FRONT STREET CAPITAL
management inc.

Be greedy when others are fearful and fearful when others are greedy.
Warren Buffett

During our last correspondence, the June Semi-Annual Report, we reviewed the first four of the five management criteria we use for selecting companies for the Tarkio Fund:

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

Our fifth and last criterion is:
Disciplined Capital Allocation

Most corporate Chief Executive Officers have risen to the top of their respective organizations through the ranks of sales and marketing, research and development, or accounting and finance. None of these disciplines, however, adequately prepare the CEO for what we feel is arguably their most important responsibility – intelligently allocating the cash the company generates each and every day.

This is the reason we believe our last criteria for selecting companies for the Tarkio Fund, Disciplined Capital Allocation, is probably the most important of the five and the one that is most likely to influence our decision whether or not to continue to own a particular company in the fund.

In our opinion, to be successful, stock market investors need to have the discipline to ignore the forces of the crowd and to resist: the desire to buy at inflated prices when it is popular and sell when prices are depressed because panic is in the air. We feel the same is true for corporate executives allocating the firm's capital. The short term nature of our market system is constantly pressuring CEOs to expand rapidly during favorable times and to retreat during economic downturns. As previously mentioned, we believe most CEOs have not had the training to deal with this phenomenon and as a result we have learned to be extra vigilant in evaluating our companies against this important criterion.

While over 25 years we had formally committed our assessment process to the first four criteria for our privately managed accounts, the fifth criterion was not added until 2002 as a result of an experience we had during the financial panic of 2001. The company was The AES Corporation and the lesson has been deeply seared into our process.

AES is an independent power producer. The founders were Roger Sant and Dennis Bakke. Dennis had a good sense for managing for the long-term, understood the importance of teamwork and creating common goals, but more than anything had an incredible passion for releasing the pent up potential in the human spirit. In our opinion, he wrote the book on empowering employees, I mean this literally, the book is entitled "Joy at Work" and I highly recommend it as a core read and ongoing reference for anyone in a leadership position. Roger, on the other hand, was supportive of Dennis's passion but much more grounded in his approach. In other words, Roger provided a balance to Dennis's passion.

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After we had owned AES with great success for several years Roger Sant decided to retire. This left Dennis alone to manage the company and the capital allocation duties without his counter- balance partner. Over the years, AES had successfully purchased power plants all over the world and found that by buying in depressed or even politically oppressed countries where others were not willing to invest, they were able to acquire facilities at bargain prices. Even more exciting, however, was that Dennis's empowered corporate culture was enthusiastically embraced by the employees in these third world countries as many, if not all, of these folks were given an opportunity to express some of their God-given talent for the first time in their lives. In fact, the more depressed and oppressed the country in which the plant operated, the more the employees flourished with their new found freedom. As a result, each plant continuously improved their efficiency and, in turn, the company's earnings rose commensurately. Not surprisingly, Wall Street took notice of this growing earning story and drove the stock higher each time the company announced it was acquiring a new facility.

For me, I thought I had died and gone to heaven. Not only was I able to play a small part in giving tens of thousands of people the opportunity to gain a feeling of self worth for the first time in their lives; but, the performance of our portfolios was dramatically enhanced in the process. Every quarter I would be delighted to listen to the company's conference calls where Dennis would invite newly empowered plant managers from the former Soviet Georgia, Venezuela, Pakistan, China and Brazil, to name a few, to speak freely about the plant's operations and financial improvement. These quarterly calls would, for me, become an emotionally moving experience. According to our criteria, AES had become nothing short of a perfectly orchestrated symphony.

Unfortunately, without Roger to hold back Dennis's unbridled enthusiasm the company went on an acquisition binge that in hind sight can only be described as careless capital allocation. As the company's debt burden reached record heights, another highly leveraged independent power producer by the name of Enron was beginning to falter. When Enron finally failed in dramatic fashion, the lenders for all power producers pulled back on their willingness to support the industry. As a result, AES found themselves in a position to where they could not refinance their bank debts as they came up for renewal. Tragically, all of our enormous profits evaporated. Eventually, Roger came back into the company, fired Dennis and brought in outside equity capital from the Carlyle Group, diluting our ownership, to keep the company afloat. The stock recovered to our original purchase price and we sold our entire position. In addition, we added our fifth criteria: "DISCIPLINED CAPITAL ALLOCATION."

We believe in the power of the human spirit and that employee empowered, team oriented cultures will always give an organization a clear advantage over their peers. That said, however, all is for not without a clear sense of the importance of protecting the company's hard earned capital.

We thank you for your long-term investment in the Tarkio Fund and look forward to our next correspondence.

Respectively,

Front Street Capital Management, Inc. 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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