converged on a marketplace, creating fear and volatility. Systematic, macro worries often create superior investment opportunities for disciplined, bottom-up, fundamental investors.

When sentiment changes so quickly and so powerfully (as it did in the fourth quarter), investors have historically done a poor job of selling. In essence, they oversell based on actual risks, often losing the discipline required to maximize investment gains. Their desire to avoid pain is a greater driver of behavior than perceived future benefits. Macro fears compress decision making time frames, leading to actions based on impulse and gut more than analysis and logic.

Otsi Keta's portfolio felt this selling pressure during the quarter. Year-end tax loss activity also contributed to the selling pressure throughout the quarter, as investors trimmed losing positions to offset appreciated positions. We harvested some tax losses ourselves to reduce the fund's capital gains exposure.

Things can change quickly in the market and often do. At the end of the quarter, two of our smaller portfolio holdings received buyout offers (see page 2). We were in favor of both companies being acquired, as we believe they represented fair value for the businesses. We expect both deals to close by the end of the first quarter 2019. We will sell both positions prior to the expected close.

We often sell a holding involved in a transaction prior to the official close. When the market pushes the price of the seller's stock up to the announced transaction price, the risk/reward trade-off of holding the stock changes. This is especially true if there seems little additional interest from other financial and strategic buyers to make a higher bid. At the valuations offered, we see little potential for additional bidders to enter the auction process.

Based on the sale of these holdings and the above-mentioned tax loss selling, we will likely end January with 10% of the portfolio in cash. We are happy to have the dry powder to take advantage of the continued volatility we expect over the next few months.

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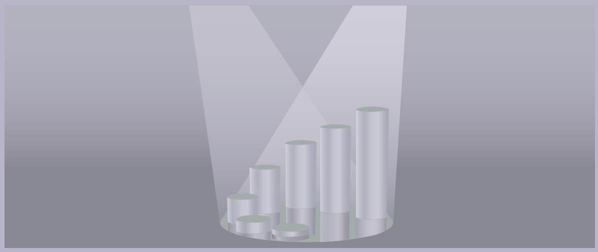
While we never purchase a security with the investment thesis that it is a buyout candidate, these last two buyouts bring the total portfolio buyouts over the last eight years to 10. Given our concentrated portfolio, we think that is a pretty good list. We recognize the importance buyouts can play in driving our investment returns. It is impossible to know for sure, but we believe buyouts will increase if the economy drops below 2% growth. Leverage is still readily available and real rates remain near zero factoring for inflation.

Portfolio Spotlight



Electro Scientific Industries, Inc. (ticker: ESIO)

Business: Electro Scientific Industries (ESIO) designs, builds and manufactures electronic equipment and instruments. ESIO supplies laser-based microfabrication solutions for the microtechnology industry worldwide. The company is a leader in supplying laser drilling products used on printed circuit boards. The company's products make it possible to create connections between multiple layer flexible and high-density circuit boards. The company sells its products through a direct salesforce and service offices, as well as through manufacturers representatives.

Stock-Market Value: $1,029.1 million ($29.99 per share)

What's Happening: On October 30, MKS Instruments, Inc. (NASDAQ:MKSI) ("MKS"), a global provider of technologies that enable advanced processes, announced that they have entered into an agreement for MKS to acquire ESIO for $30.00 per share. The all-cash transaction is valued at approximately $1 billion. The combined company is expected to have approximately $2.2 billion in pro forma annual revenue, based on the two companies' calendar 2017 historical results. The transaction is expected to be accretive to MKS' Non-GAAP net earnings and free cash flow during the first 12 months post-closing.

Key Numbers: Under the definitive agreement, MKS will acquire all of the outstanding common stock of ESIO for $30.00 per share in cash. The purchase price represents a 101% premium over the previous day's closing stock price of $14.93. Otsi Keta acquired our shares between $17.06 and $22.72. The deal is expected to close by the end of the first quarter of 2019.

Nutrisystem, Inc. (ticker: NTRI)

Business: Nutrisystem, Inc. (NTRI), together with its subsidiaries, provides weight management products and services for women and men in the United States. The company offers weight-loss programs that consist primarily of a pre-packaged food program, digital tools and counseling. It also provides Nutrisystem Lean13 program, which provides weight loss, support and counseling services; the South Beach Diet, a weight-loss program; and Nutrisystem 5-day kit, a 'D' kit that offers individuals with or at risk of type 2 diabetes.

Stock-Market Value: $1,217.0 million ($43.54 per share)

What's Happening: Tivity Health, Inc. (Nasdaq GS: TVTY) entered into a definitive agreement to acquire Nutrisystem, Inc. for $1.4 billion on December 9, 2018. Under the terms of the merger agreement, each outstanding share of Nutrisystem stock will be exchanged for $38.75 in cash and 0.2141 shares of Tivity Health common stock.

Key Numbers: The transaction values Nutrisystem at an enterprise value of $1.3 billion and an equity value of $1.4 billion, or approximately $47 per share. Upon closing of the acquisition, Tivity Health expects to maintain all existing Nutrisystem brands, as well as Nutrisystem's Fort Washington, Pennsylvania, location. Tivity Health will finance the transaction through a senior secured term loan facility in an aggregate principal amount of $1.21 billion and a senior secured revolving credit facility in an aggregate principal amount of $125 million. The deal implies a 30% premium based on the volume-weighted average price for Nutrisystem's stock over the preceding five trading sessions. Otsi Keta acquired our share between $27.60 and $31.75. The deal is expected to close by the end of the first quarter of 2019.

