



April 30, 2022

We thought it would be appropriate this quarter to give an update on one of our favorite holdings, The Manitowoc Company. Our initial letter on Manitowoc (dated June 30th, 2019) is included for your reference. The background we laid out at the time is still as valid today, but we feel that the company's lean journey during the past three years has elevated Manitowoc into a world class organization.

As mentioned in the 2019 letter, Barry Pennypacker was involved early in the development of the Danaher Business System. Barry and his team went on to use that experience to transform several companies, most notably Gardner Denver (now a subsidiary of Ingersoll Rand). Part of that team was a young protégé named Aaron Ravenscroft. Aaron started his career as a sell side analyst with Cliff Ransom, head of research at Janney Montgomery at the time and an expert on lean management. (There is a podcast interview with Cliff on our Front Street Capital Website that we highly recommend). Although we had not yet met Aaron, we had been constantly hearing about this brilliant young leader waiting in the wings. In August 2020, Barry retired as CEO of Manitowoc, making way for Aaron to take the mantle.

In other cases, we have seen lean implemented (with varying success) using complex terminology and acronyms. We believe this lends itself to demonstrating the qualifications of the "lean instructor" rather than getting buy-in from the whole team. Aaron's approach to Manitowoc's lean transformation on the other hand, breaks down the process into understandable concepts so everyone in the organization can relate and implement. They call this approach "The Manitowoc Way," and it harnesses the genius and engagement of each employee to drive long-term continuous improvement. We have had the privilege of living with Aaron's leadership for almost two years now, and we could not be more impressed. We are confident Aaron has continuously improved upon the foundation Barry built and, at this time, we believe Manitowoc is as proficient in lean as any company in our portfolio (which is saying a lot).

At 42 years old, Aaron is savvy beyond his years. Barry was a strong personality, and we know working under his wing was in some ways challenging for a young manager. But we believe that experience steeled and prepared Aaron in a unique way for such a young CEO. In addition, we believe his Wall Street background gives him a unique perspective on the short-term pressures that can be detrimental to leading a company. It takes courage to ignore these pressures and do what is best for the long-term. We believe great companies are led by CEO's who can stay focused on continually improving the company's ability to compound long-term free cash flow, rather than maximize quarterly earnings. Aaron has already proven his resolve in this regard.

Barry's (and by association Aaron's) roots were born in the Danaher business model. A large part of that model is the astute allocation of capital, particularly regarding acquisitions. The core of lean management lies in the transformation to a collaborative, empowered organization. Great operators can acquire other companies, transform their culture, increase their free cash flow, and repeat. The result of this process can be a sustainable, long term compounding machine. Aaron has already shown his understanding and commitment to this model. Manitowoc has made two strategic acquisitions already during his short tenure. Again, at 42 years old, we believe we are at the embryonic stage of what could be a long journey of compounding.

The crane industry is a cyclical business that has not had a meaningful upcycle since the great recession of 2009. Manitowoc has made monumental improvements in terms of operating efficiency and free cash flow generation since Barry's arrival in 2016 that have been overshadowed by the state of the industry dynamics. As such, the most significant financial benefits from this work have yet to be realized as the company's more efficient operating structure has not had the added revenue to really show results yet. With cyclical industries, often the longer the cycle stays down, the greater the upcycle. In the crane industry this is because you can only repair an old machine so many times before buying a new one is more cost effective. There is a time when just the replacement cycle of existing equipment will provide a dramatic increase in sales. We believe we are on the cusp of such a replacement cycle. In addition, we also feel this coincides with an upcycle for new construction of all types (including projects that would require cranes). Add to that the possible release of government funds for infrastructure spending, and there is the possibility of a crane super cycle over the next few years. We are confident that the dramatic improvements Barry, Aaron, and their team have made over the past six years will translate such a tailwind into meaningful free cash flow.

