This quarter we are pleased to provide an update on one of our top holdings: the General Electric Company (GE). For your reference, included is our letter from the fourth quarter of 2019 laying out our original investment thesis for this important long-term position in the Tarkio Fund.

GE is rapidly becoming one of the highest profile and dramatic turnarounds in corporate history. It has been a privilege to have a ring-side seat watching and learning from CEO Larry Culp. He has methodically, enthusiastically, and humbly been transforming this iconic company from the brink of collapse to the starting point of a compounding machine directly out of the playbook of his former company (and long-term Tarkio Fund holding) Danaher. Larry's steadfast commitment to creating an employee empowered, collaborative culture while making the tough decisions to shore up a rickety balance sheet under immense pressure and criticism from Wall Street is admirable to say the least. Larry handled the criticism with grace and dignity and has been a "north star" example that the company's tens of thousands of employees have needed. As we have mentioned before, we see our investment process as being a learning process, and living with Larry through the transformational journey of GE has provided us with one of our deepest learning experiences to date. The Tarkio team will be better investors for the experience.

Let's look at what Larry has accomplished so far:

Larry's first priority was to stabilize a damaged balance sheet. He moved quickly to clean up and wind down the company's out of control finance arm, GE Capital. In just two-years, he and the team were able to remove enough risk from the GE Capital balance sheet to package up the remaining aircraft loan portfolio and partner the assets into a joint venture with main competitor AerCap at very favorable terms. Once considered to be the most serious risk to GE's survival, GE Capital was transformed to a low maintenance, value producing asset. The change has enabled the GE team to devote all their efforts to the company's core manufacturing operations. In addition, also at the two-year mark, Larry infused twenty billion dollars in cash into the company by selling a portion of the GE Health Care division to Larry's "old mates" at Danaher. So, in just twenty-four months, Larry has cleaned up a balance sheet that had been deteriorating for thirty-eight years.

As we stated in the attached letter, rarely have we seen a corporate leader who is so astute in both operational excellence and financial acumen. From day one of Larry's tenure, the transformation of GE to a lean culture began in earnest. In every communication Larry had with the investment community or the press, he mentioned the lean transformation in seemingly every other sentence, despite the fact that the Wall Street audience really hasn't cared much about GE's transforming corporate culture. His clear external messaging mirrors what Larry emphasizes internally. It has been fun and inspiring to watch the transformation, step by step, across the entire company at such a massive scale. Lean is about eliminating waste by empowering employees to learn, creating a culture of collaboration that enables learning to compound across the organization. If done well, the result is a company that compounds cash flow long into the future. We have witnessed improvement in GE's free cash flow every single quarter since Larry took the helm. In 2018, cash flow was alarmingly negative and is now running at a healthy positive rate. Although the GE business system should produce incremental compounding cash flow over the long-term, in the near term we believe there is still significant low hanging fruit to be harvested, particularly in the Power Division as poorly priced contracts continue to run off the books.

As described in the attached letter, the Danaher playbook for compounding through lean culture involves (1) acquiring a company, (2) transforming that company to a lean culture, resulting in increasing cash flow, (3) using that increased cash flow to acquire more companies, and (4) repeating the process with another acquisition, and then another, etc. Larry has the experience of transforming dozens of companies into lean operations at Danaher, but the scale of GE's geography and sales should provide an even broader platform for the acquisition/transformation playbook at GE. After transforming GE itself into a lean enterprise, Larry is poised to go out and find acquisition targets to repeat the process.

For a variety of reasons, this process gets more difficult with size. But now that GE is ready to take the Danaher playbook on offense, they have decided to split the company into three separate companies. Today, after the massive restructuring of the past four years, GE consists of three industry leading businesses: GE Aviation, GE Health Care, and GE Power (GE Vernova). The smaller size enables each (still fairly sizeable) company to make smaller, tuck-in acquisitions that fit each its core competence and allow the culture to be more efficiently transformed. GE Health Care was successfully spun off as an independently traded stock on January 4th of this year, and GE Verona is set to be spun off early in 2024. We could not be more excited now to watch and learn even more, as GE pivots from defense to the Danaher playbook offensive plan.

We have written in the past about our belief that although it may not feel or look like it in the short term, "the good guys will win in the end." We could not be more gratified to point to H. Lawrence Culp, more evidence of this thesis that is our investment, business, and life philosophy.

We write each of these quarterly letters about a month and a half in advance of its publication date to allow for compliance reviews. As a result, we are writing this letter in the dead of our Montana winter even though you are receiving it at the cusp of the spring season. As such, we are imagining you unfolding this letter as spring unfolds into a season of rebirth and release of winter's stored energy. This is the spring season for the rebirth and release of stored energy on the continuous journey of the GE Company.

We thank you for your continued support, please contact us if you have any questions.

Warm regards,

Russ, Michele, Ginger, Jeremy & Dominic
The Tarkio Team

On March 31, 2023, the closing share price (and percentage of the portfolio) of the securities mentioned in this letter are as follows: GE Healthcare $82.03 (2.36%), General Electric $95.60 (8.25%), Danaher $252.04 (6.57%).

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.

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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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