Kinetics Mutual Funds
Fourth Quarter 2017 - Conference Call with Peter Doyle
January 9, 2018

Disclosures:

Kinetics Asset Management LLC ("Kinetics") is pleased to announce that on January 9, 2018, 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 and thank you for attending today's call and for your confidence in us. I'd like to go over a little bit of performance for last year. Performance was excellent.

The Flagship Paradigm Fund (no-load class) returned +28% in 2017 compared to the S&P 500 Index ("S&P 500") which returned +22%. The Small Cap Opportunities Fund (no-load class) returned +26% compared to the S&P 600 Index, which returned +13%. The Internet Fund (no-load class), which was our first fund was up +57%, compared to the NASDAQ Composite, which returned +28%. The Global Fund (no-load class) was up +49% compared to the MSCI All Country World Index, which returned +24%. Finally, the Market Opportunities Fund (no-load class) was up +47%, compared to the S&P 500 return of +22%. Standardized performance returns for each fund can be found at the end of this transcript.

Among our income funds, the Multi-Disciplinary Income Fund (no-load class) was up +4.75% while the Bloomberg Barclays Aggregate Bond Index rose +3.5%. And our most conservative fund, the Alternative Income Fund (no-load class), was up +2.3% compared to the Bloomberg Barclays 1-3 year Credit Index, which returned +1.6%. So, most of the funds outperformed their benchmark.

Today, Peter Doyle will give some summary thoughts on the marketplace and talk a little bit about some of our top holdings and then James Davolos, Portfolio Manager, will jump in with some additional thoughts.

At this time, I would like to turn it over to Peter.

Peter Doyle: Thank you, Chris, and good morning to everyone. I'm going to just briefly touch on our concerns and how we positioned our funds over the last year or so, and then talk about some of the funds' position in the Grayscale Bitcoin Investment Trust (Symbol: GBTC), which provides exposure to Bitcoin.

My colleague Murray Stahl has written a host of essays regarding passive strategies and the rise of ETFs. The concern there—and it remains a concern to this day—is that there's a buyer who is indifferent to price. When there's a buyer who is indifferent to price, that means they don't care about valuations, and the stock market reflects that, in our opinion, making it very hard to find good investment opportunities with a margin of safety, even in "value stocks."

So, if you look at our funds, the performance that Chris read off to you was actually generated with a fair amount of cash in a lot of those funds.

Just to put things in perspective, the S&P 500 has ended up for 14 straight months, starting with the election in 2016 and including every month in 2017. The S&P 500 ended up for the year, as Chris pointed out, just shy of 22%. It has been up for nine straight years.

Obviously, interest rates played a big role in that, as did the liquidity that the Federal Reserve was providing. Interest rates are to financial assets what gravity is to the real world. And the Federal Reserve, starting in December of 2015, reversed its position and started to raise rates, and they raised rates three times in 2017 and they're likely to raise rates three times in 2018.

Now, some of the benefit in the stocks' performance was the result of the anticipation that the Trump Administration would achieve tax reform, which has been accomplished, and would also reduce the regulatory burden, which is also in the process of being completed. The S&P 500 and stocks in general are a discounting mechanism, and there's a good chance that the appreciation from those two entities are already built into the valuations, so it's hard to see how the S&P 500 is going to produce a satisfactory rate of return with new headwinds in the way, including the rise of interest rates.

If you look at the S&P 500, it's trading at roughly 23 times earnings, but that doesn't include companies that actually trade above a 99 P/E. If you added Amazon to the calculations, the S&P would be trading at 26 times. Furthermore, the P/E calculation doesn't include companies that report losses. So, the P/E is actually higher than the 23x quoted, and that's due, in part, to the price-indifferent buyer; we don't think that's going to come to a good end. The cash position and our position in GBTC were really defensive positions built from our bottom-up analysis, from which it was very difficult to find investments with which to put capital to work. At this point, I'll give you a little bit of background on how we came to invest in GBTC.

My colleague, Murray Stahl, has always had an interest in cryptography. In fact, prior to getting into the investment field, he was considering a career in security, working for the NSA. He was actually doing all of the necessary work to be accepted in the NSA when he got a job at a financial firm, Banker's Trust Company, and by the time the NSA approved his background, he was already working and he felt like it would be very hard for him to replace his salary working for the government; therefore, he decided to stay in investments. But his interest and desire to know about cryptography remained throughout his life.

Some years back, about two years ago, somebody put on his desk the Satoshi Nakamoto Bitcoin white paper, and a number of others' papers dealing with cryptography and how it relates to cryptocurrencies, and these documents sat on his desk for a number of months. Finally, he read the papers, which were not very long. The Satoshi white paper is maybe 11 pages long. And he was fascinated by it, since he felt that it solved two issues that he didn't think were possible to solve: the issue of the double spend or counterfeiting and the issue of keeping the network honest when you know there are going to be bad characters on the network, i.e., hackers, trying to corrupt the network.

After he finished reading those papers, he came into my office and explained the situation to me. Now, I didn't have a background in cryptography the way he did, but within, I would say, about 35 seconds, I was intrigued. The reasons were two-fold. One, he told me he thought the integrity of the system was going to be maintained, and two, there were never going to be more than 21 million Bitcoins issued. And I thought, if that's true and the demand is going to grow, then this is likely to turn into a great imbalance in supply and demand. We started to look for ways to make that investment, and we came across the Grayscale Bitcoin Investment Trust.

