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

TARKIO FUND

November 10, 2020

"Investing Is Most Successful When It's Most Businesslike" W. Buffett

If you want to compound invested capital at above average rates, you need to have the discipline to focus only on variables that are knowable. That means you cannot be distracted by variables that are too complex to be knowable. We say this all the time because we believe most investment decisions made by most people are made based on variables that have little (or no) predictive value. In that category we place all geo-political and macroeconomic events and conditions (elections, pandemics, trade wars, natural disasters, armed conflicts, etc.) that influence the thinking of most investors. Events like these have complex, far reaching effects from which it is difficult to draw predictive market conclusions. Add in that the stock market often reacts unpredictably to market news anyways and you multiply the degree of uncertainty. Many investors allocate much (or sometimes all) of their capital based upon complex predictions of market results that they are not able to predict. And as a result of these large allocations, the market fluctuates dramatically based on short term events. We view these large bets made on unpredictable effects of uncertain events as irrational, and not the foundation of stable, long term returns. We believe a significant advantage can be gained by staying grounded and only making decisions based on simple variables that are researchable and understandable. Our process helps us identify clear opportunities. We believe that is what separates an "investor" from a "trader."

The stock market is simply a place to purchase a partial interest in a business. These parts are of course called "stocks." And the two variables you should use to purchase a business are no different than the variables used to purchase anything else of value. Those variables are:

- The quality of the merchandise
- The valuation or the price paid

We believe evaluating businesses based upon these two variables is understandable and clearly actionable. We also think knowledge in this area is cumulative, enabling us to continuously improve and refine our process. We are confident that our odds of success in predicting what a business will look like five, ten, fifteen, or more years from now will provide more long term value than those that are attempting to predict the effects of an election, a health crisis, or a trade war in the next few weeks.

We always make our investment decisions by weighing the qualitative versus the quantitative. If we can correctly understand the qualitative aspects of a business, then irrational market fluctuations should eventually give us opportunities to acquire shares at attractive prices. For example, when a pandemic hits, and the majority of investors react to the short-term drop in prices by selling, we buy shares of our strongest companies at prices that may only come around once in a decade. Our job is to be able to identify these opportunities through continuous research so we can act confidently and decisively when these moments arrive.

We are students of Phil Fisher's model of identifying outstanding companies. Phil wrote several investment books in the '50s, '60s, and '70s, the most notable of which was *Common Stocks and Uncommon Profits*. The theme of Phil's work is simple, yet still seems groundbreaking even today: Companies that can create an environment that unleash the best from their people will, over time, gain significant advantage over their peers.

These companies aim to create an environment where all employees can achieve their human potential. I had a chance encounter with Mr. Fisher in the late 1980's which lead to a memorable series of interactions that lasted a little less than two years. Phil's groundbreaking work on evaluating management led me to the work of W. Edwards Deming (one of the creators of the Toyota Production System), which was disrupting the manufacturing world at the time. This experience kickstarted our continuous learning on management processes and incentives and – as you know – led to a management-focused criteria for selecting companies that has been our guiding star for more than three decades. Namely, we 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

Over the decades I have toured hundreds of companies, learning about various management techniques and cultural catalysts. By observing the work on the factory floor, talking with all levels of employees at each company (from the CEO to line workers) each visit builds our knowledge base. In recent years, our team members, Jeremy Brown and Dominic Piazza, have taken up that mantle – until COVID started restricting travel and in-person meetings. Dominic has since begun an MBA program at Colorado State University, which we believe will broaden our view and process; serving to help protect from us becoming too insular in our approach. We see ourselves as a continuous learning organization.

The Deming management philosophy and the Toyota Production System have since evolved into what is now referred to as "Lean" management principles. We are ardent students of Lean. As I write this, over 25% of our portfolio is invested in companies that identify themselves as Lean. The most notable is the Danaher Corporation (4.37% of holdings), which pioneered Lean in the United States and is continuously evolving lean principles to reinvent every aspect of how the business operates.

We are grateful to all the companies that opened their factories, warehouses, and corporate offices to us, having provided a wealth of knowledge and insight over the past four decades. That said, other than the culture we have created in our own office, we have been missing the deeper knowledge that can be gained through what the Japanese call "Gemba." Gemba means being able to experience the place where things get done, the place where one gets their hands dirty. For some time, we have believed that we can enhance our ability to evaluate public companies by being involved in the growth/operations of smaller, private companies. This is our "going to Gemba."

A little over two years ago, we were presented with the opportunity acquire, with our own capital (not clients' money), a company that we believed had the right characteristics for process improvements. Those characteristics were:

- multiple departments which would lend itself to cross functional decision making
- a seasoned group of skilled team members who had a deep passion for the purpose of the business
- the business was in town so we could easily incorporate our efforts into our existing workflow
- it was large enough (i.e., it had enough employees) to be a real learning experience, but – although a stretch – small enough for us to absorb a worst-case business setback

So when the opportunity presented itself, we jumped at the chance.

The business happened to be a local golf course, which has since converted to a member-only club, called the Ranch Club in Missoula, Montana. We believe the experience in working with our team at the Ranch Club – Nick McKethen, Tom Koehring, Andrew Flikkema, Brandy Hilderbrand, Lee Davidson, Tania Heater and the other team members worthy of mention but too numerous to list – has enhanced our learning about corporate culture and management exponentially. We can now have much deeper conversations with publicly traded companies about their efforts to inspire and engage team members. We have a better feel for the nuance involved in making operational decisions based on our criteria. We are more honest, empathetic, and insightful about their periodic struggles. This is a huge benefit to our ability to keep finding and analyzing outstanding opportunities. I should note that we have not, and do not expect to, make money on the Ranch Club business. In fact, it is our intention to put any profits back into the Ranch Club business, which is yet another way for us to learn about incentives, improvements, and capital allocation in real time.

We have brought Ranch Club team members to tour the plants of some of our best lean companies, and we even engaged a consultant who was an early architect of the Danaher Business System to work with the Ranch Club for a two-day symposium. Except for myself, the whole Front Street Team (Michele, Ginger, Jeremy, and Dominic) have been involved in learning about and implementing a Lean-oriented process into every aspect of the Ranch Club business. Indeed, as I have stayed totally focused on the management of the Tarkio Fund, our Front Street "Gemba" activities have greatly enhanced our understanding and communication with our-publicly traded companies.

We so appreciate your continued confidence in our continuous learning investment process. Wishing you all a safe and peaceful holiday season.

Warm regards,

Russ Michele Ginger [illegible] Dom

Russ, Michele, Ginger, Dominic and Jeremy

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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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