TARKIO FUND

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

During the past year we have added a new position to the Tarkio Fund, the Colfax Corporation.

The activity in the financial markets in 2015 was dominated by an unexpected and dramatic decline in the price of oil. This decline caused a sudden reversal of what had been, for the last several years, a booming energy sector led by new technologies that enabled the discovery of new, and the revitalization of older, oil fields. This boom/bust had a ripple effect that resulted in a recession within the entire industrial segment of the economy and a severe decline in virtually any company's stock whose business had exposure to this sizable portion of our economy. Going into last year, the Tarkio Fund owned no companies in the oil and gas sector and minimal exposure to companies in the broader industrial sector.

As you know, our process for selecting companies for long term investment in the Fund is based upon the following management criteria that we believe can create a corporate culture which brings out the best of the human spirit throughout the entire organization:

Integrity
Long-Term Focus
Purpose & Passion
Teamwork – Cooperation Not Competition
Employee Empowerment – Drive Fear Out of Organization
Disciplined Capital Allocation

This criterion is drawn from several sources but the most prominent for us is the work of W. Edwards Deming, a management consultant whose teachings were the foundation for the quality manufacturing revolution in Japan following World War II.

During the early 1990's in my quest to find companies that adhered to these eclectic principles I discovered the Danaher Corporation. Danaher was started by Steven and Mitchell Rales. They were promoting the idea that Danaher would use the Deming principles that the Japanese had adopted and refined to improve Danaher's operations. In addition, the plan was as the new culture improved the company's cash flow they would lever that success to purchase other companies again instilling what they called the Danaher Business System. Then they could use that company's improved operations and cash flow to purchase other companies and… anyway, you get the idea.

At the time, although it was clear this was an opportunity to leverage our work with the Deming philosophy I unfortunately decided not to commit our capital for a couple of reasons.

First, I was concerned their business model relied too heavily upon debt to finance their growth and second, the brothers' prior business activities were centered on financial engineering during the corporate raider era of the 1980's which I viewed as the antithesis of the operational excellence movement where I was becoming immersed.

As time went on, it became obvious to me that Mitch and Steve must have had an epiphany moment as they obviously transformed themselves from financial engineers to operational and cultural zealots. Also now in retrospect, I can see that their financial expertise was not a negative at all but actually an added bonus. By then, however, the stock was rising quickly as the model was beginning to produce real results; and I continued to stay on the sidelines as I felt the valuation was getting too expensive.

As the years went on, Danaher continued to skyrocket using our core principles. As part of their expansion, they began building a platform in the test and measurement business. At the time, we owned two leading companies in this industry, Agilent and National Instruments. Again, we passed as I thought it was best not to add more resources to an industry in which we were already overweighed. The mistakes just kept coming.

Finally, as Danaher continued to compound their growth at outsized rates the company finally reached a scale where I felt future growth would be muted by the law of large numbers (this was finally a rational reason to stay away). There are thousands of companies we have not owned whose business's do not fall within our area of expertise (circle of competency) that have compounded the wealth of their owners at extraordinary rates. We applaud those investors who were able to identify and prosper from those investments and have no regrets that we did not participate. That said, however, not committing to a company smack dead within our circle of expertise and doing it year after year is clearly a mistake of omission on my part and in this case is almost shameful.

Ok, you ask, what does this confession have to do with our recent purchase of Colfax and the decline of the industrial sector in 2015?

Colfax was a tiny private company kept under the radar for many years by their owners, (you guessed it) the Rale Brothers, who were focused exclusively on providing products and services for the worldwide industrial marketplace. They went public in 2006 starting from a small base with the game plan of replicating the Danaher model in the industrial sector. In 2012 they transformed themselves with the purchase of Charter International. Again, I was late to the party and did not uncover the Colfax story until 2013. By that time the potential was, in my opinion, already fully priced into the stock as an increasing number of very respected and astute investors recognized the early stage potential and were accumulating positions in the company. The stock quickly increased several fold, reaching a high of $75 a share in early 2014. Again, I passed.

Finally, good fortune came our way this year as the decline in the oil and gas sector turned into a tsunami of selling within the entire industrial sector of the stock market. By the way, the pressure on this sector is the key reason all stocks have been under pressure in 2015. As you can imagine, Colfax found themselves right in the center of the industrial recession and the stock began to decline accordingly. As it started to drop we finally began to accumulate a modest position. As the year progressed, the selling in these stocks not only continued unabated but with accelerated momentum. I could not believe our good fortune. We continued to buy as the stock dropped. Our lowest purchases were finally made at twenty-five dollars and change per share, representing in our opinion, a very modest valuation based upon on normalized earnings. It has taken almost a quarter of a century of work to reach this point but it appears to be finally worth it. I feel sated.

In closing, we continue to feel strongly that the low point for stocks reached in 2009 will continue to provide a tailwind for equities for many years to come. That said, nothing about the financial markets is linear and I believe we have been overdue for a year like 2015 to consolidate the gains achieved since the lows in 2009. It appears the year of consolidation is almost behind us and we are delighted the eye of the recent storm has enabled us to gain a foothold in a situation we have been working twenty-five years to establish. We think Colfax has the potential to have a meaningful positive impact on our results indefinitely into the future.

We thank you so very much and appreciate your continued investment in the Tarkio Fund.

Warmest regards,

Russ

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

On November 30, 2015, Colfax was 4.72% of the Tarkio Fund portfolio. 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.

Tarkio Fund is distributed by Arbor Court Capital, LLC - Member FINRA.