TARKIO FUND

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

February 19, 2019

To be a successful investor, we believe one needs to identify what they can know and, more importantly, accept what they cannot know. Great investors focus their efforts on variables that, with knowledge, experience, and rational thought, can create a clear advantage over other market participants. We believe successful investors do not override what they do know with what they cannot know. One thing we do not understand is the timing and duration of short-term market movements in response to macroeconomic/geopolitical events. However, we are confident that the elements we can understand will build meaningful wealth for our long-term investors in the Tarkio Fund. We strongly believe we can understand the following:

1. The quality of the companies we are partnered with
2. The valuation we are paying for the company's future cash flow stream

Our qualitative approach to selecting companies for investment has been refined over my 41 years of evaluating companies, and the framework that we presently use has been consistent for 31 years. As a reminder, our criteria are based upon identifying companies whose management teams behave in a manner that we believe draws out the best from all employees. They do this consistently until a corporate culture develops around continual improvement that builds into perpetuity. Those criteria are as follows:

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

Identifying these companies is a very straightforward process. As a result, we believe identifying these companies is a knowable, understandable and researchable endeavor.

The second element of our process is to find a fair price or valuation to pay for these dynamic and ever improving companies. Again, that process is straightforward, and we believe this is clearly identifiable. (We like to periodically re-read Ben Graham's book *The Intelligent Investor*, for example.)

We think our significant advantage is that we can see these two elements with great clarity. We believe that clarity of thought allows us to work calmly and decisively when other investors seem to us to be franticly moving capital.

All that said, this advantaged position does not insulate us from short-term moves in the overall stock market or in any individual stock. We know of only one other person (a sell side analyst) who cares – or even knows – about our criteria as a method of evaluating investments. As a result, there is no baseline of investors who are ready to support the company's stock in a declining market. We believe this lone wolf approach is an enormous advantage for identifying companies with outstanding potential before others can recognize them. Even more exciting is finding companies that have suffered with poor past performance that are poised for dramatic change due to a change in management, where the new management team has had proven prior success in using our principles to change a company's culture. Unfortunately (or fortunately from our prospective) it seems to us that other investors only see recent performance, and thus it is our opinion that the underlying stocks of these companies can be overly negatively impacted by rapidsell-offs (like the one we experienced in the fourth quarter of 2018). These are the moments we live for! Nothing could be more exciting for us then to have the opportunity to keep buying shares of companies within our wheelhouse at cheaper and cheaper valuations. The flip side of this bonanza is that, as we kept buying lower and lower, particularly in the fourth quarter, our short-term performance was negatively impacted.

For example, during the past year we were aggressively purchasing two such gems that detracted from our 2018 results: YRC Worldwide (YRCW) and Manitowoc (MTW).

To give you an idea of what we are working with, we will use YRCW as an example. YRCW is an LTL (less than truck load) trucking company. LTL trucking has become a much more valuable service with the emergence of the Amazon e-commerce effect. Just before the 2008/2009 recession, YRCW made several acquisitions that gave them a nationwide footprint of trucking terminals. The timing of these acquisitions was a disaster when coupled with other, less than perfect, behavior by a former overly-aggressive CEO. So the company went through a reorganization and then in 2011 asked a prior CEO, James Welch, to come back into the company, bringing a passion to restore the company's legacy as one of the largest and most respected LTL freight carriers. This new management did a good job of getting the company on solid footing, but the real epiphany for us came about 18 months ago when Darren Hawkins was transitioned into the CEO post. Jeremy, Dominic and I went to Kansas City to meet with Darren a few months ago to find that he and his team were aligned with our criteria beyond our wildest dreams. In fact, during the meeting Jeremy kept asking me if I needed a tissue to wipe the tears of joy from my eyes. That said, Wall Street continued to view the company in 2018 merely as a struggling situation.

