Kinetics Mutual Funds
Second Quarter 2017 - Conference Call with Peter Doyle
July 11, 2017

Disclosures:

Kinetics Asset Management LLC ("Kinetics") is pleased to announce that on July 11, 2017, Peter Doyle, Co-Founder of Kinetics and Senior Portfolio Manager for Kinetics Mutual Funds, Inc., hosted a conference call to financial advisors. The transcript set forth below is intended to provide a summary of Mr. Doyle's remarks.

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Chris Bell: Good morning, everyone. Thank you for listening to today's call. First of all, I'd like to remind everybody to go to our website, www.horizonkinetics.com, for additional research and some white papers regarding a variety of our strategies, and our mutual fund website, which is www.kineticsfunds.com. There will be a recording today, and there will be a transcript made available once it gets approved by Compliance. And you can get that transcript by emailing or calling Bob Uly at 914-703-6950, or buly@horizonkinetics.com.

On today's call, Peter Doyle will have some market commentary, and then James Davolos will go over three of our holdings in-depth and will relate them to the market. I'd also like to invite everyone to begin following us on Twitter. We have a Twitter handle: it's @HorizonKinetics, where we link to some of our commentaries and white papers, and some news we are following. Therefore, if you just follow us on Twitter, you will get notifications of when there is new information coming out. With that, I'd like to turn it over to Peter Doyle.

Peter Doyle: Thank you, Chris, and good morning to everyone. Over the years, we've made pretty strong suggestions that we're off the beaten path, that we do things uniquely. We're looking for companies that are eclectic, that have return characteristics that are very different than names that you might find in a particular industry index or the broad market index. That's what we're really going to stress today, and I think it shows that we really do provide true diversification. I think a number of people have been moving away from us for fear of the overconcentration in certain names, but I think that's a mistake. I believe that, ultimately, our performance will continue to shine and will certainly distinguish us from the broader market and, most of the investment managers out there.

Year-to-date through June 30th, the S&P 500 Index is up 9.34%. The Russell 2000 Index is up 4.98%. The NASDAQ 100 Index is up 16.78%. Our Paradigm Fund (No-Load Class), which is our flagship fund, is up 6.91%. Our Small Cap Opportunities Fund (No-Load Class) is up 4.09%. Our Market Opportunities Fund (No-Load Class) is up 7.89%. Those are really our core, more traditional funds. If you look at those results, it appears that our funds are underperforming. And, if you look at the top names—and I'm not going to belabor the point, because we've covered this phenomenon in the past—the top names in the S&P 500 really accounted for a very large chunk of that return: Apple, Microsoft, Amazon, Facebook, et cetera. In the case of the S&P 500, they probably represent over 30% of the return.

The valuations for those companies are very stretched. And although we use the S&P 500 as a benchmark, it really is not an appropriate benchmark any longer because the buyers of the S&P 500 are now pricing it differently than in the past. And what I mean is that when money flows into products tracking the S&P 500, the providers of the ETF or mutual fund will buy the index constituent securities whether these stocks trade at 10x earnings or whether they trade at 30x earnings. They're not looking at valuations. Ultimately, our belief is that valuations matter, and that the current trend is going to come to a bad end.

Accordingly, we're staying about as far away from that as possible, and our numbers are actually quite good when you look below the surface. I'm going to point out a couple of different names to you, and James is going to further elaborate on those names.

Texas Pacific Land Trust ("TPL", the "Trust") is one of our biggest names, and has caused a little bit of concern for people who own our funds, given the size of its weighting. TPL, for all practical purposes, is viewed as an oil company by much of the market. It's essentially a company that has eight employees and cashes checks, but it is deemed as being an oil company. Recently, though, one can see how it's starting to distinguish itself. If you look at the first half of the year, oil prices are down fairly substantially, and most oil companies and oil company ETFs are down very substantially. TPL, however, is roughly flat. The performance for crude oil and natural gas during the period of the first six months of this year was -14.3% and -17.62%; thus, to find a company that's flat in that environment is actually pretty surprising. But there are reasons for that.

If you look more deeply, and if you look at the S&P Oil and Gas Exploration index, you'll realize that those names, in aggregate, are down over 22.5% in the first half of 2017. So, there's something unique going on at TPL that is distinguishing it from the rest. One reason is that it's actually based in the Permian Basin, but even that doesn't really tell the true story of the company because, if you look at other companies that are operating in the Permian Basin, many of those companies are down double-digits, many approaching 20%. How did we find a name that's essentially flat when the overall area is down very substantially and most of the names are down in the 20% range?

What happened is that we own a company that is starting to attract interest from people who have a thorough understanding of the assets that they own. There's a very limited supply of TPL stock, and there are buyers out there, including the Trust itself, which continues to buy its shares back. So here's an example of a sector basically being in a depression in terms of performance over the first six months, and we're flat. We had a meeting yesterday, and my colleague Murray Stahl, who has been following this

company for over 30 years, said that if he owned 100% of the stock today, and somebody approached him in the next several months and offered him 10x the current stock price,, he would decline the offer. That's, in our opinion, the potential that's there.

