Kinetics Mutual Funds
Second Quarter 2023 Commentaries

The Internet Fund

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Dear Fellow Shareholders,

In the current inflationary environment, one of the key goals of portfolio management must be to consider—and, ideally, to mitigate—the impact of inflation on one's assets. The Bitcoin protocol described below was created with this sort of goal in mind. It contains built-in mechanisms to protect against inflation, with several advantages over traditional options like gold and oil.

Gold has long been considered an inflation hedge. Partly, that's because more effort must be applied to mine the next ounce (or 100,000 ounces), so its price should increase along with demand as the difficulty of extraction rises. However, with sufficiently high demand (and prices), supplies of gold are effectively inexhaustible. Historically, a high enough price eventually begets substantially more supply, which ultimately destroys the scarcity value.

The difference with cryptocurrency, at least for an exceedingly small handful of them, is digital scarcity: The supply is fixed. Only 21 million bitcoin will ever exist. About 19.5 million—93% of them—have already been mined, and the limit is expected to be reached in 2140.

The value of bitcoin is based on three factors:

1) **The price of the mining machines, or rigs.** In fact, bitcoin isn't really mined; a reward is earned for validating transactions. Generally speaking, the price of the rigs declines almost every week.[1] If it became cheaper and cheaper to harvest wheat, chances are some of the benefits would be passed on to the consumer—at least one farmer will be competitively inclined to do so, in which case others must follow—so it is reasonable to assume that the same might apply to bitcoin.
2) **The hash rate.** This is a measure of the computational power of the system—in other words, all of the rigs that are validating transactions. The greater the aggregate power, the less any given individual's contribution will be, especially since the machines are pooled. Merely to maintain the same level of reward, one would eventually need to buy more machines in relation to the overall hash rate, and there are reasons why the hash rate rises over time. So, over time, even though the individual machine price might go down, the cost of mining bitcoin should go up. This, too, can be related to the farmer's dilemma: if the price of producing wheat rises, the farmer must either raise the price or cease farming.
3) **The halving.** Approximately every four years, via the bitcoin mining protocol, the block reward—in other words, the payoff for mining—gets cut in half. This creates downward pressure on rig prices, and for associated energy consumption costs. These pressures are visible in vastly lower rig prices and improved efficiency. As a result, the electric power consumption associated with transactions has declined dramatically in recent years.

The next halving is expected to occur in April 2024. At that time, the reward for every mining block will drop from 6.25 BTC to 3.125 BTC. The halvings are four years apart, so the next is

[1] https://data.hashrateindex.com/chart/asic-price-index

expected in 2028, when the reward would drop from 3.125 to 1.5625 per block. New bitcoin are therefore becoming ever scarcer, and those who want to grow their coin balances may have more difficultly doing so, given the structure of the system. We expect this to become increasingly apparent with the immediacy of the next halving, alongside the general excess and near-unlimited supply of fiat and some other forms of currency. In this sense, bitcoin can be viewed as a disinflationary asset—in that supply growth will continue to slow over time, until it stops altogether. As it is, the annualized issuance rate between today and 2140 is only 0.06%.

Meanwhile, the Congressional Budget Office estimates the U.S. will run a cumulative deficit of $10 trillion for the 2023-2028 period, amounting to 39% of the current outstanding debt (held by the public). This can be viewed as a broad proxy for the growth of U.S. fiat currency, which is to say supply growth, which is to say dilution or debasement. We believe it will support the value of finite, scarce assets, and the Fund emphasizes investments in companies with exposure to such asset bases.

Internet Fund **Top 10 Holdings (%) as of June 30, 2023**	
Grayscale Bitcoin Trust	26.0%
Texas Pacific Land Corp	17.5%
CACI International, Inc. - Class A	8.6%
OTC Markets Group, Inc. - Class A	4.4%
MasterCard, Inc. - Class A	1.5%
Miami International Holdings, Inc.	1.2%
Verisk Analytics, Inc.	1.0%
Liberty Media Corp.-Liberty Formula One - Class A	0.8%
CME Group, Inc.	0.5%
Mesabi Trust	0.5%

Important Risk Disclosures

You should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. For a free copy of the most recent Prospectus, which contains this and other information, visit our website at www.kineticsfunds.com or call 1-800-930-3828. You should read the Prospectus carefully before you invest. Performance data quoted represents past performance, which does not guarantee future results. Investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit http://kineticsfunds.com/ for the most recent month-end performance data.

Portfolio holdings information, if any, is subject to change at any time and is as of the date shown.

The opinions expressed are not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Additionally, the views expressed herein may change at any time subsequent to the date of issue hereof.

Because the Fund invests in a single industry, its shares do not represent a complete investment program. Internet stocks are subject to a rate of change in technology, obsolescence, and competition that is generally higher than that of other industries, and these shares have experienced extreme price and volume fluctuations. International investing presents special risks, including currency exchange fluctuation, government regulations, and the potential for political and economic instability.

The Fund holds investments that provide exposure to bitcoin. The value of bitcoin is determined by the supply of and demand for bitcoin in the global market for the trading of bitcoin, which consists of transactions on electronic bitcoin exchanges (“Bitcoin Exchanges”). Pricing on Bitcoin Exchanges and other venues can be volatile and can adversely affect the value of the bitcoin. Currently, there is relatively small use of bitcoin in the retail and commercial marketplace in comparison to the relatively large use of bitcoin by speculators, thus contributing to price volatility that could adversely affect a portfolio’s direct or indirect investments in bitcoin. Bitcoin transactions are irrevocable and stolen or incorrectly transferred bitcoin may be irretrievable. As a result, any incorrectly executed bitcoin transactions could adversely affect the value of a portfolio’s direct or indirect investment in bitcoin. Only investors who can appreciate the risks associated with an investment should invest in cryptocurrencies or products that offer cryptocurrency exposure. As with all investments, investors should consult with their investment, legal and tax professionals before investing, as you may lose money.

Please refer to the Fund’s prospectus for a complete list of risks and fees.

The Internet Fund is classified as a non-diversified fund. Therefore, the value of its shares may fluctuate more than shares invested in a broader range of industries. In a non-diversified fund, more of the Fund’s assets may be concentrated in the common stock of any single issuer, which may make the value of the Fund’s shares more susceptible to certain risks than shares of a diversified mutual fund.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its investment objectives by investing all of their investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. You will be charged a redemption fee of 2.0% of the net amount of the redemption if you redeem or exchange your shares 30 days or less after you purchase them.

The *S&P 500® Index* represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The MSCI All Country World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI All Country World Index ex USA Index captures large and mid- cap representation across 22 of 23 Developed Markets countries (excluding the US) and 26 Emerging Markets countries.

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