



Kinetics Mutual Funds Fourth Quarter 2023 Commentaries



The Internet Fund

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Dear Fellow Shareholders,

When observing a perceived imbalance in asset prices, investors often ask whether a change in meaningful variables led to the situation. This is a logical approach—understanding how the environment has been altered can help pinpoint fundamental changes that require re-assessment or action. Though the reasons behind most blips on a performance chart are typically the most obvious, however, they are not necessarily the most important for long-term decision-making. And this approach often misses the forest for the trees.

When it comes to digital assets, Bitcoin offers a window to the market’s myopia, particularly around two major events.

The first was the approval of spot Bitcoin ETFs in the U.S. This is the culmination of a process dating back to a 2013 spot Bitcoin ETF application by the Winklevoss twins. There is widespread speculation—and general optimism—that a spot Bitcoin ETF will open the doors to broad institutional adoption, driving prices higher by lowering barriers to demand. Investors who were restricted from holding bitcoin through digital wallets can now invest through traditional brokerage accounts, and the asset itself is becoming an option for new portfolio allocations across the wealth management world.

The arrival of spot ETFs is a meaningful step in the evolution and adoption of Bitcoin, as investors have been attempting to replicate exposure through equities, derivatives, and other products. Merely holding a portion of treasury assets in Bitcoin classified some companies as “crypto-related,” bringing the benefits of a premium valuation in some circumstances, and in others, a complete blockage by association from some platforms. A layer of red tape has now been removed.

The second event has not yet happened but is expected to occur towards the end of April 2024. This is a moment known as the halving, a development that reduces the Bitcoin block mining reward by half, from 6.25 BTC to 3.125 BTC.

There are generally two ways to procure Bitcoin. One way is to mine it, providing infrastructure for the blockchain by competing for each block reward. The second is to purchase from someone who has already procured the coins. In either case, following the halving, there will be less marginal supply available to service those who demand it.

The Bitcoin environment is filled with participants that seem focused on holding and growing their balances. Currently, 31% of bitcoin in circulation hasn’t moved on the blockchain in over five years. Another 43% hasn’t moved in over three years. And 70% hasn’t moved in over one year.¹

¹ Source: Glassnode, “Supply Last Active,” December 31, 2023.



This is not to say that there is limited transactional activity in Bitcoin. In fact, it is quite the opposite: the 365-day average change-adjusted transfer volume amounted to about \$9.3 billion on-chain as of December 31, 2023.² This is comparable to even the most liquid blue-chip stocks in the world, and doesn't include the substantial transaction volume that occurs off-chain. The point here is that the liquid bitcoin supply is depleting as a percentage of the total coins outstanding.

Both the spot ETF approval and the halving are consequential, but viewing them as fundamental changes worthy of revaluation is myopic, in our view. Because, for anyone with a truly long-term outlook and an understanding of the asset, these events were (largely) expected.

The halving, specifically, is spelled out in Bitcoin's code. Every 210,000 blocks, a new halving event occurs, reducing the Bitcoin inflation rate by half. This happens every four years, and therefore isn't a surprise. But the halving is rarely talked about until it is perceived as a near-term catalyst for prices.

If the halving was the only vector that affected the Bitcoin market, a rational investor might treat this asset more like an amortizing bond. Assuming constant demand, every day is a step towards the inevitable supply reduction. The final token issuance becomes closer, the digital scarcity becomes more pronounced. To the extent that participants either ignore or misunderstand this fact, the benefit accrues to long-term holders, as they are positioned for all subsequent halvings instead of just the most recent one.

Of course, we have no insight into the inner workings of the SEC or the ETF approval process. It is probably better to say adoption was expected, rather than saying an ETF was expected. But the latter is just the most recent iteration of the former. Assets with true scarcity are rare, and with the excesses of government spending and debasement all too prevalent, we appear to be on a self-reinforcing inflationary path.

Given the premiums placed on equities tied to Bitcoin, and the premium/discount mechanics of the few products that did provide exposure to Bitcoin in the U.S., one thing is clear: Investors want digital asset access in their brokerage accounts.

In some cases, pivotal events in cryptocurrency don't need to be predicted. They are announced years in advance or imbedded in their encoded protocols. In other cases, the realization of a positive event is merely a step in the direction of eventual long-term value realization.

These developments, while exciting, show why it is so important to have a long-term (and informed) view of digital assets. We remain optimistic on their future, and will continue to invest with the goal of compounding value for our clients over the long-term.

² Source: Glassnode, "Change-Adjusted Transfer Volume," December 31, 2023.



Internet Fund Top 10 Holdings (%) as of December 31, 2023	
Grayscale Bitcoin Trust	39.0%
Texas Pacific Land Corp	17.4%
CACI International, Inc. - Class A	6.8%
OTC Markets Group, Inc. - Class A	3.6%
Miami International Holdings, Inc.	1.5%
MasterCard, Inc. - Class A	1.3%
Verisk Analytics, Inc.	0.9%
Galaxy Digital Holdings Ltd.	0.6%
CME Group, Inc.	0.5%
Mesabi Trust	0.4%

Important Risk Disclosures

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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.

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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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