Now, please note that we can't promise that it's going to unfold in a linear fashion. But there's no question that there's undervaluation and there's a return potential there that we believe is going to eventually uncouple itself from the broad market and the oil industry itself.

The second example is Howard Hughes Corporation ("HHC"), a unique real estate company that has land around the country, focused primarily on commercial and residential properties. A number of other real estate companies have actually performed quite poorly this year. In the case of HHC, I think it's up roughly 8% year-to-date. But if you look at some of the retail office properties, such as Simon Property Group, Inc, GGP, Inc., and Taubman Centers, Inc., they've declined by an average of 11.4%.

We don't expect that situation to improve, because physical retailing locations are under real distress, and it's not likely to turn around any time soon. And yet, somehow, Howard Hughes Corporation has bucked this trend.

Now, the return difference is not that radical relative to its peer group, but it shows that something unique is going on there, and James will further elaborate on that. The company is starting to become, instead of a cash consumer, a cash distributor. And, as that evolves, more and more ETF or real estate investors, and particularly ETFs, might have an interest in Howard Hughes Corporation. The demand for the company should go up fairly substantially, we think.

The last example that I'm going to use is Liberty Media Sirius XM Group ("Liberty Sirius XM"), which is essentially an ownership stake in Sirius XM stock. However, Liberty Sirius XM trades at a 20% discount to Sirius XM stock. Liberty Sirius XM is up 23% year-to-date, but if you look at the broad media index or industry, you'll see that most of those names are actually flat to down. If you further delve into what Sirius XM actually owns, it's essentially a content company and a broadcasting distribution company. If you look at companies like Viacom or Walt Disney, they have declined, on average, about 90 basis points year-to-date. Similarly, distribution companies like Verizon, AT&T, and Sprint have declined about 5%. However, Liberty Sirius XM is up 23%.

If you get away from the surface number, and look at our fund holdings relative to "comparable" companies in the S&P 500, you can see that we're really starting to do what we've always said we would

do. We're finding companies that have unique return characteristics that can perform well even if their peer group is not performing well and even if the overall market is not performing well.

Those are just three examples, and, again, James will elaborate about the individual companies. First, though, I just want to make some broad comments regarding the risk that's out there in the market.

Technology and Financials represent roughly 36% of the S&P 500. As many of you know, we own a position in Bitcoin in some of the funds, through a security called Bitcoin Investment Trust (GBTC). And we're one of the few mutual funds where you can actually get exposure to that security.

If you've been paying attention to what's been going on in the development of blockchain and cryptocurrencies, you would have seen that the financial sector is at great risk. And that's a very substantial part of the S&P 500. If you think through that further, you would see that the financial sector is a very large purchaser of technology equipment. And the adoption of blockchain and of cryptocurrency is likely going to impact that.

The world is not paying attention to this development; roughly 36% of the S&P 500 is under attack to their core businesses. It's apparent to us that many of these companies are going to struggle for profits, because the ability of individuals to become their own banks is going to become a very stark reality in the not-too-distant future. So, if you are not paying attention to that phenomenon or if you don't own the cryptocurrencies, including Bitcoin, directly, we think it's a mistake, and this opinion makes us unique.

With that, I am going to stop and ask James to talk about the three companies in more detail.

James Davolos: Thanks, Peter. I'd just like to add one more thing before going into the companies in detail. We have talked before about the GICS sectors that are so commonly used to assess risk and concentration and in myriad other automated portfolio analyses that may be easy to run but which are lacking in insight. But whatever sector one might look at, all of the companies Peter mentioned, and which I am going to delve into now, are effectively completely excluded from any type of passive exposure within those subcategories. That's obviously an element of the decoupling of performance. But we believe that the fundamentals are really what's driving the performance gap this year.

If you look at Texas Pacific Land Trust, I'll just reiterate something we've talked about on the past call, which is that, in the first quarter, oil and gas royalties doubled, and easement and sundry revenue more than tripled, year-over-year. Now, oil and gas numbers were certainly helped by oil and gas prices normalizing. But the really startling number was easement and sundry revenue, which has to do with the

rapid development of the Permian Basin. The Permian basin is believed by many to have the most economical resource base in the Western hemisphere, and there's a lot of data to support that claim.

But if you dive a little bit deeper into the first quarter earnings announcement, there was a quick line where TPL mentioned two items that contributed to revenue for the quarter, one being water sales, and the other being caliche sales, which is effectively sand or a mineral deposit. When we've talked in the past about valuing this company, we've talked about oil and gas royalties and then we've talked about the surface acreage and what that would be worth, either for somebody using a terrestrially-based land use or an easement or any other way of deriving revenue. Now, we are seeing what is, effectively, a new embedded business option, in addition to our original valuation parameters: where water and sand are very viable businesses. And they're both related to the same activity: fracking.

Many of these companies are reporting that they can make money with oil at $40 a barrel—other people are a little bit more aggressive, saying they can even make money into the $30s. But using a 2015 estimate from Jefferies, some of these operators are spending $9 a barrel in water costs. Then another large component of the drilling costs is sand, where you need to mix a small amount of sand into your fracking fluid in order to break up the fissures, so as to release the hydrocarbons. While the sand itself might not be all that expensive, it's extremely expensive to truck very large, heavy amounts of sand to where the wells are located.