At the time of our initial purchase in December 2015, we actually had a very modest position, although the position in a number of funds has actually grown to be quite large. We were willing to risk a certain amount of capital, i.e., 50 basis points maybe, to upwards of 2% in a fund like the Internet Fund. But it was really meant to be a defensive position, and we felt it was defensive because we believed that central banks around the world have largely abused their authority and their power by issuing money in ways that are not necessarily beneficial for the holders of that money. And the currencies generally get devalued with the passage of time, through inflation caused by the printing of additional money.

The Federal Reserve came into existence in the end of 1913, but its first full year was 1914. And the U.S. dollar, has lost about 98% of its purchasing power in the hundred and four years since then. We felt that there might be a better alternative store of value than the dollars or the euros or the yen out there, and that Bitcoin could potentially be that better store of value.

Nothing that we've read over the last several years—and literally, there's not a day that goes by that we don't try to read about and keep up on cryptocurrency, because you have to do that; it's moving at the speed of light—nothing that we've come across has invalidated our initial thinking. And we are of the opinion—now, James doesn't feel as strongly as I do and Murray does—we are of the opinion that Bitcoin has the potential to become the dominant nominal store of value. If that is, in fact, correct, we believe the size of the "market capitalization" or its intrinsic value could be exponentially higher than where it is today.

Hence, just to put things in perspective, just to show you some of the asset class sizes—we think Bitcoin and perhaps other cryptocurrencies are going to become a suction pump away from other asset classes as people look to really diversify, and I'll show you why I believe that will come about and why.

The silver market alone is a $17 billion market. Cryptocurrencies, right now, are about a $750 billion market, with Bitcoin being just shy of $300 billion. The six largest companies in the world actually have a market capitalization of $3.6 trillion, with Apple having a market capitalization of about $800 billion. So, larger than all of the cryptocurrencies out there, despite whatever people say about its being a bubble, Apple actually is still larger than all of the 1,384 cryptocurrencies or ICOs (initial coin offerings) that are publicly available.

The 50 richest people in the world have a net worth of $1.9 trillion. The economy of California is $2.9 trillion. The Federal Reserve's balance sheet is $45 trillion. Coins and banknotes in circulation are $7 trillion. Gold is $7.7 trillion. The global money supply is $36.8 trillion. Broad money, meaning M2 around the world, is $90.4 trillion. Global debt is $215 trillion. Global real estate is $217 trillion. The derivatives market has a nominal value of about $444 trillion.

Consequently, when you put it in context, you realize that cryptocurrency, and Bitcoin in particular, is actually very miniscule relative to the world's assets and relative to the size of the market that it could become.

Most people look at the chart of Bitcoin and they see a line straight up. I would tell you that 99.99% percent of the time when you see a chart like that, you should be fairly concerned. But there is a certain amount of time where there's a transformative phenomenon where, not only is that chart going straight up, but, we believe it's likely to continue because it's going to turn into something much more meaningful than people have thus far imagined.

I notice that Jamie Dimon, who, earlier today, walked away from his statement that Bitcoin is a fraud, and that's because J.P. Morgan Chase, before possibly June of this year, is going to be trading cryptocurrencies because Goldman Sachs is, and J.P. Morgan will likely have to follow suit. The way we look at it is, rather than seeing Bitcoin's chart as an example of a bubble with a line straight up, we can turn the Bitcoin chart over, upside-down, and look at it as the world's currencies or other assets, nominal stores of value, declining in value relative to cryptocurrencies. And when you look at it that way, you realize that Bitcoin is a drop in the ocean. Thus, we believe that the potential for appreciation is far, far greater than where it currently stands today.

In sum, that's our thinking on the subject. The position sizes in the various funds have grown fairly large because GBTC is up ten-fold plus in the last year, but this is a long-term investment for us. Because we were willing to risk a certain amount of capital, again, very modest at cost at the time of purchase, and we're willing to hold the position, since we believe that the potential there is still very large.

What gives Bitcoin its desirability? In our opinion, it's a number of properties. One, it has a great monetary policy, i.e., it's scarce. There's just shy of 17 million coins outstanding, about 16.8 million coins right now. There are only going to be 21 million over time and that last coin will not be issued until the year 2140. It's fungible, and it's transportable. It's easy to store, unlike gold, which is obviously fungible, but is not easily transportable. The supply of Bitcoin is predictable—you know how many coins they're going to issue in any given year.

And as long as the blockchain technology, which no one seems to dispute, maintains consistent integrity, i.e., it's never able to hacked, the probability of more people getting on the system and buying Bitcoin is quite large. If every one person wanted to buy one single Bitcoin, only 21 million people could actually do so. I look at the number of digital wallets that are being opened up and the number of addresses on the Bitcoin blockchains on a regular basis, and it's growing exponentially (per the charts at www.blockchain.info); the only reason you would open a digital wallet is if you had an interest in buying either a Bitcoin or a fraction of a Bitcoin.

That demand is still growing in a hockey stick shape. As a result of the demand growing at a rapid rate and the supply being fixed, we believe you're likely to see higher and higher prices. Of course, anytime we talk about cryptocurrencies, including Bitcoin, it's important to highlight that it is very volatile and that unique and new asset classes carry special risks. For that reason, everyone considering an investment in cryptocurrencies, including Bitcoin, should review the risks associated with such an investment with their financial and tax professionals.

