



The world's circumstances are quite different than they were only a month ago. That said, we have always believed the one constant that does not change is human behavior. It is this constant that we rely upon for selecting companies for your portfolio. Letters like this that are included in our Tarkio Fund quarterly statements need to be written a month and a half in advance so they can be submitted for approval by our distributor. This following letter was originally written at a time when "coronavirus" was merely an abstract term in a foreign land. How quickly things can change. For a brief moment, we considered not sending this letter out as it did not directly address current events. But nothing could be further from the truth. The message of the letter below is much more relevant today than it was February. We are often asked: how can we know these things about our companies and their managements? Our answer is always the same: it is by living with them over time, and the true test is how they behave during times of stress. We are monitoring our companies daily and, in many cases, communicating with them directly. We could not be prouder of how our management teams have reacted through this crisis. As such we believe our companies will emerge from this dislocation stronger than they went in. After each market dislocation our Investment Advisory portfolios have endured over the past three decades, we have always recovered. We believe the management teams of our portfolio of companies have never been better according to the criteria laid out in the following letter. As such, we have never been more confident in the prospects of these companies.

There are a number of companies out there that foster a work environment and culture that enable employees to continually improve themselves by empowering them to make decisions, thus allowing them to flourish and enjoy rewarding careers. The advisor of your Fund, Front Street Capital Management, Inc. (Front Street), believes that such companies are able to outperform their peers in the marketplace over long periods of time. I started my investing career way back in 1977 and Michele Blood and I have been using this "employee-empowerment" investment approach since 1988. Heavily influenced by the work of Phil Fisher in the late 1980's, we have continued this approach even after Michele and I founded Front Street and then the Fund, focusing Front Street's research on employee-oriented management philosophies, including continuous improvement (or CCI), Total Quality Management, servant leadership, Conscious Capitalism, and lean manufacturing, among others. Our investment strategy incorporates a set of management criteria that embody what we have learned to view as the most important themes that underpin these management philosophies.

Front Street uses these criteria for selecting companies for long-term ownership in the Fund. Namely, we generally look for companies that feature:

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

We strongly believe that companies that feature these characteristics can compound investors' capital at meaningful rates over long periods of time. Let's explore these criteria a bit more.

Integrity of Management

When the Fund purchases stock in a company, we all become an owner of that company, and as such we believe we are a partner in that business. As the Advisor to the Fund, we try to make sure our partners are trustworthy. We research our companies extensively, consuming as much information as possible to learn how management conducts itself over time. When they make promises, do they ultimately deliver? Over long periods of time, the level of management integrity can become clear, especially in times of stress. We like to see a track record of consistency between words and actions over a meaningful period before we begin to accumulate a position.

Long-Term Focus

We believe that sustained investment success requires long-term investment in quality companies. What is long term? I started investing in the Rogers Corporation 32 years ago and have owned it uninterrupted ever since. Tarkio Fund too has owned 13 companies continuously since the year of its inception.¹ We look for businesses aligned with this long-term investment time horizon: companies that embrace continual improvement and that are willing to sacrifice short term profits in order to improve the long-term performance of the business. During any given short-term period, this could mean that the price of the stock will go down, as the company seeks to gain a long-term competitive advantage, for example by reinvesting in R&D or by avoiding layoffs during a downturn. The result can (and often does) affect the short-term performance of the Fund. But these periods serve to confirm to us a company's commitment to the long-term while also providing us an opportunity to acquire shares at a more attractive valuation. In the short-term, results will often not be linear. It is paramount that Tarkio Fund investors recognize this and use it to their advantage.

¹ This number includes three companies – Level Three Communications, Oclaro and Total Systems Services – that were acquired by Century Link, Inc., Lumentum Holdings and Global Payments, Inc., respectively. In connection with these acquisitions, we acquired positions in each of these successor companies, which the Fund still holds today.

Purpose and Passion

When a company's purpose for existing is not simply to make money for its shareholders, but rather to fulfil a greater societal need, we believe it can develop a culture of passionate people who are committed to that purpose. They can work harder, become more engaged and improve over time. Employee and customer retention can be high.² They make decisions from a long-term perspective. Profit and cash become a means to an end. And we believe these companies can end up significantly outperforming their competitors over time.

Employee Empowerment – Driving Fear Out of the Organization

We believe employees are generally motivated more by a feeling of a sense of accomplishment than by the size of their paycheck. The Tarkio Fund seeks out companies that give employees at every level of the organization the ability to make meaningful decisions without fear of being reprimanded. Helping the company overcome a challenge, no matter how small, creates a sense of accomplishment that in many companies is reserved only for managers. We look for companies that encourage all employees to problem solve and to take on responsibility in order to contribute to the success of the organization. We think the result is greater employee engagement, lower turnover, and more efficient and innovative problem solving at all levels. Over the long term, we believe a company can leverage these factors to become a learning organization that continues to improve over time.

Teamwork – Cooperation, Not Internal Competition

Although humans are naturally competitive (we compete for finite resources), we believe internal competition in an organization is a disease that needs to be identified and rooted out by management. We try to find companies that incent cooperation and cross-functional learning and work to curb internal competition. Often a company will try to encourage competition in order to get more out of their workforce. Over time, we think the result is a fragmented organization with barriers to effective communication and problem solving, resulting in wasted time, energy and capital. We think a company that can freely share information and solve problems as a team is better equipped to move quickly in a rapidly changing economic environment. By sharing (rather than hoarding) information, employees can more efficiently solve problems, improve their workspace and develop and refine best practices.

Disciplined Capital Allocation

Lastly, a company can win in the marketplace, but over the long term “all is for naught” unless they are prudent with how they spend their hard-earned cash flow.

We aim to be long term investors in businesses we have identified that best meet the above criteria. There is always some balancing act between the qualitative factors in a business and the market valuation of the company. We may change the mix of portfolio companies in the Fund to weigh more heavily the positions we expect to grow or where there is a large gap between our calculation of intrinsic value and the company's stock price. Sometimes this results in heavily weighting a company that we believe is in the early stages of a cultural transformation. This is often where we believe we can see more potential in a company than Wall Street. It is worth noting that the Fund also invests in communication technology and services companies, which is an industry we have invested in for the past thirty years and which we anticipate being a growing sector far into the future.

The Tarkio Fund aims to buy these types of businesses at attractive prices and hold them over long periods of time. As a result, over shorter periods the Fund's performance often diverges from that of the general market (sometimes positively and sometimes negatively) in our efforts to beat the market over the coming decades. Consequently, our communications to Fund shareholders, which can be found on the Fund's website www.tarkiofund.com, are intended to more fully explain our process so investors can determine whether our somewhat narrow investment philosophy aligns with their investment objectives. The Tarkio Fund is not managed to minimize the impact of short-term fluctuations. Our objective is to manage a Fund with a stable shareholder base, not with a larger asset base. Our objective is to grow the Fund by compounding capital at meaningful rates over long periods of time. We think investing the Fund's assets according the investment criteria above, combined with the advantage of a stable shareholder base, is the best way to achieve this objective. If you agree, we believe you are in the right mutual fund, and we don't think you'll be disappointed.

We thank you for your interest in 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.

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 Businesses like Costco, The Container Store and Starbucks can develop an almost cult-like following among employees and customers.