To bring this full-circle, on June 9, 2017, just about a month ago, TPL released a Form 8-K announcing the formation of Texas Pacific Water Resources. This is a single-member LLC that's a wholly-owned subsidiary of the Trust. The release called it a "full-service water offering to operators in the Permian Basin," and it will provide brackish water sourcing, produced water, gathering treatment and recycling, infrastructure, disposal, water tracking, and well testing and analytical services. They've also brought on Robert Crain, who led up these efforts at EOG Resources, one of the largest operators in the Permian Basin, to head this venture.

Now, to understand the water opportunity, there are actually two main elements to consider. One is that the fracking fluid requires a fresh or less contaminated water base to pump into the wells in order to break up the fissures. And the reason that this cannot be naturally occurring or somewhat contaminated water is that you need purer water; otherwise, the sediment and the calcium and the minerals in that water can clog the fracks and clog the well bores, and they actually create far less flow in terms of the desirable amount for these wells.

The second, and sometimes more expensive but equally important element, is what's called produced water. Produced water is water that is trapped amongst the hydrocarbons within the shale that's being fractured. This tends to be very high in mineral and, in some cases, energy content, and is relatively toxic. So, when you get this out of the ground, it needs to be separated. And historically, what's happened is it's been disposed of in what are called saltwater disposal wells.

Now, going back to the Jefferies estimates, they estimate that wells in the Permian spend anywhere from $0.75 to upwards of $9 per barrel of water for fresh source water. And then, for disposal, they can spend anywhere from $1 to $15. And this varies so widely because, effectively, when you get your produced water, you have three options. One is you put it in a truck and you take it away and you dispose of it in a saltwater disposal well. That's incredibly expensive and inefficient. Two is you dispose of your produced water via pipeline, which is far more efficient but, again, not ideal. Third, the ideal format is to recycle this water, but it requires a tremendous amount of treatment in order to meet the standards that are required in order to send the water back into a fracking well.

Now, not all of the operators in the Permian Basin provide a deep look-through. But there's one operator in the northern Permian Basin that has significant scale, and their information suggests that, for a standardized 5,000-foot frack, they're using about 200,000 barrels of sourced water. This is brackish water, but it's not the produced water that's highly contaminated. More importantly, in many of their wells that a lot of these fracks are targeting, they're pulling out 4.5 barrels of produced water for every barrel of hydrocarbon. Now, they said that they saved about $200,000 per well through water recycling efforts in 2016. The opportunity is actually quite profound.

Going back to Permian operators talking about having break-evens in the $35-40 range, a lot of that comes through efficiencies, meaning they're drilling faster, but then also they've minimized their payments to the oil field service companies to the point where those companies are operating at break-even. Therefore, the service costs can only go up—otherwise, the Schlumbergers, Halliburtons, and Baker Hughes don't have viable businesses. But a well that cost $12 million to drill in 2012 now costs less than six. Thus, the last real pressure point, which might be as much as 25-30% of their overall costs, is water.

TPL now has a subsidiary that is going to create, on both sides of these activities, potentially a lot of value. If you look at water ownership in the State of Texas, it's one of the most complicated and convoluted legal regimes, and is rife with lawsuits and contradictory rulings over the years. But the one prevailing rule is that water that flows freely below surface is part of the ownership of the surface estate, of which TPL

owns close to 1 million acres. Consequently, the water below them is technically their property. And, through different conservation laws and through working with the State, they can provide that water to other operators. But then they also own the land and the surface acreage where a lot of the tailing ponds and disposals need to be created.

Back-of-the-envelope numbers can get pretty staggering, especially when you look at Apache Corporation, which has a very large play that they've yet to really fully develop, called the Alpine High in Southern Reeves County. Independent think tanks are estimating that this resource will require anywhere from 30,000-200,000 barrels of source water per day. You can assume that roughly 5-7x of that is going to be coming out of the wells and is going to need to be treated as well. It's really compelling what this underappreciated—until very recently—business could be.

Now, one last closing point on Texas Pacific Water Resources is that this is a single-member LLC that's held below the Trust. So, this does show that there is a sensitivity to taxes and a sensitivity to the corporate structure. A lot of people have expressed concerns that there is a bit of value slippage in the current corporate structure, and we are acutely aware of it. But this is certainly a step in the right direction, at least in terms of addressing that slippage and showing that there's a lot of potential for creative structures in order to reduce some of that friction.

Now let's move on to Howard Hughes Corporation ("HHC"). This company has been in its evolution of turning into an operating company from a development company since its foundation about seven years ago. We agree with management that now it's really time to take the story to the broader investor community. HHC had a really exceptional investor day earlier this year, down at the South Street Seaport, where I thought they did an excellent job of outlining the value levers within this company.

Most importantly, as of the first quarter, you can identify approximately $240 million of run-rate, stabilized, net operating income (NOI). And that excludes the South Street Seaport. We'll come back to that in just a moment.