So, with that, I'm going to turn it over to James, who is going to touch on Texas Pacific Land Trust because that's a dominant position in a number of our funds, and then we're going to open it up to questions.

James Davolos: Thanks, Peter. I wanted to just go back to Horizon Kinetics as a firm - we are fundamental value investors. And I feel as though Bitcoin has been the result of the debasement of fiat currencies and the dearth of investment opportunities due to central bank intervention. I encourage everyone on this call to listen to Steven Bregman's webinar for Horizon Kinetics[1], where we've spoken at length about ETFs and individual investors being forced to extend their risk profiles. In fact, we've actually identified a tangible example of one of the largest pension funds in the world being politically and actuarially forced to perpetuate this asset bubble.

[1] Replay is available at www.horizonkinetics.com

So, again, I think people will find that extremely informative and it's a little bit of an extension of our ongoing work into providing a framework for how to think about these high asset prices.

Texas Pacific Land Trust (Symbol: TPL) certainly requires discussion, given its size in certain of our funds (see the end of this transcript for a listing of the Top 10 Holdings of each Fund). But again, it's well outside of any of the liquidity bubbles or liquidity pools where you're seeing a constant bid for assets. And TPL on an earnings basis, which quite frankly is not the right way to look at the company, is actually well within its historical range of valuations.

I'm going to go through how I think people should look at analyzing this company, so as to do their own work, because at face value it's very difficult to analyze, and many message boards and blogs and whatever else there is (because it's not covered by conventional research) tend to look at it in ways to which I happen to take exception.

As to the third quarter results, you need to make two adjustments to the numbers. First of all, remove the Chevron settlement, where there was litigation dating from over a decade ago that has nothing to do with the shale wells and the current iteration of the Permian Basin. And you also need to adjust for deferred revenue related to the term leases on pipelines. This is actually going to become a little bit more fluid as the company's going to have to restate all of its term leases and deferred revenue numbers, due to an accounting change. So, beginning in the first quarter of 2018, all companies must comply with new revenue recognition requirements set forth by the accounting standards, and it'll be somewhat easier to analyze the company's results on an apples-to-apples basis.

In any event, for the third quarter, the consolidated adjusted revenue rose 160% year-over-year or 35% quarter-over-quarter. Before I get into the breakdown of what drove those numbers, the company achieved a 92% pre-tax margin, which is consistent with where it's been over the past two to three years. And they had an effective tax rate of approximately 32.5%. They're not a full 35% corporate taxpayer because of a small depletion allowance for their royalty assets.

Based on those two variables, they achieved a net margin of about 62%. Seeing them at an effective tax rate of 21% instead of 32.5%, you're going to see net margins of about 73% going forward.

Many companies have different sensitivities to the tax code and I think it's a much more complicated discussion to have. I don't think you can just capitalize everything at a higher rate because taxes went down and the market's earnings went up, but TPL is a clear beneficiary here.

So, for oil and gas, the company did $13.5 million for the quarter adjusted for the Chevron settlement. That's a 60% increase year-over-year, and 5% quarter-over-quarter. If you look at the quarterly growth, that reconciles to about a 21% annual growth rate, which is consistent with what we're seeing from operators' guidance in the region. If anything, we think that's probably on the low side.

If you look at it on an apples-to-apples basis, 2016 oil prices were about $40 to $50 a barrel; in 2017 they were $45 to $50, so there's a little bit of a tailwind that we're looking for going into the fourth quarter here, as typically TPL's royalties are about 70% oil skewed relative to gas. We are probably looking for some help this quarter from spot prices, which were pretty muted last quarter depending on exactly which average price was realized.

Easements for the quarter were $31.4 million adjusted. That's an increase of 270% year-over-year or 57% quarter-over-quarter. Pipelines grew 240% year-over-year or 85% quarter-over-quarter. That's, again, gross of deferred revenue, which we're adding back, it submitted about $14.5 million or half of the easement revenue. Water did $8 million, which grew 250% year-over-year or 16% quarter-over-quarter. And then sundry revenue did $9 million or about a 368% increase year-over-year or 67% quarter-over-quarter.

[2]I think people understand pretty well how all of these businesses work, but one of the ones that we have the most visibility on is water. With pipelines, we don't necessarily have a lot of visibility into when these contracts are going to be signed and we don't necessarily have a lot of clarity into how the sundry revenue is going to be recognized, whether it's going to be frack pits or easements for land access. So, I'm going to go a little bit further into water.

Water for the year is running at a $32 million annualized run rate, assuming no growth run rate. Currently, as we discussed in the last call, that's almost exclusively source water, and the economics of source water right now is about a dollar a barrel of brine water provided to the well site. TPL obviously has a massive advantage through their land footprint of about 877,000 acres, where they can not only access the water, but they can put in their frack pits right next to the well sites and set up for multi-stage fracks where they have a tremendous advantage compared to any competitors.

So, with that, I'll segue into a theoretical competitor, Layne Christensen, who just recently built a pipeline in Pecos, in Reeves County. But more importantly, they signed a deal with the Texas General Land Office (GLO) that covers 88,000 acres in Culberson and Reeves County.

