



For this quarter's letter we are reposting correspondence included in the fourth quarter 2021 Tarkio annual report on the benefits of long-term thinking/investing. The more chaotic others' behavior is in the short-term, the more beneficial it is for those who can look beyond the noise and react with clear purpose and rational thought. Based on the criteria laid out in the below letter, we could not be more proud to be associated with the outstanding companies we are currently partnered with in the Tarkio Fund. As such, we have never been more confident in the portfolio's ability to compound your (and our) capital at meaningful rates into the future.

As always, please call if you have any questions.

Respectfully,

Russ, Michele, Ginger, Jeremy & Dominic



The Tarkio Team Letter Originally Dated November 11, 2021

Dear fellow shareholders,

We often say that our "long-term investment" strategy distinguishes the Tarkio Fund from investments managed by other managers. Being a long-term investor is all well and good, but what does that really mean? Are we talking about two years, five years, ten years?

In theory, our ideal holding period for owning companies is indefinite, as in forever. Holding "forever" is not a specific goal or objective for each company, but rather (and more importantly) a state of mind. It is a way for us to view the investment process from a different perspective than any other investor we know of. It allows us to take the same information available to everybody else and filter that information through a different lens.

Here's what we mean: The highest IQs with the most advanced finance degrees on the planet are jockeying daily to outwit each other in the traditional Wall Street world based on the latest news of the moment. But the result of all this effort and frenetic energy is that less than ten percent of all these participants outperform the Standard and Poor's 500 Index over time after their fees are taken into account.¹ There is no advantage for us to participate in this game of folly. We cannot wake up every morning and outsmart this highly motivated mass of investors. Rather, we believe our advantage is to absorb the same information as everybody else but view that information through our ultra-long-term perspective. We view today's events through the lens of how this will affect our companies over the next twenty or thirty *years*, not over the next twenty or thirty days (or even twenty or thirty minutes).

We think investment advantage comes through discipline and ours is being willing to look out further than the crowd. Yes, in a perfect world our holding period is forever, but the world is not perfect. We would like to be able to evaluate every company's cash flow trajectory through the next millennium, but the reality is there are only a small number of companies that we can see past several years, let alone twenty years or more. But every so often, we find a company that has the characteristics that we believe predict improvement and success for decades into the future. We understand that we must be disciplined to own only these (in our opinion, very best) companies that we can identify within our well-defined circle of competency.²

The corporate structure is open-ended. A business, particularly a publicly traded business, is designed to go on forever, beyond any single person's life span. Our management theory describes a business as a continuous journey, incrementally improving, and forever evolving. If a business can, over the long-term, consistently improve, which in turn increases its cash flow stream, even by a modest amount, that improvement will compound within the company over time. Compounding works like a snowball: the longer it rolls down the hill, the more its volume grows exponentially. Albert Einstein put it best when he famously said "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it." But the only way to maximize this compounding, is if it runs uninterrupted. And because compounding is exponential, the greatest gains accrue in those periods that are the furthest in the future. So if a business can continually improve, then the best time to own that business is indefinitely into the future. And importantly, compounding an investor's capital within a great company for a long time enables the snowball effect to occur on a tax deferred basis, which acts as a super charger for multiplying your wealth!

For over thirty-five years the Fund's advisor has benefited from investing in companies with a long-term focus. We believe our obsessive focus on the long term has enabled us to refine our investment process to the point that it has created dependable multiyear meaningful investment returns for our investors and ourselves. More importantly, ***we are continuously improving our own process*** so we can get better at identifying companies with greater odds of success. That said, we only know how to invest for the long-term. We have no clue what it takes to be successful short-term investors and we do not think anybody else does either (except for a couple highly sophisticated, short-lived computerized trading algorithms). The benefits of our multi-year process are compelling. The drawback, of course, is that short-term fluctuations will be random, uncontrollable, and from time to time extreme.

¹ See French, K. R. (2008). Presidential Address: The Cost of Active Investing. *The Journal of Finance*, 63(4), pp 1537-1573.

² We look for companies that feature:

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

In fact, there have been a few cases in which we have invested in companies that do not possess these traits, but rather because we thought they were really cheap! In these isolated cases, we typically have had to wait much longer for our investment to pay off.

