Our third quarter of 2019 Tarkio letter will highlight three holdings in the fund: Berkshire Hathaway (1.73% of portfolio), Markel (2.98% of portfolio), and Fairfax (1.11% of portfolio).

As you know, our investment process is based upon the following management criteria designed to identify corporate cultures that strive to enable everyone involved with the company to best fulfill their human potential:

- 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

Nobody fits this profile better than Warren Buffett, the chairman of Berkshire Hathaway, who is arguably the greatest investor and business manager the world has ever known. Warren and his partner Charlie Munger transformed Berkshire over the past 57 years using aspects of our criteria to compound enormous wealth for investors and add value to society. You can find droves of books written about their contributions to the world over the past few decades. We believe almost anything written about Warren is worthwhile, but the book we recommend the most is *Buffett: The making of an American Capitalist* by Roger Lowenstein. For the purpose of this letter we are going to focus on the structure of Berkshire and its corporate culture.

Warren's career started out managing his and other people's money in a partnership, not too dissimilar from a mutual fund. During the late 1960's his partnership acquired a large stake in what was one of the last textile manufacturing companies in the United States (producing men's suit linings). Warren was an early student of Ben Graham, focusing on investing based on two variables: value and price. Over time, he has committed himself to constantly improving the way he interprets those variables. He operates on the idea of staying focused on what can be understood easily, ignoring the distraction of irrational market movements and geopolitical and macroeconomic predictions, to boldly seize obvious opportunities. Warren has shown that this opportunistic philosophy, as opposed to meticulous planning, has been a more efficient way to build a sustainable business that can compound returns over long periods. As such, when investor enthusiasm for stocks turned into a euphoric frenzy in 1970, Warren found it too difficult to find opportunities to invest capital at meaningful rates of return. He boldly decided to close his investment partnership and disperse the capital he was managing back to the investors. Warren liquidated all the securities in the partnership, kept his own shares of Berkshire stock, and gave his investors the same option for themselves. He now found himself personally owning 29% of Berkshire Hathaway[1], one of the few businesses that he believed remained undervalued in the hyper-inflated market of the 60's and early 70's. At that time Berkshire stock was still selling at levels significantly lower than the value of its assets. Luckily for most of his former partnership investors, members of his partnership held on to their Berkshire shares. But by 1974 the stock market euphoria turned to despair. Warren, seeing ample opportunity to compound capital starting from these lower valuations, began liquidating Berkshire's textile assets and converting them into a portfolio of common stocks. Thus, was born the Berkshire holding company we know today.

Warren understood from his days of managing investor capital that the investor habit of buying when things are good only to sell when they are not is detrimental to investment returns. It makes the investment manager's job more difficult to have capital available when prices are high, only to see it withdrawn when prices become cheap. Managing money in a publicly traded company, however, means the investment capital is permanent with no outflows. Again, he opportunistically solved an age-old investor dilemma. Berkshire was the perfect investment vehicle to compound long-term capital.

Warren has often publicly stated his disdain for borrowing money. "If you're smart you don't need it, and if you're dumb you shouldn't be using it." His genius was to identify a way to leverage his returns without borrowing money. That line of thinking eventually lead him to the insurance business. Insurance is somebody giving you money today (which is called "float") with a promise to potentially pay them back later. If an insurance company can receive more in premiums than it must eventually pay in claims, then it will have a profitable underwriting business. But positive insurance company returns are most often achieved by investing the "float" in that interim period. Very opportunistically, Warren began acquiring and building insurance operations within Berkshire to provide him with "float" to increase his pool of capital without borrowing. Because Berkshire, as a diversified company, is not a stand-alone insurance business with investors demanding linear revenue growth, it has never felt pressure to act irrationally in order to achieve linear returns. Therefore, unlike most insurance companies, Berkshire can be very selective about when it accepts new policies. The company has a practice of only writing new policies when the market provides favorable rates, and Berkshire is more than happy to let its competitors enter into policies during periods of unfavorable rates, while Berkshire waits on the sidelines. The upshot of this is that Berkshire consistently earns a profit on its underwriting, and Warren gets to invest the float. Under this model, Berkshire essentially gets paid to borrow money to leverage the investment returns of the investor who we believe is the world's best capital allocator. Pretty nifty.