Basically, this is a joint venture to provide water activities to the basin—if you go into Texas Pacific's annual report, you'll see contiguous land blocks with the GLO's land map. For Texas Pacific Land, you have the white squares and the black squares. The adjacent squares are the GLO's footprint interlocked with Texas Pacific.

Importantly, Layne Christensen estimates 58 rigs within 3 miles of this footprint. Within those 58 rigs, they assume about 500 million barrels of water of annual demand. Just to put that opportunity into context, let's assume that either company or each company could attain only a 10 percent market share. At 10 percent, at $1 per barrel, that's $50 million of revenue from just this parcel of land, assuming no other monetization.

We'll take one step further, and we'll use the typical rate of about 10 times water going in to water going out and then assume a similar capture rate of 10 percent each, but at 10 cents a barrel for water removal. That's another $50 million a year of revenue, again, at incredibly high margins for TPL. That's $100 million of annual revenue from water provision and takeaway and that's only 10 percent at TPL's footprint and 10 percent of the overall demand capture. And also, that includes none of any types of easements or damage schedules or any other types of sundry revenue, which would be required for TPL or any third-party operator to capture the economics of this business. Thus, that $100 million figure might prove to be

[2] http://investor.laynechristensen.com/releasedetail.cfm?ReleaseID=1046587

incredibly conservative. Again, it's only 10 percent of their footprint. This is 88,000 acres in Reeves and Culberson versus a total of 877,000.

Now, obviously not all land is created equally, but let's look at 75,000 acres that TPL owned surface rights to in Loving County, which is amongst the highest productivity and highest returning wells in the country. Just last year, there were 36 new wells drilled on TPL land and looking at Matador (Matador Resources is a great comp that people can look at, and they give incredibly detailed information on both water and wells), in their Wolf play, which is a field that Matador has in Loving County, they're doing four interval landings in the Wolfcamp and Bone Springs shale strata, with 80 to 160-acre well spacing. That implies over 20 wells per section at the current run rate in Loving County.

Let me circle back to a disclosure also in the TPL 10-Q, where they've identified 137 drilled uncompleted wells on TPL acreage. In many cases, oil companies are drilling one well per section in order to hold that lease. Many leases in oil and gas are called "held by production" where you either drill it or you lose it. Therefore, to the extent that drillers can drill one well to hold that section, they don't complete the wells. So, right now, there's no oil and gas royalties, but when they come back, each section is 640 acres and again, based on Matador, there could be as many as 20 wells on that section. More conservatively, 10.

So, think about the multiplier of what that could be both in terms of oil and gas royalties, let alone that you could easily double the $100 million of source water and disposal water that you could extrapolate from a 10 percent capture of the lane footprint. Hence, right there, we believe you could theoretically capitalize those earnings and justify TPL even at its increased share price.

So, when you think about TPL, you need to look at all three of these distinct businesses and look at the future opportunity as opposed to simply the trailing metrics that are being reported. Again, it's a little bit difficult to interpret them. I hope that I have provided a little more clarity. We expect to hear report results in late January, perhaps very early February. Again, we're asked a lot about our forecast, but it's incredibly difficult with the variability of the less predictable businesses, but we do expect a lot more transparency in the annual report. You have $70 million on the balance sheet. It will be interesting to see how that's grown or if they decide to make any distributions with that.

But again, this is a really, really interesting play where they hold the land position that really advantages TPL such that nobody else can extract those economics. So, in the Lane deal, for example, they would still have to pay infrastructure easements and damage schedules and anything of that sort to the GLO. Therefore, it really highlights the economics that are going to accrue to TPL through this situation and again, I only barely touched on the oil and gas, but extrapolate the Matador numbers and that's going to be quite an attractive cash flow as well.

Just to round out a few other holdings, since, obviously, we're not a one-name fund, and we're certainly seeing continued opportunities, and I'll try to go over some names that we might not have talked about recently, but two interesting names recently are the Chicago Mercantile Exchange and the Chicago Board of Options Exchange. They both have a counter cyclical aspect to financial services where CME's biggest products are interest rate futures and commodity futures.

We believe that a lot of these products, particularly interest rate products, should pick up if we're seeing any type of unexpected inflationary or tightening measures, where obviously they've been depressed due to central bank intervention. The commodities have picked up going into the end of last year, but it'll be hard to see how that plays out as you might expect the dollar to strengthen.

CBOE has a proprietary license to trade VIX futures. VIX has been almost inexplicably depressed, both realized volatility and expected volatility. So, as that normalizes to any type of regular level or historically representative level of volatility, there should be vastly higher trading volume for the CBOE, but probably equally important is that both of these exchanges now trade Bitcoin futures, and most of Wall Street, both professional and individual investors, capitalize this new business at zero. And we think that it could obviously be a very meaningful addition to the future profitability of these companies. And again, if there is broader market volatility, you might see more and more appeal for these less conventional types of asset classes.

Just wrapping things up quickly, we are finding new opportunities, but they continue to be in areas that are somewhat less conventional.

Civeo has been a high performing stock that we've added in certain of the funds: it is engaged in providing workforce housing in remote oil and gas and mining projects. As another iteration of that project or investment, we're definitely doing our work on oil field service companies as now you're seeing much more sustainable profitability and rational spending in the E&P space and a lot of that could flow through to oil field services. Hence, we're continuing to find new opportunities to pursue, and we still have a lot of fundamental ideas that are coming across our desks. But in the meantime, the same core names are driving our funds, and we believe it will be a very pleasant experience over the next 12 months and beyond.