Over the past couple of decades, the pattern in the equipment industry has shifted toward rental companies and dealers having a larger percentage of the industry profits. Much of this shift has occurred because of the lack of new equipment sales. Many of Manitowoc's competitors complain about this so-called injustice. Aaron, on the other hand, is doing something about it. As previously mentioned, Manitowoc has recently made two acquisitions. One company is a crane dealer, and the other company is a rental company specializing in cranes. Manitowoc should reap the benefit of improving cash flow by implementing The Manitowoc Way. And by participating in another facet of the heavy equipment industry, Manitowoc expects to increase recurring rental and service revenue, which they believe will help to smooth out some future cyclicity. More importantly, this move will allow more Manitowoc team

members to operate even closer to more of its customers, which is one of the most important drivers of The Manitowoc Way across the entire company.

Lastly, in 2019 we suggested that a fair valuation per share for a manufacturing company of this quality should be between 1 – 1.5 times sales per share. Since 2019, sales per share have increased from \$47 per share to over \$60 per share. The upcycle for the industry seemed ready to unfold early in 2020, but that demand became derailed by the global pandemic. Again, coming out of the pandemic shutdown late last year, orders began to accelerate before the supply chain issues of late 2021 struck the global economy. As we speak, the company has a strong backlog of orders with the industry carefully watching for any positive impact from the release of U. S. infrastructure spending.

In closing, the Tarkio team is proud to be partners with the team from The Manitowoc Company. We anticipate enjoying the dual benefits of compounding our knowledge and capital alongside them for decades to come.

Thank you for your investment in the Tarkio Fund.

Sincerely,

The Tarkio Team



On April 30, 2022, MTW was 8.48% of the Tarkio Fund Portfolio at a share price of \$13.24 a share.

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.

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.

Tarkio Fund is distributed by Arbor Court Capital, LLC - Member FINRA/SIPC.



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

June 30, 2019

During the past eighteen months we have been accumulating a meaningful position in The Manitowoc Company (6.12% of Fund holdings). As you know, we select our long-term holdings in the Tarkio Fund based upon a set of management criteria that we believe, if successfully implemented, will create a culture that can unleash the best in human potential. In particular, we generally look for companies that feature:

- 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

These criteria are based on the work of W. Edwards Deming, a management consultant who revolutionized manufacturing when he introduced his management concepts to Japan after World War II. He ignited the “quality” revolution lead by the Japanese in the 1980’s and most notably the domination and eventual transformation of the auto industry by Toyota. We have been students of this process since 1988 and perform all our analysis through this lens. Over time, we have boiled his process down to a set of core principles in order to identify companies that have created energized corporate cultures, including companies outside of the manufacturing sectors. We think being able to translate these principles to identify companies that may have never even heard of Deming is a testament to the universality of the values around which this process is based. It has been rewarding and fun to use this work to diversify our portfolio beyond the manufacturing sector.

That said, there has been a small portion of the manufacturing sector that have stayed devoted not only to the Deming principles but also to the specific techniques and tools (including specific principles, structures and incentives) he used to motivate individuals and encourage collaboration. In fact, this subset of manufacturers has continually improved upon the Deming model over time. This small group of almost “cult-like” followers have fallen under several labels over the years (Continuous Improvement, Total Quality, Lean Manufacturing, Six Sigma, and Kaizen, among others). We have been fortunate over the years to have benefitted from a handful of these zealots. A few manufacturers we own that are presently doing this are Danaher, Herman Miller and Colfax (5.15%, 4.29% & 1.12% Fund holdings respectively). When we are fortunate enough to find these gems, we believe they can provide us with two powerful advantages:

1. They are easy for us to identify, as they are typically proud of their work in this area and often wear it on their sleeve.
2. If you can find these companies in the early stage of a long-term transformation process you can get a rare, and we believe dependable, look into the future of a company that will be incrementally improving their competitive position in the market place indefinitely into the future.

As such, we are proud and excited to have had the opportunity to allocate a meaningful portion of Tarkio Fund’s capital to The Manitowoc Company last year. Although the Deming method is a model of empowered employees and decentralized decision-making, the essential element in a company’s transition and ultimate success is a total commitment from its leadership. We think this is the reason only a very small number of companies can make this sort of organizational transformation, since a change in culture on this scale typically results in poor short-term performance before the long-term benefits start to accrue. In our opinion, few leaders have the commitment to withstand short-term pressures, particularly in publicly-traded companies, to stay the course and power through the inevitable trough. Even more unique is to be able to find a leader with that type of strong will paired with the humility to delegate decision making away from the executive suite and onto the manufacturing floor. We believe that Manitowoc CEO Barry Pennypacker is that leader!!