If we assume $50 million of NOI for the Seaport, which is in line with what management has very loosely guided towards, that results in about $290 million of run-rate NOI for HHC. We use a variety of prevailing cap rates when we value these assets, based on the CBRE capitalization rate survey conducted earlier this year. But if you take that $290 million, we believe that, based on the different properties and using a variety of cap rates, the market-blended cap rate should be about 6.5%, which brings us to about $4.6 billion or about 45% of our total estimate of NAV. Just to simplify the math, using market rate numbers

and using very conservative assumptions, we're currently arriving at an NAV of approximately $190-200 per share.

But now let's go back to the Seaport, because you have $50 million of midpoint NOI here. What you have here is 400,000 square feet between Pier 17, the Uplands, and the Tin Building. Pier 17 is the pier going out into the Hudson River, and it's going to be a four-story structure with a 1.5-acre rooftop. The Uplands is the historic district of cobblestone streets, where you have a variety of shops and restaurants and cafes. And then you have the Tin Building, which is yet to be constructed, which is going to hold a Jean Georges Vongerichten anchored food court, which is going to be at the outset of the Seaport as you cross the highway into Pier 17.

Based on management's statements at the investor day, the food court, at about 50,000 square feet, should add about $10 million to HHC, which derives about $200 a square foot of NOI. The third and fourth floors on Pier 17 are going to be multipurpose office space, where they are estimating $8-10 million. We don't have exact figures, but we estimate this is about 100,000 square feet, where it derived $80-100 a square foot. That leaves about 250,000 square feet of retail space, which is amongst the highest-valued real estate in New York City.

Now, Peter mentioned earlier some of the trouble with traditional retail. And I think that that speaks to the importance of paying for premium real estate square footage, because if you walk up and down Madison and Fifth Avenue right now, and if you're not in the ultra, ultra prime, there are just massive vacancies. But you have to remember that the Seaport, even when it was under construction, when it was underwater from Sandy, and after an exodus from downtown after 9/11 over the past decade-plus, was still one of the top 20 tourist destinations, in terms of foot traffic, in the world. Anyway, going back to the retail square footage of 250,000 square feet, if you assume $30 million of incremental NOI here, that implies $120 NOI per square foot.

Now, just to give you something to think about, the Real Estate Board of New York, in their spring survey, cited $362 per square foot of average asking rent for ground floor retail in downtown Manhattan. That's basically triple what the implied NOI would be here.

Just to give you one other way to think about it, the COO of HHC, at the investor day, suggested that $1400 of sales per square foot will hit their target NOI, based on their return on construction costs to the Seaport. Using a Simon Property Group cost of occupancy across all of their malls of approximately 13%, would suggest that their tenants should be paying closer to $180-200 per square foot. I would argue that

the number should be even higher, given the premium location and the captive audience. Again, in this case, as much as a 50-70% upside from the implied rate is what I believe is very conservative guidance.

Now, on top of that we're adding zero value for a 1.5-acre rooftop, which can seat 2,600 people for a concert or 4,000 standing. Additionally, you have sponsorship rights, which we believe will be in the millions and millions of dollars per year in, effectively, 100% margin cash flow. So, based on what we think can be the ultimate potential for this property, the ultimate NAV of HHC could be well over 10% higher than the number we stated earlier.

One other number that we'll just throw in quickly is the new Market Building site, which potentially could be anywhere from 500-700,000 square feet of development, is being assigned zero value as management works with the Community Board to find an economical way to develop that property.

HHC is a unique asset, and one of the most limited-supply real estate companies out there. The company really dominates its markets and has the premier location in capacity-constrained markets; the cap rate should probably be below the CBRE Group survey estimates, again, we think that there's a lot of optionality, even based on our conservative NAV. Management has continued to be extremely aligned with their shareholders, and one of the ways I think you can accept the corporate costs that you have to include when you're looking at an NAV is that management has continuously created value out of thin air.

There's another building that nobody even pays attention to. It's 110 North Wacker Drive in Chicago. It's a 226,000-square-foot office building that's generating about $6.1 million of net operating income. It's in arguably one of the best areas of Chicago, right on the river, in the Loop. And, very quietly, the company has gained approval to redevelop that into a 51-story Class A office tower with 1.35 million square feet. So, you're talking about increasing the square footage here fivefold, and Bank of America is already an anchor tenant for 500,000 of those square feet. Right there, I believe management has probably added $100-125 million of value-add through that property alone, which takes away many years of SG&A expenses.

Finally, David Weinreb, who invested close to $20 million when he signed on to run the company seven years ago, currently stock-settled his warrants and rolled $50 million of cash into a six-year, $124 strike warrant. What this means is that, if the stock is not above $124 in six years' time, basically above its current value, that $50 million is worthless. This isn't like investing at the current price and if it goes down 10%, you lose 10%—this is a very aggressive vote of confidence by the CEO in this company. And I think

he's looking at the same numbers that I just ran through very quickly with you. And that's why he's more than happy to allocate a pretty considerable amount of money to this investment.

