Kinetics Mutual Funds
Fourth Quarter 2022 Commentaries

The Paradigm Fund

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Dear Fellow Shareholders,

The past year represented one of the most challenging years, but also, one of the most rewarding in the history of the Paradigm Fund. The return of 29.17% is quite attractive on an absolute basis, but it only ranks as the 6th best year in the 23 years since the Fund was launched. However, the relative performance compared to the S&P 500 Index, which returned -18.11% for the year, is the best in the Fund's history. In fact, the relative return was over 5x greater than the median annual excess return, and over 7.5x the average annual excess return for the Fund. We recognize that such outperformance requires the acceptance of the potential for similar underperformance over discrete periods of time. If the annual result were in the opposite direction, i.e., material underperformance relative to the index, it would certainly prompt a review of "what went wrong." A positive result should receive the same review, which we will present in the body of this letter.

Suffice it to say, a lot of things went right for the Fund in the past year. If we need to identify the single most important variable, it was our exposure to hard asset companies, specifically in the energy sector. Energy stocks rose approximately 64.5% for the year, despite U.S. benchmarks for oil and natural gas rising only 6.7% and 15.4%, respectively. The full-year returns obscure the fact that oil prices were up over 64% at the peak during the year, and gas was up over 180% at its peak for the year, before falling into the end of the year. These prices drove record cash flow generation for most exploration and production companies, and these companies remain comfortably profitable at current energy prices. The annual growth in cash flow corresponded with low absolute valuations for the sector, which suffer from both the (incorrect) perception of imminent obsolescence and external pressure from investors and governments to avoid investing in the sector, due to its climate impact. These variables, coupled with very poor trailing long-term returns for the sector, resulted in very low cash flow multiples industry-wide, both at the beginning and the end of the year.

These same factors that contribute to the low valuations also result in low weightings in market capitalization weighted indexes, such as the S&P 500 Index, which in turn also result in negative fund flows into the industry from passive investors. As a result, energy (and other hard asset companies) entered the year near the lowest levels since the creation of the S&P 500 Index. This occurred just as the fundamentals became the most constructive for hard assets and became the least constructive for index stalwart industries such as information technology, communications, and consumer discretionary companies. As a result, our exposure to hard asset companies benefitted from both a fundamental improvement in the businesses (i.e., higher cash flows) and attractive valuations at precisely the same time that the indexes experienced fundamental deterioration (i.e., lower cash flow) and record high valuations.

Inflation and interest rates drove much of the deterioration in the broader index, while being neutral or positive for many hard asset companies. Inflation initially benefitted all companies through higher nominal levels of revenue, but as the cycle has matured, inflation is now impacting costs and expenses, and it is harder to pass along the increases through prices. Similarly, central banks are reacting to stubbornly high inflation by hiking interest rates; this strategy is aimed at lowering price levels via lower demand. However, this is harming many companies by both reducing customer demand and raising the cost of capital.

Hard asset companies generally benefit from inflation, as their revenues are based on nominal measures such as energy prices and volumes, but the cost structures are such that there is limited impact to "capital light" business models. Similarly, higher interest rates have less of an impact on hard assets, given the highly inelastic nature of demand and strong current cash flow generation, and capital light businesses have minimal reliance on capital market access for funding. As a result, these companies were uniquely positioned to withstand or benefit from variables that were negatively impacting most companies.

The outlook for the Fund going forward remains promising, as valuations remain low and supply growth for most hard asset industries remains constrained. By no means do we expect to repeat the magnitude of outperformance relative to the index going forward, but we continue to prefer our positions to the broader market. If other investors gradually shift allocations to hard asset companies, there is the added potential for valuation expansion, which has yet to occur. The macroeconomic backdrop is ever uncertain, with robust current growth data that we suspect has yet to fully incorporate the impact of higher interest rates. Ultimately, we doubt that conventional policy (i.e., interest rates) will be effective in reducing structural inflation in hard assets, and central banks will have to accept higher price levels. Should this occur, it will mark a radically different economic environment compared to that of the previous decade, and we would expect similarly divergent businesses to benefit.

Paradigm Fund **Top 10 Holdings (%) as of December 31, 2022**	
Texas Pacific Land Corp.	68.6%
Brookfield Corp.	2.3%
The Howard Hughes Corporation	2.1%
Franco-Nevada Corporation	2.1%
Live Nation Entertainment, Inc.	1.8%
Grayscale Bitcoin Trust	1.4%
CACI International, Inc. - Class A	1.2%
Icahn Enterprises LP	1.0%
Associated Capital Group, Inc. - Class A	1.0%
Civeo Corp.	0.9%

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.

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.

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 bitcoins is determined by the supply of and demand for bitcoins in the global market for the trading of bitcoins, 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 bitcoins 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.

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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