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

TARKIO FUND

The Tarkio Fund (the "Fund") investment strategy embodies a belief that a business whose culture and management exhibit the following criteria can compound its earnings over the long-term:

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

In order to get better at identifying publicly traded companies that will compound our investors' capital at meaningful rates over the long-term, Front Street Capital Management, has separately purchased (with our own money; not investor money) ownership stakes in several small private businesses. Each of these businesses has a different situation, and we have a different history with each, but our objective with all of them is to learn as much as we can about the above criteria by actually working with real businesses, made up of real people, trying to overcome real problems on a daily basis. We call these our "Gemba" activities because in lean manufacturing the "gemba" is the place where work actually takes place; where actual value is added; where people encounter (and need to solve) real problems. *Gemba* is a Japanese word which Google translates to "on-site" or the "actual place." Many lean practitioners translate it to "the place where the work gets done." It's the place where the people who add value are going to encounter obstacles, solve problems, and create real lasting improvements. You cannot fully understand an obstacle, or how it impacts your work situation, or discover the root causes of the problem, unless you are in the place where the work is occurring.

While we have engaged in day-to-day activity with each of these businesses in turn through the years, we currently engage most closely with two Gemba businesses: The Ranch Club (a golf club, restaurant, and events business in Missoula, MT) and Big Sky Fulfillment (a third-party warehousing and e-commerce fulfillment business with locations in Charlotte, Las Vegas, and Bonner, MT). At both of these companies, we have worked to implement the six criteria above as well as many of the same management tools that the companies in the Fund's portfolio are working to implement.

Our involvement with these private companies has helped us get better and better at identifying public companies likely to be continuing compounders that positively impact the Fund's long-term returns. We feel our Gemba activities have accelerated our capabilities by creating a valuable learning cycle: We learn how one of our world-class public companies is using one of its leadership/management tools; we try out the tool in one of our private companies; we learn lots of nuances about the tool; we get better at predicting the effectiveness of how public companies are using the tool for long-term continual improvement in furtherance of the above criteria. We repeat this cycle over and over with a variety of different tools that can support our criteria, including *visual management*, *kaizen events*, *identification of value-added activity versus waste, standard work*, *5-S*, *value stream mapping*, *pull*, *single piece continuous flow*, *PDCA cycle*, *strategic planning/priority deployment*, *root cause analysis*, *pareto*, *poka yoke*, *total productive maintenance*, *kanban*, *andon, PFMEA*, *load-leveling*, as well as a bunch more tools and principles that we have yet to try.

Let's take *visual management* for example. We know that great continual improvement companies often use visual management as a tool to promote constant improvement. Visual management is any system that provides instant visual information and insight to many – or all – team members to let them know whether they are meeting targets and to help them solve problems. For decades, when we visited a company, we looked for signs of visual management, knowing that employees are more engaged and fulfilled when they know whether or not they are achieving their targets, and that instant information can help employees identify and solve problems and create improvements. Over the past few years, we implemented a variety of visual management tools at both the Ranch Club and Big Sky Fulfillment, and we learned a lot of valuable information. For example, it took us many months to figure out that access to visual information alone will not drive the rate of improvements that we are looking for. Rather, the *structure* of the visual management system needs to *facilitate* the identification of problems so that the team can spend their energy coming up with solutions to those problems. Also, we've learned that people haven't wanted to spend time using the boards unless and until they have developed the habit. And for each department, area, or value stream, we have learned that we need to find the right types of target metrics and the right threshold numbers for the visual management systems to be useful for the team. The metrics we are measuring must be well thought out to support our strategy and our purpose for the team to effectively drive compounding improvements.

So how has all of this improved our ability to evaluate publicly traded companies for the Fund? Now, when we visit public companies, we don't just want to see visual management systems. We want to see visual management systems that provide space for problem solving and that force team members to identify problems and propose solutions. We are also looking for environments where employees are clearly comfortable "embracing the red."[1] And we now focus more on the types of metrics a company uses in various departments or cells, and we try to figure out whether the metrics are directly related to an employee's engagement and ability to provide customer value with better and better safety, quality, delivery, and efficiency.