The Manitowoc Company was an odd midsized company consisting mostly of an industrial kitchen equipment business and an old line crane manufacturing business. Three years ago, an activist investor forced the company to split itself into two separate companies for short-term gain. The crane business was subsequently left as a stand-alone, publicly traded entity. The consensus investor opinion at the time was that most of the value in the prior combined entity was in industrial kitchen equipment. The crane business had a checkered financial history and was viewed somewhat as the discarded piece in the transaction, and its stock price suffered as a result. Not long after, Barry Pennypacker was hired as Manitowoc’s new CEO. Pennypacker had begun his lean journey with our own Danaher, then took

his learned expertise in “Lean” to transform companies on two subsequent occasions, one being the publicly traded Gardner Denver company. When Barry was hired at Manitowoc, he brought key members of his transformational team from his previous experiences with him. The band was back together for one more gig.

Regarding the stock price, we think Wall Street likes to see improving financial results, even though it’s analysts may not always have an understanding of what it takes to get there. In fact, a management philosophy that empowers lower level employees to be able to make decisions is often viewed by the consensus investment community as a negative. In fact, we believe that employee empowerment can often be the antithesis of the ego centric Wall Street culture. As a result, despite a revitalized management team at Manitowoc, the stock continued to languish. Probably looking for a fresh start and a complete reset, the company decided to reverse split the stock (each share of stock became a quarter of a share with four times the price). In our experience, these transactions almost always lead to lots of investors bailing out once they see that they are left with what they consider remnants of a former holding in their portfolios. This type of selling also seems to be much more prominent during years of heavy year-end tax-loss selling (as occurred at the end of 2018). Partly because of these phenomena, Manitowoc’s stock price came under heavy selling pressure during last year’s fourth quarter. We took full advantage of this rare opportunity and significantly added to our position during the end of 2018. In an unusual set of circumstances, a similar situation occurred with YRCW last year as they also had a reverse stock split a few years ago. We aggressively and enthusiastically added to our position there as well. This is the primary reason for our short-term underperformance in the fourth quarter of 2018 and, correspondingly, our outperformance in the first quarter of 2019. The valuation metric we like to use in some situations like this is the relationship between stock price and sales (the “price to sales ratio”). Stable industrial companies with average profitability we believe can generally sell at 1.0-1.5 times sales. Manitowoc’s stock currently sells around \$17 per share and the company at this very early stage in its transformation has about \$47.00 of net sales per share.

On May 10, 2019, Manitowoc reported its first quarter earnings, and there was incremental but clear evidence of their progress in the numbers reported. But we got a glimpse of their real progress in January, as Dominic Piazza and Jeremy Brown made a site visit to the company’s Shady Grove manufacturing facility. They could literally see the difference between the manufacturing areas that had already undertaken transformation efforts and the areas that have yet to start the transformation. They likened the experience to visiting two altogether different companies. I’ve personally had experience with this type of lean transformation in the late 1980’s (often known at that time as “total quality control”), as we owned, benefitted from and witnessed a transformation at JLG Industries. In addition, the passion and belief in the transformation process they witnessed at Manitowoc from everyone they interacted with at the company was nothing short of extraordinary and probably a career-changing experience for both Jeremy and Dom (like it was for me at JLG).

Outstanding investment results always include a little bit of good fortune coming your way. Identifying The Manitowoc Company and Barry Pennypacker is smack dab within our circle of competence and, we believe, can be easily duplicated. But finding them at this early stage in their transformation it is nothing short of a miracle, and we welcome our good fortune. As Warren Buffett says, “When it’s raining gold, reach for a bucket, not a thimble.” In this case, we have tried to behave accordingly.

We thank you for your continued confidence and investment in the Tarkio Fund.

Warm regards from our home in Western Montana,

A handwritten signature in blue ink that reads "Russ Piazza". The signature is fluid and cursive, with a small flourish at the end.

Russ, Michele, Ginger, Jeremy, and Dominic

The Tarkio Team

On June 30, 2019, the per share price of MTW was \$17.80. 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.