Finally, Liberty Sirius XM: I think this continues to be one of the really underappreciated investments out there. Because Liberty Sirius XM is a tracking stock, virtually no mutual funds or conventional asset managers are even allowed to own it because of archaic investment constraints. And then you have Sirius XM, which is a majority-controlled business. But it has traded below $5 for many years, which, again, preempts a lot of investment from shareholders. There's massive structural headwinds to anybody in the mainstream owning either Liberty Sirius XM at a 20% discount or Sirius XM outright. Sirius XM been trading comfortably above $5 for about a month and a half now, and we believe that this dynamic could change very rapidly.

I'll just give you a quick rundown on the guidance for this year, which we think is very achievable, if not conservative. We think they're going to achieve about $5.35 billion of revenue, $2 billion of adjusted EBITDA, and then convert about 80% of that into free cash flow of about $1.6 billion. Right now, the company trades at about a 6.5% free cash flow yield, which I think is an incredibly generous yield for a company that's growing, and it has very, very limited reinvestment needs.

If we look out to 2020, we think that, using a pretty conservative 5% revenue growth, which can come from a combination of subscribers and increasing average rate per user, we get to $6.2 billion in revenues. We think that management can achieve a 40% EBITDA margin, getting just shy of $2.5 billion in operating income. And, again, using the current free cash flow conversion of 80%, you end up with almost a $7 Sirius XM share price in 2020. That's not a bad return on Sirius XM itself. But if you plug that value into Liberty Sirius XM, you'll have an NAV of about $65 per share, 60% higher than today, for about a 14% compound annual growth rate through 2020.

Now, a big component of that is going to be John Malone collapsing Sirius XM and Liberty Sirius XM into one company, which we think could remove the 22% discount very rapidly. John Malone has done this many times over the years, but there's an institutional unwillingness to wait for him to do it when the time is right. We'll be glad to earn what might be 15% a year for the better part of three years on what I believe is a very low-risk investment.

Now, just one note on a potential catalyst for collapsing the structure and removing this discount: about a month ago, Sirius XM finally ended what has been a multiyear courtship of Pandora, the streaming radio company. It was rumored they were going to invest in Pandora or buy it out at $15 per share. But the CEO

basically thought that he had a lot more leverage than he did, and ultimately Sirius XM came in with a $480 million preferred convert investment this year. That'll give them a 6% dividend and a $10.50 strike price, which is about a 17% premium from today.

I suspect that, when it makes sense over the next 18 months or so, they will collapse Pandora into a Sirius XM asset-backed stock, which is going to collapse all of these NAV discounts. Pandora on its own is really not a viable business—it barely makes any money, and its ad penetration and subscription rates just don't really make the economics work. But within a Sirius XM distribution, it makes a lot of sense because a lot of those costs can be cut out, and it also gets Sirius XM more into the household instead of just in the automobile.

Finally, with the new administration, the Federal Communications Commission voted 2-1 to revisit net neutrality. If Pandora is ultimately going to be forced to distribute over Sirius XM, which has enormous dormant capacity in its satellite waves, that's not subject to net neutrality. Thus, if you're Spotify or you're Apple or you're one of these competing services that's already break-even, if you have to pay for that enormous bandwidth, that's going to be a huge competitive advantage for Sirius XM and, now, Pandora.

Therefore, I think that that may be a catalyst in the next year and a half to two years, and it appears that Berkshire Hathaway agrees, as they have taken a stake in Sirius XM worth about $1.2 billion through Berkshire Corporate. But what's very interesting is Ted Weschler, one of the two portfolio managers that was tapped by Warren Buffett to take over the investment book, personally has $36 million invested in Liberty Sirius XM between the Class A and Class C shares. Again, just as David Weinreb at Howard Hughes Corp seems to understand our math, I think Ted Weschler at Berkshire Hathaway understands our math with Liberty Sirius XM, to the tune of $36 million of his own money.

These are three companies that are effectively un-owned by the rest of the world. And the performance is really starting to shine and decouple from the broader markets. And this is where we want to be and what we expect to do going forward.

Chris Bell: Thank you, James. I'd just like to make a couple of comments before we open it up to questions. Those three examples—Howard Hughes Corp, Texas Pacific Land Trust, and Liberty Sirius XM—are just examples of how we differentiate ourselves from the indexes, from the S&P 500, and what enables us to have such a high active share. Our current active share in the Paradigm Fund and the Small-Cap Opportunities Fund is in excess of 99%.

And I'd also like to mention that several of the funds in the complex have some exposure to Bitcoin through the Bitcoin Investment Trust. We've had that exposure now for well over a year, and it has helped propel the funds as well. And we have a positive outlook for Bitcoin going forward.

So, with that, Operator, could you open the queue for questions?

Questioner 1: Hi, good morning. Great call. Thanks again for all the detail. It's very helpful. I just wanted to get a little commentary on Icahn, which has also been a long-term holding, and remains so.

