



The journey to develop the criteria we use to select the companies for the Tarkio Fund portfolio began in 1988 with our study of the work of W. Edwards Deming. Deming believed that if management could create a culture in which employees at all levels experience daily accomplishment through continuous improvement and personal growth, the company’s financial results would ultimately reach their full potential. Out of Deming’s work, we developed our management criteria:

- Humility – Integrity – Trust
- Purpose and Passion
- Long-term Focus
- Teamwork – Collaboration, Not Competition
- Employee Empowerment – Drive Fear Out of the Organization
- Disciplined Capital Allocation

Deming’s principles helped form the foundation of the Toyota Production System in Japan and later influenced the Danaher Business System in the United States. Over the decades, these systems have evolved into what is now widely known as “Lean.” In our experience, companies that can create and sustain a Lean, continuous improvement culture have the potential to compound shareholder capital at rates significantly above their peers over long periods. Today, more than 80% of the companies in the Tarkio Fund call themselves Lean, and even those companies that don’t use the word “Lean” still demonstrate many of the same cultural and operational characteristics reflected in our criteria.

We have dedicated decades to understanding all aspects of Lean management. This includes regular site visits to company facilities— (in Lean terms, “going to the Gemba”), —collaboration with Lean consultants, ongoing discussions with leading practitioners, extensive reading, and—most importantly—hands-on experience. Our own Jeremy Brown recently led a Lean transformation at a local company and is now applying those lessons at a second organization. Through these experiences, we’ve been privileged to become part of a close-knit network of Lean experts and practitioners, a network that we are humbled to be part of. Virtually, all new companies in the Fund now originate from leads and introductions within this network.

We have learned from our hands-on work that transforming a company’s culture into one that is empowered and collaborative is a monumental and arduous task. It requires dismantling entrenched systems and rebuilding the new culture brick by brick. During this transformation, short-term financial performance often suffers before improvement becomes visible. Boards of directors are generally reluctant to suffer the pain and inevitable scrutiny unless the company’s situation is dire, preferring to preserve stability and minimize liability rather than pursue bold change.

As a result, most struggling companies won’t bring in a Lean transformational leader unless their situation is quite distressed. We feel these situations are a gift for the Tarkio Fund. Because of our

experience within the Lean network, we sometimes find out relatively early when a new Lean leader or team is hired into a new leadership role. In many of these cases, the company's stock is trading at multi-year lows, creating compelling valuations.

There are several reasons our decades of "Living Lean" position us to identify and act on these opportunities.

- We often have a history with, and sometimes personally know, the new Lean leader.
- Our insight into internal Lean improvements allows us to recognize value not yet appreciated by the broader market.
- We tend to be one of the few new investors with a working knowledge of the company's challenges in transforming their culture; this often results in more access than our size would normally justify due to the shared understanding and appreciation.
- Over time, these relationships grow and compound, resulting in introductions to additional "Lean" thought leaders, ever solidifying our position in the network and enabling us to identify even more future transformational situations.

We have been fortunate to establish significant positions in early-stage cultural transformation stocks, resulting in substantial gains for shareholders. In 2018 we started investing in GE at the beginning of its cultural transformation under new CEO, Larry Culp. Because Wall Street did not initially recognize the value that this type of transformation could create, we were able to take the time required to build a very large position before the stock price really reflected such value. And we doubled down (or quadrupled) on our original investment in Lumen's fiber network when we started to learn all the ways new CEO Kate Johnson exemplifies the characteristics of a truly empowered, collaborative, and transformational leader, even though Lumen doesn't formally identify as "Lean."

In our experience, these opportunities typically follow a three-stage progression:

1. Transformation phase: The company's internal improvements are not yet recognized by other investors, enabling us to build a meaningful ownership position in the stock at compelling valuations.
2. Recognition phase: As financial performance begins to reflect the cultural transformation, the broader market takes notice, and the stock appreciates significantly.
3. Sustained excellence: As leading participants in their field, we can continue to hold our ownership positions, enjoying the benefits of the company's ability to compound at attractive rates, potentially indefinitely. Our confidence to continue holding these exceptional companies with an ultra-long-term horizon enables us to reduce turnover in the Fund and allows us to wait patiently for another Lean transformation opportunity.

Companies with Lean cultures can also create a multiplier effect when they, in turn, acquire another business and transform it into a long-term Lean compounding operation, extending their ability to generate improved financial and cash flow performance across a broader base. This can be done over and over again by savvy Lean enterprises.

We are deeply grateful for the contributions of the companies driving the Fund’s compounding over time—particularly the courageous leadership of Larry Culp at GE and Kate Johnson at Lumen. While we are proud of these successes, we believe we’re only getting started. We remain laser focused on identifying early-stage opportunities that fit this model. You may notice growing positions in Azenta Inc. (John Marotta), International Paper (Andy Silvernail), and Baxter International (Andrew Hider)—each representing the type of transformational leadership and culture we seek at what we believe are compelling valuations.

As always, please reach out if you have any questions about our strategy or the companies within our portfolio.

Respectfully,

*Michele, Ginger, Jacqueline, Jeremy & Russ*

The Front Street Capital Management team  
Manager of the Tarkio Fund

12/31/2025 Ticker	Closing Share Price	Portfolio Percentage
GE	\$308.03	13.15%
LUMN	\$7.77	14.90%
AZTA	\$33.26	1.91%
IP	\$39.39	3.17%
BAX	\$19.11	2.69%

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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.

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