



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

 **The Small Cap Opportunities Fund**

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Dear Fellow Shareholders,

It can be easy to forget we are still only three years removed from the record stimulus efforts of 2020, and barely two years removed from the initial uptrend in inflation. If we zoom out, this is the first deviation to the longstanding modern economic order of low inflation, despite consistently rising government spending and debts coupled with money supply growth. This short span of time should be referenced within the preceding 40-year capital cycle. Indeed, interest rates took four decades to reach a nadir after the peak of the last inflation cycle. The preconditions for the current market were formed over this period, which was by no means a linear function.

Nor should one expect the current economic transition to be linear. Nevertheless, the companies owned by the Fund—and the hard asset markets in which they operate—have broadly performed in line with our expectations, notwithstanding some unforeseen macroeconomic developments. Volatility should be expected in hard asset markets, and this is often more pronounced in the public market prices of companies that operate in these sectors.

The recent operating results (as opposed to price returns) can be viewed as either extremely favorable, if based on expectations from pre-2020 and early 2020, or moderately favorable, if based on expectations in early to mid-2022. Even during the summer of 2022, with U.S. Consumer Price Index (CPI) levels near a 40-year high, market expectations were still for these markets to revert, secularly, to pre-2020 levels. The enduring low expectations for these markets and companies is manifested in stock prices, which remain inexpensive on an absolute basis, and depressed relative to the broader market.

A longer-term perspective reinforces the importance of the “hard asset, capital light” strategy of the Fund over full business cycles. Our core thesis remains that hard asset prices are poised to be elevated for a prolonged period, and this will have profound implications for the global economy and financial markets.

We also recognize the current cyclical variability within the larger secular trend. Most importantly, the pricing of the companies in the Fund still fails to reflect this new environment, providing the potential for strong capital returns. The combination of hard asset exposure, high quality business models, and attractive valuations is expected to be the primary driver of the Fund’s performance over extended periods of time. The union of these factors facilitates strong business returns under various economic backdrops—particularly in an inflationary environment.

It should also be noted that small cap companies are generally more exposed to rising input costs as compared to larger peers simply due to a lack of scale. It is a distinct possibility that many of these companies will face margin pressures in the coming years, as input costs can no longer be fully passed on to customers. The only companies insulated from this potential risk are either hard asset businesses or companies with idiosyncratic pricing power.



Small Cap Opportunities Fund
Top 10 Holdings (%) as of June 30, 2023

| | |
|--|-------|
| Texas Pacific Land Corp | 41.4% |
| CACI International, Inc. - Class A | 6.3% |
| Civeo Corp. | 4.2% |
| DREAM Unlimited Corp. | 4.1% |
| Inter Parfums, Inc. | 2.5% |
| Associated Capital Group, Inc. - Class A | 2.2% |
| Carnival Corp. | 2.1% |
| Grayscale Bitcoin Trust | 1.9% |
| The Wendy's Company | 1.5% |
| Live Nation Entertainment, Inc. | 1.4% |

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 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 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.

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.

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® seeks to measure the small-cap segment of the U.S. equity market. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index.

The iShares Core S&P 500 ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities. The iShares S&P 500 Growth ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit growth characteristics. The iShares S&P 500 Value ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit value characteristics. The iShares Russell 2000 Growth ETF seeks to track the investment results of an index composed of small-capitalization U.S. equities that exhibit growth characteristics. The iShares Russell 2000 Value ETF seeks to track the investment results of an index composed of small-capitalization U.S. equities that exhibit value characteristics. iShares is a product of Blackrock.

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.