Kinetics Mutual Funds
Fourth Quarter 2023 Commentaries

The Paradigm Fund

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Dear Fellow Shareholders,

The economy is something of a paradox right now. While some experts proclaim that inflation is finally cooling, consumers lament that prices remain so high. This situation is the result of an enduring reality: Discussions of economic indicators tend to focus on the rate of change, rather than aggregate levels.

Rate of change analysis is relevant for measures like corporate earnings and GDP, which are evaluated based on growth. Aggregate levels are more appropriate for variables with continued impact based on absolute levels: money supply, debt, and prices. Of course, rate of change is still relevant, but aggregate or cumulative data is at least as important.

Aggregate price levels (as measured by the Consumer Price Index) are approximately 20% higher than they were at the outset of 2020, while overnight borrowing rates (SOFR) in the U.S. are approximately 400 basis points higher. These shifts are even more pronounced if recent readings are compared to the period immediately preceding the pandemic lockdowns, during which the U.S. had a brief period of deflation and rates plummeted to zero. The deceleration in rate of change for these variables obscures the enormous aggregate changes of the past few years.

Even as inflationary forces moderate, current levels are already sufficient for structural regime shift. In other words: The prolonged era of synchronized global economic growth, low inflation, and low interest rates is over. And it is critical to incorporate this new reality into any investment strategy.

To be sure, our secular inflation thesis is centered on levels remaining well above the pre-2020 trend of approximately 2%—a world where levels of 3-4% are considered adequately higher. This view was largely validated by market prices throughout 2021 and 2022; however, markets turned back to a "pre-2020" posture last year. A contributing factor was the market's aforementioned fixation on rate of change as opposed to cumulative change. Indeed, various measures of inflation growth have moderated from unsustainably high peak levels, but the rate of change remains both positive and above trend.

This deceleration has prompted a belief that global central banks will reduce interest rates. Recall that the market has been consistently wrong in the belief that rates would cause a recession and force a so-called "pivot" in policy (more on this later). However, the current belief—or hope—of rate cuts appears to have been validated at December's FOMC meeting. Judging by the subsequent market price action, the (equity) market is "partying like its 2019" all over again.

This view is echoed by the bond market, as the average yield on a U.S. non-investment grade bond has fallen from 9.4% to approximately 8%. The move has been almost exclusively driven by a compression in risk premiums for high-yield bonds. At approximately 3.5%, the spread versus investment grade bonds is over 100 basis points tighter than in non-recession months dating back to 1996.

These moves are part of the broader zeitgeist shift that occurred abruptly this year. The market reverted to near euphoric conditions, thanks largely to nascent technological developments such as artificial intelligence ("AI") and language learning models ("LLMs"). We are not experts in the field whatsoever, but our judgment suggests productivity gains from such technologies would come largely at the expense of employment. In other words, net impact on economic growth and overall consumption is ambiguous.

The exuberance surrounding technology has a subtle but pernicious impact on capital markets. Broad stock and bond indexes—ergo, passive investing—suffered amongst their worst year of performance in 2022, as richly valued equities fell amid rising interest rates. Stock and bond correlations proved to be positive, and diversification added little benefit. While there have been far worse equity market declines, they have historically been offset by gains in bonds. We posited that this could be the inflection point for passive-dominated market flows. Yet passive equity strategies surged in 2023, almost making the modest bond losses irrelevant, and the rebound reinforced the passive narrative.

We are still waiting for the true passive inflection point to materialize, but we do believe a market inflection point has already commenced, and is merely paused for the moment. As is our nature, we are positioned for the long-term, and believe that the Fund holds securities poised to benefit as we look ahead.

Paradigm Fund **Top 10 Holdings (%) as of December 31, 2023**	
Texas Pacific Land Corp	58.6%
Grayscale Bitcoin Trust	8.5%
Brookfield Corp.	4.0%
Live Nation Entertainment, Inc.	3.1%
Howard Hughes Holdings, Inc.	3.1%
Franco-Nevada Corp	2.3%
CACI International, Inc. - Class A	1.9%
CBOE Global Markets Inc.	1.4%
Associated Capital Group, Inc. - Class A	1.2%
The Wendy's Company	1.0%

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 www.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.

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In addition, investing in foreign securities involves more risk than just U.S. investments, including the risk of currency fluctuations, political and economic instability, and differences in financial reporting standards. There may also be heightened risks investing in non-investment grade debt securities and the use of options. There are also risks associated with investing in small and medium sized companies. Non-investment grade debt securities, i.e., junk bonds, are subject to greater credit risk, price volatility and risk of loss than investment grade securities. Options contain special risks including the imperfect correlation between the value of the option and the value of the underlying asset.

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 bitcoins 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 bitcoins 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 Paradigm 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.

Murray Stahl is a member of the Board of Directors of Texas Pacific Land Corporation ("TPL"), a large holding in certain client accounts and funds managed by Horizon Kinetics Asset Management LLC

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Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Paradigm Fund pursues its investment objectives by investing all of its 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. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. The Nasdaq-100® is one of the world’s preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. The Russell 3000 Growth Index is a market capitalization-weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above-average growth. The index is used to provide a gauge of the performance of growth stocks in the United States. The Russell 3000 Growth Index is a market capitalization-weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above-average growth. The index is used to provide a gauge of the performance of growth stocks in the United States.

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