So yes, if you can hold the right company forever, you can get a significant financial benefit. But it is the personal and ethical benefits of taking a long-term view that are much more important to us. In fact, the various financial benefits that we highlight in this letter are just a by-product of the behavior stemming from long-term thinking.

Thinking long-term shapes who we are, how we view the world, and how we interact with people. Wall Street has a well-deserved reputation for bad behavior, but we believe virtually all nefarious Wall Street activities can be traced to short-term incentives. In fact, we believe that most unsavory behavior in all areas is a result of short-term thinking. Think about it: whether it is in investing, the workplace, politics, or relationships, we think you can make a direct connection between illegal, unethical, or immoral behavior and short-term thinking.³ On the flip side, we believe long-term thinking typically leads to exemplary behavior.

Ultimately, a business is simply a group of people attempting to provide value to a “customer” by solving a problem, hopefully for the benefit of society. To provide this value over the long-term, it is vital that a business maintains a good reputation. It must consider how its actions are going to affect all stakeholders. The only way to be able to lead a larger group for an extended period is to build “trust.” We believe trust is one of the most powerful concepts in business (and in life for that matter). Trust between management and front-line employees, between departments, between each employee, between the company and its suppliers, certainly between the company and its customers, and between the company and the communities in which it operates. Trust is the glue that holds a company together, and the stronger the trust, we think the more successful the company will be in the long run. That said, sometimes you need to make short-term sacrifices in order to build long-term trust. We view a company’s behavior from this perspective, and as a result we believe we can identify when companies are building long-term value by making short-term sacrifices.

And for that reason, long-term thinking allows us to enjoy yet another financial benefit: When companies sacrifice short term earnings for long term trust/wealth building benefits, most investors see only the short-term negative and sell their shares, which drives the company’s stock price lower. For us, this is a no brainer. The company is reinforcing our confidence in them by their farsighted actions while simultaneously our short-sighted friends on Wall Street are driving the stock down to bargain prices. This is the primary scenario we use to purchase shares of our favorite compounding companies at attractive prices.

The daily routine for the Tarkio Team consists of interacting with the management teams of companies in which we either currently have an ownership stake or that we are vetting for possible future investment. These teams behave in this long-term, trust-building manner. While we have accrued financial benefits from investing in these outstanding companies, the bigger benefit for us personally has been to be able to be associated with and partner with people we respect and admire. These associations make everyday a delight, keep us engaged, and make our research activities a joyous experience. Rest assured; we will continue to align ourselves with like-minded, long-term value creators as we continue to build the ecosystem that is the foundation for allocating your capital in the Tarkio Fund. As we discussed in our May 1, 2020 “Equity News” letter to our Front Street Capital Management clients, our belief that “the good guys will win in the end” is unwavering.

Often, good outcomes take a long time to develop, but while human nature wants to take a short cut, focusing on the long-term enables you to allow the process to progress. By consistently focusing on the long term, we benefit today from the work done years ago, and our work today is intended to pay off long into the future. This philosophy liberates us to continue to focus on the horizon. The analogy is to enjoy the shade today from the tree planted years ago. And under the comfort of that shade, you can continue to plant even more trees for the future.

Wow! Exemplary behavior, leading to solving important societal needs, while efficiently compounding investors’ hard-earned capital at attractive rates of return. These are all the results of taking a long-term view. Yes, business can be a force for good. The difference between this philosophy and the cutthroat, money hungry corporations that many folks think of is the difference between focusing on compounding long-term wealth and focusing on short-term profitability. “Conscious Capitalism” is simply long-term capitalism.

For better or worse, time seems to always go by faster than you think. How about letting this concept work for you instead of frustrating you? If time seems to speed up, then the compounding benefits will seem to come quicker! Ignore the short-term noise and volatility that create so much stress and anxiety in life. Focus on the calmness of the horizon and allow yourself to experience the magic of time and compounding working in your favor for both financial gain as well as personal fulfillment. This is the philosophy we use in managing the Tarkio Fund, and we thank you for taking this journey with us.

Respectfully,



Russ, Michele, Ginger, Jeremy & Dominic

The Tarkio Team

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.

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³ Recent chaos (and individual investor losses) associated with meme stock like GameStop and AMC, the real estate market crash that precipitated the Global Financial Crisis, and the ENRON disaster illustrate some of the many ways that short-term thinking can lead to bad financial outcomes for everyday investors and institutional investors alike.