Our Gemba learning has certainly changed our perspective when visiting and evaluating companies. During a recent company visit, we realized that our perception of one company's visual management activities is totally different than it was prior to our own Gemba involvement. In our previous trips to this company, we observed visual management boards in every cell, and those boards showed that each and every work team was consistently "winning" because they all consistently achieved their target production rates. This was good lean manufacturing at work. The business's margins were good, and the stock had a healthy multiple.[2]

But during our most recent factory tour, after a few years of our own Gemba learning, we had a different perspective of this company's visual management efforts. The absence of any "red" in the visual management boards indicates that their visual management system is not set up to encourage team members to identify problems and create improvements. This, in turn, can be predictive of stalling profit margin gains, lack of innovation, or failure to be able to take advantage of downturns and headwinds (when they are unable to make products quicker, cheaper, or with better quality). Plus, without a relentless focus on innovation and/or efficiency improvement, the earnings multiples are less likely to grow over time. Whereas a couple years ago we thought this company's visual management systems were a positive marker for its long-term success, now after our own experience trying (and often failing) to implement visual management systems, we view this same data as a negative marker.[3]

Our Gemba activities have also helped us identify certain cultural qualities on the factory floor that corroborate what we previously took on faith based on our discussions with management. For example, we hear a lot about "team buy-in," but we have always just assumed our purpose-driven, employee-focused companies will achieve the necessary buy-in to create a continual improvement culture. Sure, they may need to fire 10-20 percent of the managers who hinder or obstruct team buy-in (the "naysayers"), but then everything should work out fine, right? Well we have found in the Gemba that (i) getting buy-in takes more work than you expect (and than most organizations want to expend), (ii) achieving sufficient buy-in requires intensive planning specific to the business, customers, and purpose, and (iii) this planning requires empathy in braving the difficult, emotional process of

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[1] In many visual management systems, information displayed in green indicates that we are meeting our targets, while information displayed in red means that we are behind schedule, seeing quality problems, or otherwise not meeting our targets.
[2] In long term investing, a company's "earnings multiple" (i.e., the price of the stock divided by its profit) is directly related to the likelihood the earning will grow over time. If the company is likely to become more and more profitable years into the future, then investors are willing to pay more for it than if it is more likely to maintain its current earnings into the future. The greater the growth it is likely to enjoy, the more the market is willing to pay for it (the higher the "earnings multiple"). So, the earnings multiple corresponds to the market's prediction of a company's earnings growth into the future. For example, if a company earns $10 per share of profit in a year, and its future growth expectations correlate to an 8X price to earnings ratio, then the company's stock should trade around $80 per share. If next year's profit comes in at a disappointing $8 per share, then the stock will likely drop to a level somewhere around $64 per share. And if the company consistently underperforms its earnings expectations, then the market will start to pay a lower earnings multiple to reflect a lower long-term growth rate.
If we can find a company with a relatively low earnings multiple that we believe will grow its earnings into the future, then we have two opportunities for investment gains: (1) When the stock's profits go up, then the price of the stock goes up. (2) In addition, as the market digests the fact that the company is producing consistently higher earnings over time (i.e., earnings growth), then the multiple goes up as well.

[3] Note that this is only one data point among many (and the earnings multiple on this particular stock is still quite cheap), but it's a good example of how our ability to evaluate these characteristics has improved with our own hands-on experience. Currently, we are holding, but not adding to, this particular position.

determining which people are helping team buy-in and which people are making it harder to achieve critical mass. (Simply firing the right people doesn't promote team buy-in.)

After working with our Gemba businesses, we feel we can better identify concrete signs of team buy-in. We can look for evidence that a majority of the workforce are participating in problem solving. At a new Manitowoc (MTW) facility, we saw a problem identification and action items chart initiated only 6 months prior that contained over 100 completed actions by 55 total employees. That is solid evidence that they are already getting buy-in from a critical mass of employees. On a recent visit to a Knoll facility currently being integrated into the combined Miller Knoll (MLKN) company, every employee is required to propose solutions to every single problem they identify. And there are thousands of problem identification forms produced in that facility each year!

And there are many other examples of how we are learning from our investment in Gemba companies (using our own money) and advancing our own ability to predict the long-term improvement capabilities of the Fund' companies. Being able to identify how companies are (i) connecting their front line team members to their value-added purpose; (ii) using safety improvement systems to train employees to solve problems, (iii) using so-called "5-S" systems to develop problem-solving muscle memory, and (iv) implementing priority deployment processes that directly align each employee's objectives with the customer-focused purpose of the overall organization; these are just a few of the areas we feel we are more capable than ever.

We would love to discuss any of these thoughts in more detail if you want to stop by our office or give us a call at (406)541-0130.

We thank you for your continued support and confidence.

Russ Michele Ginger Jeremy Dom

Russ, Michele, Ginger, Jeremy, and Dominic

On September 30, 2024, MTW was 6.17% of the Tarkio Fund Portfolio at a share price of $9.62 a share and MLKN was 3.78% of the Tarkio Fund Portfolio at a share price of $24.76 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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