Lastly, there are times when one can find obvious investment opportunities within his or her expertise in publicly traded markets and there are other times when stocks become "already picked through." Warren decided to broaden his field of investment candidates by acquiring full ownership in private companies as well as shares in publicly traded companies. As time went on, this path also turned out to be another bonanza, as I will explain below.

An investor's job is to determine what the future cash flow from an investment could be over a long period of time and pay an appropriate price based upon that potential income stream. Warren found that there were many private companies, and even some publicly traded companies, that had very predictable cash flow streams but had not grown much over the years. As a result, these companies were

[1] https://www.investopedia.com/ask/answers/081314/how-did-warren-buffett-get-started-business.asp

available at prices that were very attractive based upon current cash flows. Always seeking the opportunistic path, Warren began aggressively acquiring these companies at attractive prices. Since the business did not need the cash they were producing to reinvest in growth, Warren requested they send their excess cash flow back to the parent company (Berkshire Hathaway). Over the years he has continued to acquire companies with predictable cash flows at attractive prices, take that cash, and buy more companies. No grand plan, just following the path of least resistance. Warren and Charlie have created a vehicle that returned a total gain of over 2,000,000% over the past 57 years.[2]

The icing on the cake is that they have done all this with a level of honesty and integrity rarely seen before on a large scale. We could go on about the enormous long-term benefits they have accrued because of this exemplary behavior, but we will leave that to the numerous books that have been written on the subject.

Charlie Munger has often said he is amazed that this incredible business structure that has evolved at Berkshire has not been emulated more, and we would agree. To our knowledge there are only two companies that have attempted to fully recreate the Berkshire Hathaway model, and we own them both as well as Berkshire in the Tarkio Fund. Those two companies are The Markel Corporation and Fairfax Holdings.

The one negative about the Berkshire Hathaway story is that it has been compounding capital at such high rates for so long, it is bumping up against the law of large numbers. Berkshire Hathaway has a market cap of over $490 billion[3] (as of 8/5/2019), it now takes billions of dollars of return to even begin to move the needle for growth on a company of this size. They are finding difficulties growing at anything close to the same incredible rates into the future as they have in the past. Our two Berkshire clones, Markel and Fairfax, are in a much earlier stage of their compounding journey. We believe this gives them a better chance of compounding at higher rates in the future.

Charlie believes that if you are going to emulate the best, do it exactly. While it is good to learn from your mistakes, it is much better to learn from other people's mistakes. The folks at Markel have taken this philosophy to heart. They have truly built Markel in the image of Berkshire and are proud of it. From the insurance underwriting discipline, to the wholly owned subsidiary companies, to the public commitment to honesty and integrity (which they proudly wear on their sleeve). We believe they are as close as it comes to an early Berkshire. We would prefer they only show their good behavior rather than talk about it, but if that is their only flaw, we are all in.

Of the three companies the Tarkio Fund owns in this category, Markel is our largest position with Berkshire second. A third, smaller position is Fairfax Holdings. Fairfax also has created a business structure identical to that of Berkshire and Markel. Unfortunately, the folks at Fairfax periodically fall into the trap of being influenced by geo-political forces and as such it is proportionally a small position in the fund, and we will not likely add to it in the near future.

We fully understand that your shares of the fund peaked in October of 2018 and have yet to break through these levels, while the S&P 500 index is achieving new highs. We believe that if we are going to be able to beat the index it is essential to do something completely different than the index. We feel the make-up of our portfolio reflects that philosophy. As a result, the Tarkio Fund will likely not track the index in the short term. In addition, given the concentrated nature of our fund, returns tend to be lumpy. As much was evident by our strong, surging performance in the first quarter of this year. Since we do not think short term performance is a good indicator of our future performance, we try to give you information through regular communication. Most of these letters take a deep dive into the companies we are investing in through the Tarkio Fund so that you can evaluate our people/culture-oriented criteria and the process we go through to try to maximize shareholder returns using that criteria.

As always, we thank you for your continued confidence and the commitment you have made with your hard-earned capital to our investment process. We do not take this responsibility lightly.

Sincerely,

Russ, Michele, Ginger, Jeremy, & Dominic

The Tarkio Team

On September 30, 2019, the per share price of BRK.B was $208.02, MKL was $1,181.90 and FRFHF was $440.98. 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.

[2] https://www.fool.com/investing/2017/07/23/an-interesting-chart-about-berkshire-hathaway.aspx

[3] https://finance.yahoo.com/quote/BRK-A/