Chris Bell: Thank you very much James. I'd like to remind everyone that our website, at www.kineticsfunds.com, contains a lot of information specific to each fund. You can call us at (914) 703-6950 if you have questions.

In addition, we have a new cryptocurrency drop down menu showing our cryptocurrency research over the last two years on our firm's website, www.horizonkinetics.com.

Peter, I had two questions from the field. The first question is: What do you think of Lightning Network as it relates to Bitcoin and what problems does it solve? And then, can you cite any other strong cryptocurrencies like Bitcoin Cash or Bitcoin Gold that you think might be interesting? And then James if you wouldn't mind answering a quick question on Howard Hughes Corporation: just what do you think the effects of Bill Ackman's Pershing Square liquidation has had on Howard Hughes in the long-term: is he getting out of his position?

Peter Doyle: Okay. So, before I answer the question that you asked me, Chris, I forgot to touch on one point that I thought was critical to understanding our thinking about cryptocurrencies.

So, right now, I don't think there's any leading financial institution that doesn't believe in the distributed ledger technology and whether it's the blockchain, or whether it's connected with Bitcoin or not, they believe that technology is actually very sound and they're investing somewhat heavily in it, but they're doing permission blockchains, i.e., that you have to be invited on to their network, so it would be a group of banks working on that.

So, when you think of cryptocurrency as an asset class, if you're investing in the S&P 500 right now, roughly 15 percent of the S&P 500 is in financial services and cryptocurrencies and potentially Bitcoin as a daily transactional currency or store of value really gets to the heart of some of the profitability of the financial services companies, and that means that you are actually taking idiosyncratic risk.

If cryptocurrencies turn into a legitimate asset class, you have the potential risk that it's going to reduce the profitability of the financial services companies and there's none of the potential upside, which means that you're now taking individual company risk in the S&P 500, and you have none of the upside, which means it could turn passive strategies back into active management. And as a result of that, I think more and more people are going to turn their eyes towards cryptocurrencies and realize that they need exposure to cryptocurrencies as a hedge against their potential success, and that's what is going to cause the market to continue to grow.

Now, Bitcoin right now is fairly cumbersome. It's the first generation. But as we speak, working around the world 24/7 are some of the world's brightest developers who are looking to improve its logistics and allow for transactions to go off the blockchain, the Bitcoin blockchain initially, and to ultimately be aggregated to where transactions actually are taking place, i.e., the proverbial example of buying your Starbucks coffee with Bitcoin is not really doable right now because it's very cumbersome. You'd have to wait around too long. But the Lightning Network potentially is going to turn that into a reality, and that's not years away, we believe that's literally probably months away. It's already in beta testing right now. And we are of the opinion that it is going to make Bitcoin become more accessible to people, and it's going to be used more as a currency.

Other coins that we might have an interest in, and I think we've identified three real fundamental reasons for investing in a coin: first and foremost is the monetary policy, and a lot of the ICOs, or tokens if you will, including Ethereum, actually have a fairly robust issuance of new coins or tokens, and it's very inflationary, and which somewhat defeats the purpose of the store of value that we desire.

Secondarily, we want to make sure that the currency has a network that compensates those people who are going to keep the network robust, and Bitcoin has incentive that through its mining program, the proof of work concept that they perform. A lot of it is actually proof of stake, and longer term, we think there could be issues with it because of the inability to compensate the people that are allegedly supposed to be keeping the network robust.

And then the third thing was, how do you keep the network honest, and is there a methodology for that? And when we look at it from that lens, we find a number of currencies that we like, probably about five or six, and of the 1,384, a lot of them are basically not useful in that regard.

Consequently, we think there's going to be more than one winner. We think Bitcoin is going to be one of the winners and we've identified some others. It's just from a mutual fund perspective, you can't really invest in them. The opportunity is not really available, and the SEC would not allow you to custody the assets as you would presently have to buy them. In the future, we believe there's going to be more vehicles available.

So, as James pointed out, now on the CBOE and the CME, there are futures on Bitcoin. As a result of that, I believe that, while it may take some time, ultimately, the SEC will allow an ETF for investing in Bitcoin, which would stimulate the demand for volumes of the futures on the CBOE or the CME, as well as the demand for the underlying Bitcoin.

James Davolos: On the the Lightning Network specifically, the Lightning Network is going to be an off blockchain solution that at its full potential has the ability to process as many or more transactions than Visa and MasterCard currently have the capacity to execute. So, obviously the programmers are incredibly thoughtful about how they roll out these new changes and networks, and this solution is basically creating a separate chain that feeds in to the master blockchain of Bitcoin, and I think it's a very eloquent, rational solution that will ultimately provide the scaling that people seem to desire right now.

Regarding Howard Hughes, Bill Ackman announced his intention to reduce his stake through a clunky press release. Essentially, Bill Ackman has a publicly traded hedge fund holding company traded in Amsterdam and London which is his main hedge fund, and he also has a private fund here in the U.S. I'd note that, due to his recent acknowledged performance woes, his public fund trades at a material discount to NAV, similar to how a closed-end fund might; it was about a 20% discount before this announcement.

