



**Horizon Kinetics Mutual Funds**  
**Fourth Quarter 2023 Commentaries**



## The Small Cap Opportunities Fund

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Dear Fellow Shareholders,

We consider ourselves devout value investors. However, we view capital markets through the lens of secular regimes, which can dramatically impact the returns of certain assets classes and industries. And we've reached the end of quite an unusual period.

The 12-year regime preceding the pandemic accommodated high growth, large capitalization U.S. equities, and virtually all fixed income. This was largely driven by fiscal stimulus, low real interest rates, and moderate economic growth—enabled only by low inflation rates. The pandemic and its attendant policy responses disrupted this equilibrium, spurring inflation in 2021. But the investment implications weren't manifested until the following year, when monetary policy changed dramatically. This led to meaningful declines in equities and fixed income, across geographies, market capitalizations, and styles.

The shift can be attributed to three major factors. First, interest rates rose rapidly, from a few basis points at the start of 2022 to over 4% by the end of 2022. Second, earnings fell across the market, capping a trend of compounded earnings growth that vastly exceeded economic growth. Third, inflation remained stubbornly high; though CPI growth was slowing by the end of 2022, it was still positive, and the cumulative price increases since the beginning of the inflationary cycle were approximately 16%.

We appear to be in the midst of an inflection point—or regime change—to a world with higher volatile inflation and interest rates, which are likely to cause uneven global economic growth. History suggests this regime will last 5-12 years, and that it will be highly supportive of our hard asset and inflation beneficiary-oriented positioning. Yet capital markets have responded in a contrary manner, with hard assets and value companies dramatically underperforming higher growth firms in 2023. The market now seems to assume a pre-2020 market regime, but we see no evidence to support this belief; on the contrary, there is growing evidence of the structural regime shift that we envision.

This new environment is likely to impact industries unevenly and idiosyncratically, underscoring the importance of security selection and unique business attributes. This contrasts with the previous environment which supported most businesses—particularly the largest—and their attendant share prices.

Fundamental “stock picking” markets favoring active investors are most pronounced in the small capitalization space. These companies are often the most susceptible (positively or negatively) to fundamental changes. Thus, within the broader universe of value companies in the hard asset realm, we see the best opportunities in small capitalization issuers. These firms often possess top quality assets, efficient business models, and depressed valuations. This is an excellent starting point for strong returns.



Small Cap Opportunities Fund <b>Top 10 Holdings (%) as of December 31, 2023</b>	
Texas Pacific Land Corp	45.3%
CACI International, Inc. - Class A	5.5%
Civeo Corp.	4.6%
DREAM Unlimited Corp.	4.2%
Grayscale Bitcoin Trust	3.5%
Inter Parfums, Inc.	2.7%
Associated Capital Group, Inc. - Class A	2.3%
Carnival Corp.	2.0%
The Wendy's Company	1.3%
Urbana Corporation - Class A	1.2%

### **Important Risk Disclosures**

*You should consider the investment objectives, risks, charges and expenses of the Small Cap Opportunities 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](http://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.*

*The Small Cap Opportunities 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. You should consult the Fund's prospectus for a complete list of risks associated with your investment.*

*International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Because smaller companies often have narrower markets and limited financial resources, they present more risk than larger, more well-established companies. Further, 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.*

*The CBOE Volatility Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index call and put options. 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 S&P SmallCap 600® Index measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses.*

*Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Funds pursue their investment objectives by investing all of their investable assets in a corresponding portfolio series of Kinetics Portfolios Trust.*

*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 (“HKAM”). Officers, directors, and employees may also hold substantial amounts of TPL, both directly and indirectly, in their personal accounts. HKAM seeks to address potential conflicts of interest through the adoption of various policies and procedures, which include both electronic and physical safeguards. All personal and proprietary trading is also subject to HKAM’s Code of Ethics, and is monitored by the firm’s Legal and Compliance Department.*

*The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. It was started by the Frank Russell Company in 1984. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.*

*The iShares Russell 2000 ETF seeks to track the investment results of an index composed of small-capitalization U.S. equities.*

*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.*

*Distributor: Kinetics Funds Distributor LLC is an affiliate of Horizon Kinetics Asset Management LLC, and is not an affiliate of Kinetics Mutual Funds, Inc.*