



A No-Load Mutual Fund Managed by:
Front Street Capital Management, Inc.

In each of our quarterly shareholder letters, we try to feature one of our cool companies. This quarter, we will focus on one of our favorites: SEI Investments Company. Although SEI presently makes up a modest position in the Tarkio Fund, it has been a larger position in the fund in past years and has been an important investment for Tarkio's advisor, Front Street Capital Management, for over two decades.

SEI was founded by Al West in 1968 as a software company developing platform solutions for the financial services industry. Its first product was an integrated platform for bank trust departments to document and manage their investment portfolios. Being a creative and innovative software company, SEI developed an open, collaborative environment which was, and in our opinion still is, the antithesis of the brutally competitive culture that we believe pervades much of the rest of the financial services industry. As Peter Drucker famously said, "Culture eats strategy for lunch." And we believe SEI's culture is their competitive advantage (and our margin of safety) in an industry that we think culturally is still working in the Stone Age. Recall that our investment criteria is focused on management and culture. We look for companies that feature:

- Integrity of Management
- A Long-Term Focus
- Purpose and Passion
- Employee Empowerment – Driving Fear Out of the Organization
- Teamwork – Cooperation, Not Competition
- Disciplined Capital Allocation

SEI's culture is literally open and collaborative. It is one of the first large companies we know of to create a completely open floor plan throughout their corporate headquarters (i.e., no internal walls). In fact, their buildings are designed as long corridors with the walkways positioned along tall expansive windows that serve as external walls. Employees' desks are clustered in teams in the middle of the corridors, and as a result everybody gets a window, but nobody gets a window. Employee desks sit on rolling castors and, when necessary, are plugged into bungee cord outlets hanging from the ceiling. So, when the dynamics of the teams change employees can simply unplug, wheel their desk to the location of another team, and then re-plug. You can find Al's and every other executive's desks nestled amongst all of the other employees in this same configuration. You can see a picture of SEI's cool and collaborative layout on the Front Street Capital Management website. And for those of you that have been in our office in Missoula, Montana, you know that we have tried to replicate SEI's open floor plan for our work space, albeit on a much smaller scale and minus the world renowned modern art collection!

Ok, back to the SEI business model. After the company created a software platform for banks to better manage their trust departments, the next logical step was to leverage this platform in other segments of the financial services industry. As time has passed, SEI has creatively come up with other unique investment services and solutions for its customers based on its best-in-class platform. For example, the company has over time successfully developed a large platform business serving the hedge fund industry, similar to its bank trust business model. More significantly, SEI has taken the next step in leveraging its platform by developing its own in-house investment products, which serve the registered investment advisory industry as well as the pension and foundation segment of the investment market. As a result, SEI has become a meaningful player in the distribution of investment products and services. We believe its collaborative culture gives SEI an overwhelming advantage competing in an industry traditionally wedded to a "fight your way up the ladder" hierarchal culture.

That said, even though (or maybe because) it is more efficient than its competitors in the distribution of investment products, we believe SEI by nature is unavoidably exposed to the cyclical nature of the investment business. Investment distribution companies are designed to “enable” their clients by offering an unlimited amount of whatever it is that their clients want to buy at any given time. As our shareholders have heard us say before, bubbles are created by investors becoming excessively enamored with a particular asset class. Consequently, we believe investment distribution business models are the vessels by which these bubbles are propagated. Hence, in our opinion, this sort of distribution model will always feel the negative fallout when the bubbles they inadvertently help to create finally break.

As we mentioned in our last letter, we see almost all of the traditional characteristics of a bubble in the fixed income markets. Warren Buffett has famously said, “You find out who is swimming naked when the tide goes out.” If we are correct, the bad actors in this drama will be exposed and taken to task as they should be. But in addition, investment distribution companies operating with the best of intentions are likely, we believe, to get caught in the downdraft. And when bubbles burst, investors and regulators will often try to apportion blame on the “enablers.”

We love SEI – I mean really love SEI – and we are proud to be long-term owners and partners of the company. In addition, SEI has taken an ultra-long-term approach to upgrading its software platform that we believe will solidify a dominant position in the industry for decades to come. This project has been sacrificial to the company’s earnings for the better part of ten years and is now just starting to bear fruit. As indicated above, one of our hallmarks is finding companies willing to sacrifice short term earnings for the long-term health of the company. We wish SEI the best in both the short term and the long term, but if the stock should happen to fall in the midst of a rise in interest rates accompanied by a commensurate fall in fixed income prices, we are mentally prepared to meaningfully increase our ownership stake in this outstanding company.

As always, we appreciate your investment and confidence in the Tarkio Fund. We look forward to our next correspondence.

Warm regards,



On March 31, 2018, SEI was 0.83% of the Tarkio Fund Portfolio at a share price of \$74.91 per share. The mention of any investments in this commentary should not be considered a recommendation to sell or purchase the security(ies) mentioned or similar investments. Please consult an investment professional on how the purchase or sale of such investments can be implemented to meet your particular investment objective or goals. Investments in securities and/or similar investments are subject to risks. It is important to obtain information about and understand these risks prior to investing.

Mutual Fund investing involves risk. Such risks associated with the Tarkio Fund (including but not limited to Small/Medium Capitalization Risks, Foreign Securities Risk, Fixed Income Securities Risk, Non-Diversification Risk, and New Fund/Adviser Risk) as well as applicable investment objectives, charges and expenses must be considered carefully before investing. This and other important information about the Tarkio Fund is found in the Prospectus, a copy of which or current performance information may be obtained by visiting www.tarkiofund.com or by contacting 866-738-3629. We encourage you to read the prospectus before investing.

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