So, the board and Mr. Ackman were compelled to initiate a buyback of the public shares at a discount, but as a function of that, due to U.S. real property holding company rules pursuant to FIRPTA provisions in the IRS Code, the publicly traded Pershing vehicle felt compelled to reduce its holding in Howard Hughes[3]. Thus, due to complicated regulations regarding how much of a real estate investment you can own through another publicly traded vehicle, in this case a fund, he decided to reduce. So, HHC issued a secondary offering[4] to assist in an orderly sale of such shares. After all is said and done, the Pershing entities still own well over 10 percent of HHC's float, and I believe they are committed long-term holders, although the communication on exactly what happened there was a little bit clunky.

Chris Bell: Someone did ask me: James, with prices of oil maintaining the level of $60 a barrel or better, does that enhance the prospects for higher capital expenditures from the major players in the Permian Basin region, other than what they've already announced?

James Davolos: Well, there is a bit of a shareholder revolt of sorts regarding a lot of the oil and gas companies that were highly publicized throughout the fourth quarter, where shareholders are now demanding actual profitability, not simply empire building in the form of production and reserves. So, you're starting to see incentive pay packages that are no longer exclusively tied to these operating metrics, and they tie back to financial metrics.

[3] See Press Release: Pershing Square Holdings, Ltd. Announces Proposed Sale of Its Howard Hughes Corporation Common Stock and a USD300,000,000 Potential Tender Offer for PSH Shares by William A. Ackman and Affiliates Tuesday, January 02, 2018 09:15:00 PM (GMT)

[4] Generally, a secondary offering refers to the issuance of shares on behalf of a public company. In this instance, however, the offering permitted HHC to help with the sale of outstanding shares held by a large shareholder.

So, I think that obviously, the higher the price of oil, the higher the returns on invested capital of these new wells and new developments will be. But, the new rationalization of oil and gas companies plays in very well to the broader Permian Basin because ancillary projects are going to be very, very hard pressed to meet these shareholders' return requirements. Consequently, I think it's an incremental positive.

Questioner 1: Hi Peter, actually three questions: On Bitcoin, I think you said the last one's supposed to be mined in 2040. It seems like everyone's mining them. Will that be a lot quicker and will that have any effect on your outlook? Also, with the Grayscale investment trust, GBTC, any concern about the premium on that? And then something totally different, with the performance that your funds have had this year, and you know how Wall Street works, you should be getting a lot of the money in, can you handle a lot more money in the funds or what would you say about that?

Peter Doyle: Okay, with regards to the first question, the actual date is the year 2140, and the Bitcoin algorithm is designed to actually increase in difficulty if more and more miners join the network, and it's meant to complete a block every 10 minutes. So, you can time almost to the minute how many coins are going to be issued in a given year. There's no question that the monetary policy is very predictable, and it's known, going out all the way to the year 2140.

With regards to GBTC, there is a large premium. If that premium were the only way to get exposure for the typical individual, I would hold my nose and buy it with the premium because I believe the underlying value of Bitcoin is going to go up to more than enough to justify that premium, and we believe that you'll end up with a very satisfactory rate of return, even if you die with that premium.

And then, if we took in a lot more money, I would say right now, James definitely tried to position us a little bit—and he's right to say this we're not a one trick pony here—Bitcoin isn't our firm. But a lot of that cash, if it was coming in, would probably be sitting in cash for a period of time because it's not that easy to find great investment opportunities right now. We're doing our best to do that and that's our job and we're constantly looking for suitable opportunities, but I can't sit here and say that we have an abundance of investment opportunities such that, were we to be flooded with cash, we would be able to put it to work immediately. In fact, we'd probably be pretty defensive about it.

Questioner 2: Comments on Howard Hughes, Peter?

Peter Doyle: I'm going to let James discuss that.

James Davolos: The company continues to develop its core properties. I think that there's probably an absence of investor interest right now because the next meaningful catalyst will be this summer when the Seaport and Pier 17 open, and I expect that to be very, very substantial compared to what management has guided to. I think that's very conservative, although it's probably going to take quite a while for that to be fully stabilized.

Houston continues to perform extremely well. There was some negative sentiment around the housing market there, but the Woodlands, which was closer to some of the flooding, is virtually sold out in terms of housing stock, and the Woodlands commercial continues to be probably the premier office space in the entire broader Houston market.

The Las Vegas submarket continues to be incredibly strong. You're seeing an NFL franchise arrive there, and that city is doing a tremendous job developing into having more than simply a gaming-based economy. And basically, if you want to have a mid to upper scale home in the broader Las Vegas community, you have to go to Summerland, which is Howard Hughes, because everything else is either developed, or on one side you're blocked by mountains, and on the other side you're blocked by desert. So, we continue to be very positive on that asset.

The last asset to touch on is Hawaii, where the uptake of some of the condo towers has slowed down a little bit. But we continue to see the long-term value as it's a chronically under -supplied housing market, and they have the best in class products, so it's preventing other developers from coming into the market in the broader Honolulu region.

As retail opens in the broader community there at Ward Center, we believe that's going to provide a meaningful net operating income (NOI) lift. But again, I think for that to manifest itself in the financial numbers is going to take a little more time..

