TARKIO FUND

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

This quarter's letter features another one of our important long-time holdings, The Rogers Corporation.

I first became introduced to the Rogers Corporation in 1988 by a well respected long term investor. At the time I was researching another company located near Rogers where I indirectly met this investor. I was young and most certainly appeared like I needed help so this gentleman who was in his eighties at the time diverted my efforts away from the company I was researching and introduced me to the folks at Rogers. This was a big breakthrough for me at the time as the introduction from such a prominent investor gave me credibility at Rogers that enabled me to learn about how to effectively understand and research a business in a way that was not possible for me previously.

The Rogers Corporation is one of the oldest publicly traded companies in the United States with its listing dating back to 1876. In spite of its long history, in 1988 Rogers was still a very small company listed on the old back water American Stock Exchange. Their headquarters' was and still is in rural Connecticut with smaller manufacturing facilities scattered in villages around New England and a much larger facility in the then newly emerging technology center of Chandler, Arizona.

Rogers is a polymer materials company. Think of the famous line from The Graduate, "I just want to say one word to you Benjamin, just one word; plastics." Rogers develops and manufactures a variety of plastics or polymers used in other company's products for a variety of applications. Their competitive strength is their decades-long research and development efforts in this field which has enabled them to offer a variety of unique polymers with properties that give their customers an advantage in the marketplace. Because their products become embedded in other companies' products, their fortunes are directly linked to their customer's outcomes. There are pros and cons to this business model which we will discuss later.

Rogers has three distinct core technologies, elastomeric foams, insulating materials for electric power and printed circuit materials for wireless communications. The first two technologies are solid businesses with interesting potential, but the third business which now represents over forty percent of revenues is the most unique business of the three. We believe the Printed Circuit Materials (PCM) business has characteristics that give it a superior competitive advantage in an industry that has growth potential for decades to come.

PCM is the industry leader in developing and manufacturing materials and laminates that comprise the printed circuit boards that are the base for the components and semiconductors that enable wireless communications. In 1989 I first visited the PCM division in Chandler, Arizona. The division manager at the time, Terry Miller, took an interest in me as an eager inexperienced investor wanting to learn all I could about the industry. I will always be grateful for the generous amount of time he gave to me. As Mr. Miller explained to me, Rogers' technology was far superior to their peers, and as a result, they dominated the market with over eighty percent market share. The problem was that the frequency (which at the time was referred to as microwave) was so high its applications were limited to only the most precise aerospace applications. The market for these products was only a few million dollars per year and could not support the research and development effort necessary to keep them at the cutting edge of the industry and still make a profit. They attempted to grow into other markets by developing a material that could run high speed computers. Although they had a superior product, their attempt failed as the Rogers material could not be fabricated with their customer's existing equipment and would have forced their customers to incur the expense of completely retooling their factories. As a result of this failure, and the continued lack of visibility for any growth in ultra high frequency wireless transmission, the division was seriously being considered for elimination in the early 90's, during one of several high tech recessions of this era.

Fast forward to today, that same microwave frequency is now the last mile connection for all cellular communications and is held in the hand of virtually everyone in the developed world; and as for the rest of the population on the planet, it is only a matter of time. In addition, it is the frequency for all satellite communications and more recently the communication devices for automobile lane change avoidance systems and eventually driverless cars. To say the least, the market has expanded during the past 26 years, and we believe the potential is still in its early stages.

We mentioned in our last letter that the fiber cable part of the communications network has terrific economics associated with it because the technology can handle almost unlimited traffic growth with minimal future capital investment. The last mile wireless piece of the network, however, is just the opposite as there is really no fixed infrastructure to leverage; only a box of circuitry that becomes obsolete every time the technology upgrades. We believe customers will never be satisfied with their cellular service and as a result the network providers will engage in a perpetual race with their competitors to constantly upgrade the boxes in the field to gain a temporary advantage over their peers. Not a good business model for the network providers but a fabulous business for the equipment manufactures and their suppliers.

We believe there is another unique and powerful aspect to this business. As we mentioned before, Rogers' materials go into other manufacturers products, which has its plusses and minuses. In this case, it is a great benefit to us as investors. As mentioned before, PCM has continued to enjoy over an 80% market share with nearly every wireless communications equipment manufacturer worldwide. We are portfolio managers not electrical engineers with expertise in wireless communications. Hence, although we understand the enormous growth potential for wireless communications equipment it would be a fool's game for us to predict which box manufacturer will have the superior technology in order to be viable through each generation of product indefinitely into the future. With Rogers, however, we know as long as they continue to dominate their niche, no matter which equipment manufacturer has the best technology at the time, eighty percent of the printed circuit boards fabricated for this industry will use a Rogers material. I find myself peacefully falling asleep at night these days by counting the number of upgrades and green field wireless equipment installations that will be needed in the future across every corner of the globe.

In addition to the information above, there is one more endearing characteristic about this business that at the outset you might think is a negative. These wireless infrastructure boxes cost tens of thousands of dollars apiece; however, Rogers' material only represents a few dollars of that cost per unit. Since Rogers is still a relatively small company and the size of this market is so enormous these few dollars per unit generates both meaningful revenue and growth potential for them. More importantly, like all technology suppliers there is constant cost pressures for manufacturers of equipment, but because Rogers's materials is such a small percentage of the overall cost, they tend to not only be able to maintain but to actually increase prices as they develop new properties for delivering a crisper more reliable signal. Think about it: does it really matter for a piece of equipment that costs tens of thousands of dollars if you are paying two dollars, or two dollars and an additional fifteen cents for the most technologically advanced printed circuit material on the market? In addition, even though the two hundred and fifty million dollars per year revenue run rate for Rogers represents over forty percent of their revenues, it is still a small enough market not to entice other larger competitors to spend the kind of money it would take for them to attempt to leapfrog Rogers' competitive lead which, by the way, keeps expanding.

So what we have described here is a business that has an eighty percent market share, in a rapidly ever growing market, with real pricing power and a competitive position that makes it uneconomical for new entrants to challenge. We hope the Rogers story along with the other companies we have highlighted in past correspondence gives you an idea of the type of company that we believe has the potential to build meaningful, sustainable long term wealth for all of us, the shareholders in the Tarkio Fund.

Sincerely,

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

On March 31, 2016, the Tarkio Fund Portfolio held shares of Rogers Corporation (ROG) which represented 6.19% of the 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.

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