FRONT STREET CAPITAL
management inc.

July 1, 2013

In our last letter, we discussed our strong belief that to be a successful long-term investor it is essential to identify what you can know and more importantly what you cannot know. We believe there are only two variables that one can actually know when selecting common stocks. Those two variables are:

- The quality of the company
- The valuation of the stock

Our process leans toward the qualitative side of these variables as we attempt to seek out superior companies and purchase their stocks at reasonable prices. Our definition of a superior company is based upon the writings of Philip Fisher and Dr. W. Edwards Deming who believed companies that are managed with certain characteristics will outperform their peers over time. Using Fisher's and Deming's work as our foundation, our criteria is boiled down to the following:

- Integrity
- Long Term Focus
- Teamwork - Cooperation not competition
- Employee Empowerment - Drive fear out of organization
- Disciplined Capital Allocation

Integrity
We believe owning a common stock is akin to being a partner in a business. It is essential to only partner with people you trust.

Long Term Focus
The business/investment incentive structure in the United States is built around quarterly performance. Even investors that claim to be long-term investors measure their time horizon in months or years. We, on the other hand, prefer to think in multiple years or even decades. For instance, The Rogers Corporation, which we own in the Tarkio Fund, was first purchased in our private accounts in 1988 over twenty–five years ago. This time horizon enables us to see the world through a different lens than the vast majority of investors. We believe this perspective gives us a unique competitive advantage. As such, when selecting companies for our portfolio we need to be sure that the companies are managed with the same time horizon as our potential holding period. Once again, because most companies are driven by the quarterly performance report, we believe companies that think in terms of decades have the potential to, over time, dominate their peers. National Instruments is a good example of a company I first encountered in 2001 that thinks long-term. The CEO and founder Dr. Truchard, who at that time was in his early fifties, described the company's one hundred

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year strategic plan. Twelve years later they have continued to reinvent the test and measurement industry and have outgrown their competition by a wide margin.

Teamwork - Cooperation not competition

Dr. Deming accurately described humans as being naturally competitive; after all, there are limited resources on the planet to be allocated. As a result, if you put a group of people together we will instinctively find ways to compete against one another.

The issue is that when people compete they do not share information; they hoard it to gain advantage. Deming believed that to get people to behave in a manner that is contrary to their natural tendency it takes a consistent and concerted effort. He believed in order to create a true team the manager must find ways to break down the barriers that continuously build through competition. I believe most companies do not understand the concept of barriers within the organization and instead are driven by their leader's unchecked competitive spirit. As a result, most managers actually create incentives that encourage internal competition. To make matters worse, these same managers refer to their organization as a team or family. Is it any wonder that employees become confused as to what mission they are being asked to serve?

On the other hand, managements that truly understand the power of cooperation eventually identify barriers everywhere in the organization that can be proactively broken down. I am referring to barriers not only between employees, but between departments, up and down the hierarchal structure, between the company and their suppliers, and even with the communities and the governing bodies within which they operate.

Over the years, we have had the privilege to have been associated with companies that were willing to do the hard work necessary to break down barriers and create common goals. The companies that immediately come to mind are SEI, Whole Foods, Cognex, and Herman Miller.

We believe teamwork is a term used by virtually all companies but understood by few. Accordingly, the few companies that do embrace teamwork/cooperation will enjoy a strong competitive advantage over time.

Employee Empowerment - Driving fear out of the organization

Dr. Deming also believed that people at all levels of the organization are motivated by a desire to do a good job and solve problems, not just by a monthly paycheck. He believed most organizations reserve the experience of making decisions and the feeling of gratification that comes from a positive outcome of those efforts for management only.

To illustrate Dr. Deming's point, let's say an individual has an idea to make a process they perform more efficient. Let's also say this individual has the initiative to implement this change. The problem is, as we all have experienced, when attempting to improve a process many (most) times the outcome can actually get worse before it gets better. Unfortunately in most companies, at the first sign that the employee changed the process and the outcome suffered, the employee is reprimanded. This employee might have been blessed with more initiative than most and try to again make changes at some later date; however, if met with the same resistance, the employee's willingness to engage will diminish. In this culture, eventually this person's attitude would deteriorate to the point of, showing up for work, checking their brain at the hat rack, doing what they are told, and nothing more.

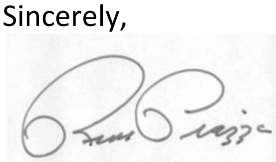
If on the other hand, that same employee was empowered to keep working on the problem until they saw improved results, the story would turn out quite differently. If the employee truly felt empowered to make adjustments to their work space, and if the adjustments did not immediately improve the situation, then that person would naturally go home that evening and fret about what could be tinkered with to achieve the desired result. Deming believed this process of trial and error will, for most employees, continue until they achieve a positive outcome. This success will release an emotional rush of achievement. At that point, the company will forever have an engaged employee, willing to make improvements to continuously improve the process and hence the results of the company. Phil Fisher believed that someone working in an environment day in and day out will, over time, know much more about how to make that process work more efficiently than a manager ever will in spite of the fact that the manager might have a higher IQ or a higher level of education.

As mentioned above, we believe a company that engages all employees at every level of the organization will have a strong competitive advantage over their peers. In fact, our experience is that companies that empower their employees do not need as many middle managers and, as a result, find themselves with flat organizational charts (few layers of management) enabling them to become the low cost producers in their industry. A classic example of this is one of our favorite holdings, Nucor Corporation. Before we leave this subject I would be remiss without mentioning Dennis Bakke from The AES Corporation whose stock we owned in our private accounts several years ago. Dennis truly redefined what could be accomplished by trusting people. Unfortunately, we believe AES was unable to reap the financial benefits of their unique corporate culture because of a lack of discipline with regard to capital allocation. We will postpone discussing our last bullet point, “Disciplined Capital Allocation,” until our next quarterly correspondence in October.

We believe when companies create cultures that enable their people to maximize their God given potential, they gain advantage in the marketplace and ultimately will provide superior returns for the capital you have entrusted in the Tarkio Fund.

Thank you for your confidence.

Sincerely,



Russ Piazza

Front Street Capital Management LLC serves as the Investment Adviser to the Tarkio Fund.

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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