The Window Indicator

The fourth quarter of 2018 saw a robust shipping season wind down. The locks in Sault Sainte Marie closed on January 20 for their annual repairs and will open in late March, weather pending. There was some exciting news in the fourth quarter around the locks at the “Soo.”

On November 21, 2018, the new Soo Lock project officially commenced after three decades of posturing. The Corps of Engineers allocated $32 million of a near $1 billion budget to begin designs on a new lock. This venture will be jointly funded by the state of Michigan and the federal government. The new lock will ensure traffic stability on the Great Lakes for many decades to come, as a large portion of raw materials are shipped from port in Lake Superior to locations in the lower lakes.

“This is the moment we have been waiting for for more than 30 years,” said Jim Weakley, President of Lake Carriers’ Association. “The announcement by the Army Corps that the construction program for the new lock at the Soo will officially begin is the direct result of the tireless efforts of so many people and organizations banding together to update one of the most critical pieces of American infrastructure. It is a great day for Michigan, the Great Lakes region and the entire nation. We are elated.”

According to the 2018 study by Martin Associates on the economic impacts of vessel traffic moving through the existing locks, over 123,000 jobs are reliant on the locks, which in turn supports $22.5 billion in economic activity. A Department of Homeland Security study determined that a six-month outage of the Poe, one of two operational locks, would result in 11 million unemployed Americans.

All of this great news came from the America Water Infrastructure Act of 2018. This Act was signed by President Trump in October and will provide not only for the Soo lock, but many economically important areas in the United States. James Weakley stated during the signing that the second Poe lock was a national priority undertaken by the president.

For the year, U.S.-flag lake carriers hauled 83.7 million tons of cargo. Iron ore cargos totaled 45.8 million tons, a number that paralleled 2017. Coal cargos continued their decline for 2018 as they trailed 2017 by over 11%. The limestone numbers were up modestly from 2017.

As of this writing, most vessels are put to berth for their winter lay-up. We can see sporadic movement throughout the winter out the window as some boats continue year-round. This is obviously the part of the fleet unaffected by the lock closing. Ice and wind will play a factor on their movements.

Until the second quarter of 2019, stay warm. We will update you on the window musings come April.

Portfolio Company Buyouts Since Inception

Year	Portfolio Company	Buyer Category	Acquirer	Purchase Price per Share	Stated Premium
2010	Virtual Radiologic	Financial	Providence Equity Partners	$17.25	41.7%
2010	American Italian Pasta Company	Strategic	Ralcorp Holdings, Inc.	$53.00	32.0%
2012	Young Innovations	Financial	Linden Capital Partners	$39.50	30.0%
2013	Valassis, Inc.	Strategic	Harlan Clarke Holdings Corporation	$34.04	20.0%
2014	Material Sciences Corporation	Financial	Zink Acquisitions Holdings	$12.75	27.6%
2015	Magnetek, Inc.	Strategic	Columbus McKinnon Corporation	$50.00	55.0%
2016	Inteliquent, Inc.	Financial	GTCR, LLC	$23.00	37.0%
2017	Omega Protein Corporation	Strategic	Cooke, Inc.	$22.00	32.5%
2018	Electro Scientific Industries, Inc.	Strategic	MKS Instruments, Inc.	$30.00	101.0%
2018	Nutrisystems, Inc.	Strategic	Tivity Health, Inc.	$47.00	30.0%

OUR PERFORMANCE

For the fourth quarter ended December 31, 2018, the Otsi Keta Focus Fund was down 14.08% versus the Russell 2000 Value Index down 19.15%. Since inception, the Fund has returned 111.44%. 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 2018	5-year total return	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**(14.08)%**	**32.33%**	**111.44%**
Russell 2000 Index (^RUT)	(20.51)%	25.59%	100.61%
Russell 2000 Value (^RUJ)	(19.15)%	17.32%	69.72%

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%.

Portfolio changes for Otsi Keta Focus Fund L.P. in the Fourth Quarter

Additions:

- Advanced Energy Industries (AEIS)
- Atkore International Group (ATKR)
- Commercial Vehicle Group (CVGI)
- Electro Scientific Industries (ESIO)
- FTS International (FTSI)
- Johnson Outdoors (JOUT), position was initiated in October
- Petmed Express (PETS), position was initiated in December
- Star Gas Partners LP (SGU)
- Zagg, Inc. (ZAGG), position was initiated in November

Reductions:

- Big Lots, Inc. (BIG), position was closed in December after fundamentals changed
- Diamond Hill Investment Group (DHIL), position was closed in December after fundamentals changed
- Nutrisystem, Inc. (NTRI), position was closed due to acquisition
- Sleep Number Corp (SNBR), position was reduced around fair value
- Smart Sand, Inc. (SND), position was closed in December after fundamentals changed

The above information around additions and deletions could exclude current activity. Otsi Keta Capital LLC reserves the right to protect our proprietary trading activity.

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