This quarter we are highlighting the newest addition to the Tarkio Fund (the "Fund"), the General Electric Company (4.68% of portfolio).

Our criteria for selecting companies for long term commitment to the Fund is based upon a management philosophy that we believe, if implemented properly, can best unleash the human potential of an organization. Our criteria are based on the work of Dr. W. Edwards Deming, a consultant who helped shape Japanese business culture following WWII. We believe the core principles of this leadership style are:

- 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

Over three decades we have had the privilege and good fortune to have benefitted through the ownership of many great companies that have embraced this enlightened approach to business. But over the past three decades, we have yet to find a better operating group than The Danaher Company (4.69% of portfolio).

We will circle back to Danaher later, but let's discuss a bit of the history that has brought General Electric (GE) to the position they now find themselves in. GE was led by Jack Welch from 1981-2001, during which the company's value increased by over 2800%.[1] We now know that Welch's track record was built on both a solid foundation as well as a dose of smoke and mirrors. In the early- to mid-1990s, Welch (also known as Neutron Jack) knew there was something important happening in Japan. He instructed his team to undertake a full-on implementation of what was then an iteration of Deming's work called Six Sigma. GE reportedly saved $12 billion over the five-year period in which they implemented six sigma practices,[2] building the company a solid foundation based around operational excellence. The smoke and mirrors were associated with its finance arm, GE Capital. GE Capital gave the company the ability to act as the lender for its customers to be able to make purchases. With an expanded ability to function as the lender to its customers, GE executives found that they were able to make revenues seem much more linear through creative accounting practices. Nobody values linear trends more than Wall Street, but unfortunately there are very few linear trends in business (and even fewer that are worthwhile endeavors). We believe you can trace almost all bad business behavior to one's attempt to force a nonlinear outcome into a linear one.

By the time Welch retired in 2001, we feel the stock price more accurately represented Wall Street's infatuation with GE's creative finance accounting than the real value of the underlying businesses. Jeff Immelt became CEO, inheriting expectations that could never be met. In subsequent years, GE's quarterly earnings continuously missed Wall Street expectations.

We can't say whether it was the burdensome pressure from Wall Street or just a flaw in Immelt's business acumen, but the company began a long string of what we feel were poor capital allocation decisions under his leadership. Under pressure to boost short term earnings, the company sold whatever was unpopular to buy what was popular. In other words, buy high sell low. During this period GE made 380 acquisitions and sold off 370 assets, a yearly average of 46 acquisitions and divestitures or 9% of the total value of the company every year.[3] This continued until October 2017 when Mr. Immelt was forced into retirement.

Finally, here is where Danaher fits into the picture. According to our criteria (and the company's financial success), Danaher is a perfect template for corporate greatness. In addition to an energized and efficient corporate culture, they have proved to be one of the

[1] https://www.ge.com/about-us/leadership/profiles/john-f-welch-jr
[2] https://www.6sigma.us/ge/six-sigma-case-study-general-electric/
[3] https://www.forbes.com/sites/antoinegara/2017/06/15/for-ges-jeff-immelt-hundreds-of-deals-and-575-billion-didnt-yield-a-higher-stock-price/#40a0c11f7226

best capital allocators (behind Berkshire Hathaway) we have ever known. The business model really evolved and became institutionalized during the tenure of their CEO from 2001-2014, Larry Culp. He retired from Danaher at the tender age of 51 years. Larry Culp became the CEO of the General Electric Company in October 2018, and we started to accumulate shares not long thereafter.

We believe Mr. Culp and GE are a match made in heaven. First, there is still a core operations culture that has been at the company from the old six sigma days. We believe this is fertile ground for Larry to foster a Danaher-style lean culture across the organization. In a recent conference call with analysts, Culp explained he has been pleasantly overwhelmed by employees reaching out to rekindle the old GE culture of operational excellence.

Second, is capital allocation. Culp had been on GE's board of directors for a year before he took the job. As a result, he was fully aware that the company's balance sheet needed serious attention. He has been deleveraging the company from the day he took over. During Culp's tenure at Danaher (and to this day) he grew the company by acquiring businesses that had great growth potential and that could be greatly enhanced by implementing the Danaher Business System. The model was (and still is) to make acquisitions and install the lean-focused Danaher Business System to increase cash flow. They use the increased cash flow to pay down debt and repeat the process to great effect. Hence, we feel that Culp is one of the best CEO's around at handling a more aggressive balance sheet. Culp's current asset allocation strategy is to deleverage, but there will be a day when he goes on offense to find fitting acquisitions. We believe there are opportunities in several of GE's businesses to add value through acquisition. The most attractive, in our opinion, is the renewable energy field (primarily they operate in wind and hydro power). GE is the dominate player in this field with $5 billion in sales growing at a rate around 15%, dwarfing the size of their nearest competitor.[4] We believe there are unlimited opportunities in this important industry, which is still in its embryonic stages.

As far as valuation, GE's stock has been on a steep decline since Welch retired in 2001 when the stock traded as high as $53.00 per share. We have had the good fortune to acquire a meaningful position in the fund at a mere fraction of what it was selling for two decades earlier with our average cost presently under $9.00 per share.

In conclusion, we believe Larry Culp and General Electric are truly a match made in heaven. Our investment process is about continuous learning so we can clearly identify opportunities and act quickly to seize the potential. We believe GE is another such opportunity and we are enthusiastic about its potential for many years to come under the servant leadership of a young 56-year-old CEO by the name of H. Lawrence Culp, Jr.

As always, we appreciate your continued support.

Warm regards,

Russ Michele Ginger Tom Dom

The Tarkio Fund Team

On December 31, 2019, the per share price of GE was $11.16 and DHR was $153.48. 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.

[4] https://www.ge.com/renewableenergy/about-us/2019-earnings