James Davolos: Sure. Icahn Enterprises has been positioned much the way that we've been positioned, defensively, for about a year and a half now, actually going on two years. Carl Icahn has really made a lot of his money over the years in event-driven investments and activist roles, where even his own business portfolio has really thrived on his active value-add. He believes that the combination of low interest rates and easy money has created a lot of froth and pricing that really doesn't make sense. It's been a very difficult experience for the stock price, but the stock price followed the NAV, and that's really what we track.

I would say that now looks to be an inflection point where the risk/reward is turning in our favor with Icahn after a pretty rough 2-3 year stretch. And I say that because he's really loading up on liquidity. If you look at what he's done in the last six months, he knocked out some of his longer-term, high-cost debt, and then actually upsized that offering. He followed that up with a rights offering, and then he's about to close on the sale of ARL Railcar Financing with Sumitomo out of Japan. If you combine that with all of his undrawn revolvers and other types of liquidity, he's going into this next cycle with $6-8 billion of readily available cash.

We get quarterly updates on the investment portfolio, but it's probably still having a difficult year, given that, at last glance, Mr. Icahn was over 100% net short. But we'd rather have that hedging out the market data, if he can create alpha in a flat market. I think that's a pretty attractive proposition for shareholders.

And then, finally, within his operating businesses, the two real value levers are the refineries and the auto parts companies. And with the auto parts, he's been rolling up that business, where he's got the upstream with Federal Mogul and then other types of original equipment manufacturing, but now he's moving that downstream with Pep Boys and buying other individual auto shops. Therefore, I think that that's going to be less cyclical than some of the more challenged elements of the auto industry, and he's buying it at the right price and at the right time.

If you go back to the refineries, it's a cyclical, crack-spread-based business. There's been a lot of noise revolving around the renewable fuel credits and ethanol blending and all of that, but I don't want to speculate as to what the administration is going to do. It appears that these businesses, at the current pricing of renewable fuel credits, can throw off an awful lot of cash flow. But clearly, prices can change very dramatically overnight.

I think that he's positioned very well to go forward. And, again, it's one of the more unique counter-exposures to any type of conventional data portfolio that we really see out there.

Questioner: And, James, is it trading right about net asset value right now?

James Davolos: No, depending on how you calculate net asset value, it's still trading at about a 15-20% premium. But that's a GAAP approach to net asset value; I think there are a lot of adjustments that you need to make, but those are pretty difficult, looking from the outside in.

Chris Bell: Peter, I wanted to just ask a question. There have been a lot of articles recently about Bitcoin and the potential for a hard fork. Do you have any comments on that? I know Murray mentioned it a little bit yesterday. Any feeling on that?

Peter Doyle: He did. Based on our reading, the various interests have a lot at stake to not have that happen. Hence, we're of the belief that it's unlikely to happen in the near term. And we're also of the belief that, even if it were to occur, it's not the end of the world, because there's going to be the core programmers who are going to be committed to the original kind of mandate, if you will, or intent of Satoshi. And they will keep pure the store of value that Bitcoin was meant to be. Consequently, we believe that Bitcoin has tremendous upside potential, and we're hanging onto it.

James Davolos: I'd just like to jump in and add a comment here—you know, I was amongst the skeptical when we first started looking into these types of alternative exposures. But I've probably read 20-plus years of letters from Fairfax Financial's Prem Watsa. And he's pretty quietly compounded well in excess of Warren Buffett and Berkshire Hathaway's NAV, trouncing Leucadia, trouncing Lowes, any of those much more well-known NAV compounders, over the 33 years or so since inception.

And one of the more controversial things that Prem Watsa did is—and it actually saved him billions of dollars in 2008—is that he was very concerned about loose bank policy and financial engineering, and so he put on hundreds of billions of dollars of notional value in CPI-linked swaps. And, basically, these are based on the U.S. economy, the United Kingdom, the European Union, and then one specific to France, where, if local CPI levels dropped below zero or 0.5, which is effectively deflation, he would have some

sort of parabolic return. This is really the hedge of all hedges, where you really go to bed at night hoping you don't need this hedge. But, at the end of the day, if it kicks in, you're going to be very glad you had it.

When I look at what he paid for these hedges over the years, he can be chastised for burning money, but then, when you look at his overall investment portfolio, it's something in the realm of not even 100 basis points of cost. The way he looks at it is, over four to six to seven years, depending on, at different periods, his weighted maturity of these swaps, you can burn 30, 40, 50 basis points a year in your hedge cost, but, at the very end, it's something where, if the situation arises where you need it, it's parabolic. If it doesn't, it's something that you can look at in those terms.

And I think that's a really good way to look at these types of investments in a broader portfolio stance. I know that other people—you can make a lot of arguments to look at it from a fundamental, a functional, a store of value, and any other number of ways. But I think that to relate it to that Fairfax methodology makes a lot of sense to me.

Peter Doyle: Our sizing in the funds is really how we control our risk. And we've told that to individual clients as well over the years: you only need a small fraction of your overall wealth, and, in success mode, that small fraction could drive your portfolio substantially. Based on everything that we've seen and read, we think that this has real potential within our funds—we think that the potential to drive the funds' performance in the future is actually quite high.

