

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



Cognex is the largest percentage holding in the Tarkio Fund and has been since our inception in 2011. We first wrote about Cognex in our third quarter 2016 shareholder letter; that letter is included in this mailing. That letter is as accurate today as the day it was written. The following is simply an update.

The most obvious change at Cognex since 2016 is the retirement of Dr. Bob Shillman, the companies' founder, longtime CEO and chief culture officer. The transition from Dr. Bob to Rob Willet has been the most seamless passing of the leadership baton I've seen in my forty-five-year career. Rob came to Cognex in 2008 from another one of our prized holdings, Danaher. According to our list of investment criteria¹, Danaher may be our gold standard. Rob soon became Chief Operating Officer of Cognex and gradually took on more responsibility over time, becoming CEO in 2011 and finally Chairman of the Board in 2021. Rob has been visible in his role from day one, hence we have had a front row seat observing his leadership skills during good times and bad. As we described in the 2016 letter, Cognex has the most energized (and unique) culture we have ever experienced. In addition, Dr. Bob is a powerful personality; nothing short of a force of nature. Rob's ability to navigate these strong forces while simultaneously implanting his own style on the company can best be described in one word: "brilliant." We couldn't be more thrilled with how Cognex's leadership is positioned for future decades!

Cognex's machine vision products serve a variety of industries including, most notably, logistics, consumer electronics, manufacturing (particularly auto), consumer packaging, and medical. At this stage of the company's evolution, Cognex's products are primarily used when logistics or manufacturing lines are set up for either expansion or for the launch of new products. Therefore (particularly in consumer electronics and auto manufacturing), orders can be somewhat "lumpy," a term we affectionately use to describe a feast or famine revenue cycle. Most companies would attempt to smooth out their lumpy results to appease Wall Street (but also reducing their long-term growth rate). We are always happy to deal with short-term fluctuations in sales (and earnings) in order to enable our capital to compound at higher average rates over the long term. We applauded Cognex's courage in accepting short-term volatility in order not to compromise its long-term ability to grow. It's an important theme that we have communicated in past correspondences: accepting the reality that nothing of worth in business or investing (or in life for that matter) is linear. We believe that understanding this idea is an essential discipline required to make good decisions.

To offset this lumpy phenomenon, Cognex manages its balance sheet with an extra margin of safety. In the thirty-three years Front Street Capital (the manager of the Tarkio Fund) has owned Cognex, the company has never had a nickel of long-term debt and has always kept a massive war chest of cash. As of last quarter, the company had \$985,000,000 (or \$5.50 per share) of cash and zero debt.

Cognex is the world's dominant provider of machine vision software. This software is the key value-added component – the brain – for robotic applications. And although the company has compounded our capital at meaningful rates for over three decades, we believe robotic technology is still in its infancy. We and our fellow "Cognoids" believe the technology is just scratching the surface regarding how machines can assist humans in performing tasks that are too dangerous, too mundane, or downright impossible for humans to perform alone. The company has been the dominant player in machine vision software for the entire time we have held the stock. As a result, they have the largest research and development budget in the industry targeted toward overcoming the most difficult roadblocks remaining to fully unlock the enormous potential for this technology. In addition, they have been disciplined in concentrating their efforts tightly within their software circle of competence serving the most challenging, value added, and highest margin part of the process.

During the past couple of years, two of the company's fastest growing customer industries (auto manufacturing and consumer electronics) have paused their expansion as they digest several years of significant growth. The auto industry took a pause in 2019 as a trade war pushed the world into an industrial recession. And the pandemic delayed any sort of robust comeback in 2020 and early 2021. Now, however, the demand for vehicles (especially electric vehicles) has increased so fast that the supply chains that

¹ Our criteria for selecting companies for long term investment is based upon the company developing a culture that brings out the best in the human spirit by featuring:

- Integrity – Trust – Humility
- Long Term Focus
- Purpose & Passion
- Teamwork – Cooperation Not Competition
- Employee Empowerment – Drive Fear Out of Organization
- Disciplined Capital Allocation

were temporarily shut down during the pandemic can't keep up. As long as there is such demand, Cognex's business should resume its prior nonlinear upward trajectory when these supply chain issues are eased.

In the consumer electronics industry, Cognex's largest customer released a bevy of new devices a few years ago creating a surge in Cognex's sales as they rolled out new manufacturing lines to satisfy demand. That large customer (a name you all know) has been riding the wave of those prior new products since. As a result, Cognex's orders from this customer have tailed off after that large burst. That said, this customer is arguably the most innovative company in the world. But they are also one of the most secretive in disclosing new future product launches; they embrace the element of surprise in releasing next generation products that can delight and change people's lives. One would certainly assume they will have many new and exciting devices released in the future that will need Cognex's expertise to manufacture at scale.

Cognex's next largest and fastest growing segment is logistics (e.g., fulfillment and shipping for online commerce). This business has been growing at almost fifty percent per year for the last several years, albeit starting from a low base. The size of logistics business is now hitting critical mass and should be a healthy contributor to Cognex's growth in the near- to mid-term. Pharmaceutical/Medical is a steady business but still a smaller percentage of revenue. Cognex also sells to operators in Life Sciences, Solar Energy, Airport Baggage Handling, Food and Beverage, and others. Again, one's imagination is the only limit to the industries that can and will use this technology to solve societal needs/problems in the future.

If you get a chance, please re-read the enclosed letter about Cognex from 2016, which explains a bit about how Cognex's zany focus on theatrics, craziness, and fun create a culture of teamwork and collaboration, purpose and passion, and endless innovation.

We love that this company fulfills our management criteria in the most creative and unique way. Their commitment to creating a culture that unleashes the human potential has been unmatched and unwavering through thick and thin. Your capital (since the inception of The Tarkio Fund) and Front Street Capital's investors (for over three decades) have enjoyed the fruits of Cognex's creativity and discipline as its financial results (and hence its stock price) has compounded at more than meaningful rates: <https://investor.cognex.com/stock-information/historical-price-lookup/default.aspx>.

Remarkably, after three and a half decades, the potential for machine vision still appears to be in its infancy, and as they say: "The Best is Yet to Come."

We thank you all for taking this incredible journey with us.

Warm regards,

The Tarkio Team



On March 31, 2022, CGNX was 11.38% of the Tarkio Fund Portfolio at a share price of \$77.15 a share.

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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.

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. A prospectus containing this and other 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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