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It has been rightfully recognized that LTL carriers have a distinct advantage in this evolving e-commerce environment. Despite (and because of) its prior ill-timed acquisitions, YRCW now has arguably the best positioned coast-to-coast LTL terminal network in the country (a key factor in delivering on-time shipments). The amalgamated set of YRCW companies are some of the oldest in the country. The upshot of this is that most of their terminals are in locations (often heavily urban areas) that could never get zoning changes to build new ones now. Other publicly traded LTL carriers presently trade at valuations of between 1X and 2X price to sales per share. YRCW presently has over $150 dollars in sales per share. We started purchasing the stock at about $9.00 per share and continued to accumulate more as the price declined; culminating with our last and largest purchase at $3.15 per share on December 14th. In our office we refer to the most attractive valuation situations as the ones that are so obvious you could do the math with a crayon.

The closing price of YRCW as of time of this writing was $7.64.

There is one other aspect to the YRCW situation that gives us even greater confidence in the company's future potential. During the years after its reorganization, the company lacked the resources to replace its fleet of tractors and trailers. In other words, its equipment footprint was smaller and older compared to its competitors. In 2017, because of the previously discussed e-commerce affect, demand for LTL services suddenly increased dramatically. Due to its reduced fleet, YCRW was forced to rent third-party equipment (at high rental rates) in order to serve its existing customers. In addition, its older fleet of tractors (and to a lesser extent trailers) put YRCW at an even worse cost disadvantage. As a result, while its other publicly-traded competitors were making record profits, YRCW was barely breaking even, again causing its stock to become ever more unpopular. All last year the company stretched resources to replace the high cost rented equipment with new state of the art, cost-efficient tractors and trailers. That process was just about completed in the fourth quarter of 2018 resulting in a dramatic improvement in profitability for that period.

Now for icing on the cake: As YRCW goes forward it can reinvest its increasing cash flow at predictable high rates of return by replacing older, inefficient equipment. As the company's cash flow increases so does the amount of high cost equipment it can replace. And so the story goes, giving the company the ability to compound its increasing cash flow for many years in our opinion. In other words, not only are YRCW's profits today attractive to us based upon the value of the stock, but we believe those profits are likely to continually improve going forward.

We believe the Manitowoc story (which has also negatively impacted our 2018 results) has qualitative and quantitative factors that are equally compelling to YRCW. We plan to feature The Manitowoc Company in our next correspondence.

We fully understand that our behavior as described above can make us unpopular during market downturns. That said, we also believe that we do our best work when we look the worst. Our purpose as a business is to build meaningful wealth for Tarkio shareholders by compounding capital at above average rates over the long term. If we believed we could produce similar returns to that which we have enjoyed in the past in a more linear manner, we surely would. However, it is quite apparent to us that everything in life that is exceptional is also non-linear.

Our primary job is to detach ourselves from the emotions of the day and rivet our focus on the set of variables that we think we can know. Hence, because we have trained ourselves to view the world through this narrow lens, during periods of market stress like we experienced in December of last year, we approach every moment of those declines with unbridled enthusiasm in search of a little extra capital to accumulate another bargain. We do this with a sense of urgency, knowing that these attractive windows are a mere aberration and can reverse in a moment's notice. We know our responsibility is to block out the noise created by the variables that are outside of our control and aggressively take full advantage of the rare opportunities only available during these special moments in time. In doing so we know we run the risk of looking foolish for five to ten weeks, and we are willing to do so in our attempt to reposition the Tarkio Fund for outstanding performance for the next five to ten years. We have never been more optimistic about achieving outstanding future returns for the Tarkio Fund than we are today.

As always, thank you for your continued confidence.

Warm regards from a chilly Western Montana,

Russ Piazza

Russ, Michele, Ginger, Jeremy, and Dominic
The Tarkio Team

On March 12, 2019, YRCW at a share price of $7.07 per share was 9.34% and MTW at a share price of $17.41 per share was 6.07% of the Tarkio Fund. 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.