Peter Doyle: In closing, I'll just reiterate that we really operate off the beaten path. James did a great job highlighting that as he discussed the individual names. We really do our research, and we really find companies that we think have return characteristics that are potentially uncoupled from the broader market and the industries in which those companies operate. That's truly been our strength for the 20-plus years that we've been doing this, and we think that our time has come.

I won't belabor the point, but you can listen to Steve Bregman's webinar, where he further elaborates on the manipulation of ETFs. If you look at the valuations, there's tremendous danger out there. It's probably the most that we've ever seen in our careers. And we want to be as far away from that as you can possibly be.

So, if you're comparing us to the S&P 500, it's a broken comparison. And I'm happy to continue that comparison because I think, in the future, it's going to be very easy for us to distinguish ourselves. But you're looking at an index now that has buyers that are price indifferent. They pay no attention to

valuation. And that is going to come to a bad end. I can't predict the date, and we've been saying it for a while, but, in our opinion, it's no question it's going to come to a bad end.

With that, thank you for your time. And we'll continue to go about what we do.

PERFORMANCE AND HOLDINGS INFORMATION

Internet Fund

As of June 30, 2017	WWWFX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**13.37%**	9.34%	14.07%
One Year *(annualized)*	**21.02%**	17.90%	26.80%
Three Year *(annualized)*	**4.01%**	9.61%	11.68%
Five Year *(annualized)*	**12.46%**	14.63%	15.91%
Ten Year *(annualized)*	**8.92%**	7.18%	8.96%
Since Inception*(annualized)*	**15.21%%**	7.15%	7.51%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for WWWFX is October 21, 1996. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.87%. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Medical Fund

As of June 30, 2017	MEDRX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**9.13%**	9.34%	14.07%
One Year *(annualized)*	**9.50%**	17.90%	26.80%
Three Year *(annualized)*	**4.34%**	9.61%	11.68%
Five Year *(annualized)*	**13.26%**	14.63%	15.91%
Ten Year *(annualized)*	**8.45%**	7.18%	8.96%
Since Inception*(annualized)*	**9.35%**	5.66%	4.64 %

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for MEDRX is September 30, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.62%. Kinetics Asset Management LLC, the Investment Adviser to the Medical Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.39% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Global Fund

As of June 30, 2017	WWWEX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**8.99%**	9.34%	11.48%
One Year *(annualized)*	**16.55%**	17.90%	18.78%
Three Year *(annualized)*	**-2.72%**	9.61%	4.82%
Five Year *(annualized)*	**6.90%**	14.63%	10.54%
Ten Year *(annualized)*	**2.48%**	7.18%	3.71%
Since Inception*(annualized)*	**-1.77%**	4.91%	3.73%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for WWWEX is December 31, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.90%. Kinetics Asset Management LLC, the Investment Adviser to the Global Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.39% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Paradigm Fund

As of June 30, 2017	WWNPX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**6.91%**	9.34%	11.48%
One Year *(annualized)*	**23.22%**	17.90%	18.78%
Three Year *(annualized)*	**3.82%**	9.61%	4.82%
Five Year *(annualized)*	**13.30%**	14.63%	10.54%
Ten Year *(annualized)*	**4.19%**	7.18%	3.71%
Since Inception*(annualized)*	**8.89%**	4.91%	3.73%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for WWNPX is December 31, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.68%. Kinetics Asset Management LLC, the Investment Adviser to the Paradigm Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Small Cap Opportunities Fund

As of June 30, 2017	KSCOX (Net of Fees)	S&P 600 Index	S&P 500 Index
TOTAL RETURN			
Year-to-Date	**4.09%**	2.79%	9.34%
One Year *(annualized)*	**21.72%**	22.47%	17.90%
Three Year *(annualized)*	**0.49%**	9.32%	9.61%
Five Year *(annualized)*	**13.65%**	15.47%	14.63%
Ten Year *(annualized)*	**3.75%**	8.44%	7.18%
Since Inception*(annualized)*	**9.43%**	9.61%	5.01%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for KSCOX is March 20, 2000. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.67%. Kinetics Asset Management LLC, the Investment Adviser to the Small Cap Opportunities Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Market Opportunities Fund

As of June 30, 2017	KMKNX (Net of Fees)	S&P 500 Index	MSCI EAFE Index
TOTAL RETURN			
Year-to-Date	**7.89%**	9.34%	13.81%
One Year *(annualized)*	**23.74%**	17.90%	20.27%
Three Year *(annualized)*	**3.54%**	9.61%	1.15%
Five Year *(annualized)*	**12.25%**	14.63%	8.69%
Ten Year *(annualized)*	**4.65%**	7.18%	1.03%
Since Inception*(annualized)*	**7.02%**	8.03%	3.37%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for KMKNX is January 31, 2006. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.76%. Kinetics Asset Management LLC, the Investment Adviser to the Market Opportunities Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Alternative Income Fund (formerly The Water Infrastructure Fund)