So, you're going to see fundamental buyers continue to hold. I mean, you saw the $2.5 million or two and a half million share secondary that was the Pershing stake that filled at about a percent and a half below the last trade, so other people see the value there. I think as things rationalize, people are going to realize this is one of the only reasonable large scale real estate commercial assets to allocate capital.

Chris Bell: James, do you think that the roof is in people's estimates right now for Howard Hughes, the roof of South Street Seaport?

James Davolos: Chris is referring to Pier 17, where there's a large rooftop that's going to be a concert venue and also involves some retail with food and beverage. And when management has provided NOI, and you look at the gross leasable area, it looks like the rooftop and the sponsorship opportunity is probably at most minimally incorporated in people's expectations so no, I think that that, along with a lot of the ancillary property off of Pier 17, is not fully appreciated.

Chris Bell: I did get one question from the field about Icahn Enterprises. Any immediate thoughts about Icahn Enterprises, James?

James Davolos: Icahn quietly had an incredible year last year where he grew NAV through the third quarter at about 45%. You saw the hedge fund was up about 7% through that third quarter, even though he was net short about 80%. He monetized the Fontainebleau in Vegas for a pre-tax profit of close to $500 million. And both CVR Refining and CVR Energy benefited very substantially as crack spreads normalized in the refining cycle, even though there was a lot of noise around renewable fuel credits.

So, at year end, IEP traded at about 1.2 times NAV, but that reconciled with an 11% current yield based on the dividend distribution. And when you look at a lot of the businesses that Icahn owns, both in its operated business subsidiaries and the hedge fund, I think that it's a pretty interesting way to play any type of deviation from the status quo of the last seven years of just levering up a long bet on any technology company.

Hence, if the market shifts and looks at something or if there's any disruption to the euphoria, what Icahn owns is pretty darn interesting. You've got the yield to buffer you and again, the hedge fund still has an extremely defensive positioning, so I think it's worth a look for at the very least a counter cyclical exposure, if not a core position.

Chris Bell: Okay. I want to thank everybody. That concludes our call. Again, if you want to go to our website at www.kineticsfunds.com, you can see our daily performance as well as our top positions. And then if you want more research, please go to the adviser's website at www.horizonkinetics.com. Thank you very much and have a nice day.

PERFORMANCE AND HOLDINGS INFORMATION

Internet Fund

As of December 31, 2017	WWWFX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**57.43%**	21.83%	28.24%
One Year *(annualized)*	**57.43%**	21.83%	28.24%
Three Year *(annualized)*	**15.17%**	11.41%	13.38%
Five Year *(annualized)*	**17.09%**	15.79%	17.98%
Ten Year *(annualized)*	**10.71%**	8.50%	10.04%
Since Inception*(annualized)*	**15.37%**	8.48%	8.45%

Performance data quoted is as of December 31, 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 December 31, 2017	MEDRX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**10.71%**	21.83%	28.24%
One Year *(annualized)*	**10.71%**	21.83%	28.24%
Three Year *(annualized)*	**2.77%**	11.41%	13.38%
Five Year *(annualized)*	**13.53%**	15.79%	17.98%
Ten Year *(annualized)*	**8.35%**	8.50%	10.04%
Since Inception*(annualized)*	**9.17%**	6.13%	5.18 %

Performance data quoted is as of December 31, 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 2.08%. 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 December 31, 2017	WWWEX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**49.20%**	21.83%	23.97%
One Year *(annualized)*	**49.20%**	21.83%	23.97%
Three Year *(annualized)*	**13.72%**	11.41%	9.30%
Five Year *(annualized)*	**10.75%**	15.79%	10.80%
Ten Year *(annualized)*	**5.56%**	8.50%	4.65%
Since Inception*(annualized)*	**0.01%**	5.40%	4.24%

Performance data quoted is as of December 31, 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 3.06%. 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 1.41% 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 December 31, 2017	WWNPX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**28.41%**	21.83%	23.97%
One Year *(annualized)*	**28.41%**	21.83%	23.97%
Three Year *(annualized)*	**12.34%**	11.41%	9.30%
Five Year *(annualized)*	**15.17%**	15.79%	10.80%
Ten Year *(annualized)*	**5.07%**	8.50%	4.65%
Since Inception*(annualized)*	**9.74%**	5.40%	4.24%

Performance data quoted is as of December 31, 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 1.75%. 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 December 31, 2017	KSCOX (Net of Fees)	S&P 600 Index	S&P 500 Index
TOTAL RETURN			
Year-to-Date	**26.23%**	13.23%	21.83%
One Year *(annualized)*	**26.23%**	13.23%	21.83%
Three Year *(annualized)*	**11.27%**	12.00%	11.41%
Five Year *(annualized)*	**15.28%**	15.99%	15.79%
Ten Year *(annualized)*	**5.39%**	10.43%	8.50%
Since Inception*(annualized)*	**10.34%**	9.93%	5.51%

Performance data quoted is as of December 31, 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 1.78%. 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 1.66% 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 December 31, 2017	KMKNX (Net of Fees)	S&P 500 Index	MSCI EAFE Index
TOTAL RETURN			
Year-to-Date	**47.28%**	21.83%	25.03%
One Year *(annualized)*	**47.28%**	21.83%	25.03%
Three Year *(annualized)*	**17.26%**	11.41%	7.80%
Five Year *(annualized)*	**17.45%**	15.79%	7.90%
Ten Year *(annualized)*	**6.22%**	8.50%	1.94%
Since Inception*(annualized)*	**9.54%**	8.66%	4.04%