As of June 30, 2017	KWINX (Net of Fees)	Barclays 1-3 Yr. Credit	Barclays U.S. Aggregate
TOTAL RETURN			
Year-to-Date	**1.32%**	1.19%	2.27%
One Year *(annualized)*	**3.36%**	1.18%	-0.31%
Three Year *(annualized)*	**2.36%**	1.44%	2.48%
Five Year *(annualized)*	**3.75%**	1.70 %	2.21%
Ten Year (annualized)	**0.33%**	3.14%	4.48%
Since Fund Inception*(annualized)*	**0.33**	3.14%	4.48%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for KWINX is June 29, 2007. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.20%. Kinetics Asset Management LLC, the Investment Adviser to the Alternative Income Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 0.95% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Multi-Disciplinary Income Fund

As of June 30, 2017	KMDNX (Net of Fees)	Barclays U.S. Aggregate	Barclays U.S. High Yield
TOTAL RETURN			
Year-to-Date	**3.50%**	2.27%	4.93%
One Year *(annualized)*	**8.07%**	-0.31%	12.70%
Three Year *(annualized)*	**2.98%**	2.48%	4.48%
Five Year *(annualized)*	**5.30%**	2.21%	6.89%
Ten Year (annualized)			
Since Inception*(annualized)*	**4.99%**	3.95%	8.60%

Performance data quoted is as of June 30, 2017. All figures are annualized. Past performance does not guarantee future results. The inception date for KMDNX is February 11, 2008. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.60%. Kinetics Asset Management LLC, the Investment Adviser to the Multi-Disciplinary Income Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.49% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

(Holdings begin on next page)

Internet Fund **Top 10 Holdings (%) as of June 30, 2017**	
The Bitcoin Investment Trust	7.2%
EchoStar Corporation - Class A	6.3%
Liberty Media Corp.-Liberty SiriusXM - Class C	4.8%
Alphabet, Inc. - Class A	3.1%
CACI International, Inc. - Class A	3.0%
Alphabet, Inc. - Class C	3.0%
PayPal Holdings, Inc.	2.85
The Madison Square Garden Company - Class A	2.6%
Liberty Broadband Corporation - Series C	2.6%
Visa, Inc. - Class A	2.1%

Paradigm Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	23.9%
The Howard Hughes Corporation	11.8%
Icahn Enterprises LP	5.1%
Brookfield Asset Management Inc. - Class A	4.8%
Liberty Media Corp.-Liberty SiriusXM - Class C	3.5%
Live Nation Entertainment, Inc.	3.3%
Onex Corporation	2.8%
The Wendy's Company	2.6%
EchoStar Corporation - Class A	2.5%
Liberty Broadband Corporation - Series C	2.5%

Medical Fund **Top 10 Holdings (%) as of June 30, 2017**	
Eli Lilly & Company	7.5%
Pfizer, Inc.	6.9%
Bristol-Myers Squibb Company	6.4%
Alkermes plc	6.1%
Albany Molecular Research, Inc.	5.8%
Sanofi - ADR	5.7%
Johnson & Johnson	5.7%
Novartis AG - ADR	5.6%
Biogen Inc.	4.9%
GlaxoSmithKline plc - ADR	4.7%

Market Opportunities Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	18.7%
Tropicana Entertainment Inc.	7.0%
The Howard Hughes Corporation	5.8%
Icahn Enterprises LP	5.7%
The Bitcoin Investment Trust	5.4%
Onex Corporation	5.4%
OTC Markets Group Inc. - Class A	4.6%
Dream Unlimited Corp. - Class A	3.3%
Associated Capital Group, Inc. - Class A	2.4%
Partners Value Investments LP	2.3%

Global Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	9.3%
The Bitcoin Investment Trust	7.5%
Bollore SA	4.8%
Siem Industries Inc.	3.8%
Icahn Enterprises LP	3.2%
Fairfax Financial Holdings Limited	3.0%
Brookfield Asset Management Inc. - Class A	2.6%
Clarke Inc.	2.5%
Dream Unlimited Corp. - Class A	2.3%
Onex Corporation	2.2%

Small Cap Opportunities Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	21.8%
Icahn Enterprises LP	10.2%
Dream Unlimited Corp. - Class A	7.6%
The Howard Hughes Corporation	7.5%
Tropicana Entertainment Inc.	6.7%
The Wendy's Company	5.0%
Onex Corporation	4.5%
Live Nation Entertainment, Inc.	3.7%
Associated Capital Group, Inc. - Class A	3.4%
Rubis SCA	3.3%

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of June 30, 2017**	
Lamb Weston Holdings, Inc.	6.7%
Penske Automotive Group, Inc.	6.55
Brookfield Residential Properties	6.0%
Ashland Inc.	5.6%
Icahn Enterprises	5.55
Dish DBS Corp.	5.3%
PIMCO Dynamic Income Fund	4.7%
Lennar Corporation	3.7%
TRI Pointe Holdings, Inc.	3.7%
DoubleLine Opportunistic Credit Fund	2.3%

The information contained in these charts is updated at the discretion of Kinetics Asset Management LLC and is only representative of each Fund's portfolio on the date specified. Additionally, position size may not be indicative of actual market position due to the use of call and put options.

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