Performance data quoted is as of December 31, 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 1.97%. 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

As of December 31, 2017	KWINX (Net of Fees)	Barclays 1-3 Yr. Credit	Barclays U.S. Aggregate
TOTAL RETURN			
Year-to-Date	**2.32%**	1.66%	3.54%
One Year *(annualized)*	**2.32%**	1.66%	3.54%
Three Year *(annualized)*	**3.08%**	1.54%	2.24%
Five Year *(annualized)*	**3.19%**	1.44%	2.10%
Ten Year (annualized)	**0.17%**	2.82%	4.01%
Since Fund Inception*(annualized)*	**0.41%**	3.03%	4.38%

Performance data quoted is as of December 31, 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 1.82%. 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 0.99% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Performance prior to January 1, 2013 reflects the Fund's prior investment objective and strategy and may not be indicative of the fund's prospective results. 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 December 31, 2017	KMDNX (Net of Fees)	Barclays U.S. Aggregate	Barclays U.S. High Yield
TOTAL RETURN			
Year-to-Date	**4.75%**	3.54%	7.50%
One Year *(annualized)*	**4.75%**	3.54%	7.50%
Three Year *(annualized)*	**4.20%**	2.24%	6.35%
Five Year *(annualized)*	**3.87%**	2.10%	5.78%
Ten Year (annualized)			
Since Inception*(annualized)*	**4.85%**	3.87%	8.41%

Performance data quoted is as of December 31, 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 2.01%. 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 1.65% 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 December 31, 2017**	
The Bitcoin Investment Trust	28.2%
EchoStar Corporation - Class A	3.3%
Liberty Media Corp.-Liberty SiriusXM - Class C	2.8%
PayPal Holdings, Inc.	2.7%
Alphabet, Inc. - Class A	2.5%
Alphabet, Inc. - Class C	2.5%
CACI International, Inc. - Class A	2.3%
The Madison Square Garden Company - Class A	2.0%
OTC Markets Group Inc – Class A	2.0%
Copart, Inc.	1.8%

Paradigm Fund **Top 10 Holdings (%) as of December 31, 2017**	
Texas Pacific Land Trust	30.3%
The Howard Hughes Corporation	10.2%
The Bitcoin Investment Trust	5.5%
Brookfield Asset Management Inc. - Class A	4.5%
Icahn Enterprises LP	4.2%
Live Nation Entertainment, Inc.	3.3%
CBOE Holdings Inc.	2.9%
Liberty Media Corp.-Liberty SiriusXM - Class C	2.6%
Franco-Nevada Corporation	2.2%
Markel Corporation	2.1%

Medical Fund **Top 10 Holdings (%) as of December 31, 2017**	
Eli Lilly & Company	8.2%
Pfizer, Inc.	8.0%
Bristol-Myers Squibb Company	7.6%
Johnson & Johnson	6.5%
AbbVie Inc.	6.5%
Alkermes plc	6.2%
Biogen Inc.	6.1%
Novartis AG	6.0%
Sanofi	5.5%
AstraZenaca plc	5.0%

Market Opportunities Fund **Top 10 Holdings (%) as of December 31, 2017**	
Texas Pacific Land Trust	17.5%
The Bitcoin Investment Trust	17.4%
Icahn Enterprises LP	3.1%
The Howard Hughes Corporation	3.0%
Onex Corporation	2.8%
Dream Unlimited Corp. - Class A	2.2%
Partners Value Investments LP	1.7%
Associated Capital Group, Inc. - Class A	1.5%
Visa, Inc. - Class A	1.3%
Urbana Corporation	1.3%

Global Fund **Top 10 Holdings (%) as of December 31, 2017**	
The Bitcoin Investment Trust	22.2%
Texas Pacific Land Trust	8.2%
Bollore SA	3.2%
Siem Industries Inc.	2.3%
Fairfax Financial Holdings Limited	2.0%
GMO Internet, Inc.	2.0%
Brookfield Asset Management Inc. - Class A	1.6%
Civeo Corporation	1.6%
Dream Unlimited Corp. - Class A	1.4%
Clarke Inc.	1.3%

Small Cap Opportunities Fund **Top 10 Holdings (%) as of December 31, 2017**	
Texas Pacific Land Trust	29.5%
Icahn Enterprises LP	9.5%
Dream Unlimited Corp. - Class A	7.5%
The Howard Hughes Corporation	7.3%
The Wendy's Company	4.8%
Civeo Corporation	4.2%
Live Nation Entertainment, Inc.	4.1%
Onex Corporation	3.8%
The Bitcoin Investment Trust	3.7%
Rubis SCA	3.7%

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of December 31, 2017**	
Lamb Weston Holdings, Inc.	7.7%
Penske Automotive Group, Inc.	7.4%
Brookfield Residential Properties	6.8%
Ashland Inc.	6.4%
Icahn Enterprises	6.2%
Lennar Corporation	4.2%
TRI Pointe Holdings, Inc.	4.2%
Stolt-Nielsen Ltd	3.9%
The Howard Hughes Corporation	2.6%
Murphy Oil Corp.	2.5%

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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