Kinetics Mutual Funds
Second Quarter 2023 Commentaries

The Spin-Off and Corporate Restructuring Fund

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Dear Fellow Shareholders,

We have entered a period of protracted and structural inflation, which will have a variety of consequences on the global economy and financial system. While headline Consumer Price Index increases are moderating (as expected), these shifts are off a higher base price level, meaning that price levels are still elevated—and rising—just at a slower rate.

In the case of consumers, aggregate inflation in this cycle remains well ahead of wage growth, suggesting the consumer experience is still deteriorating. Furthermore, structural supply shortages in critical raw materials show few signs of abating, and in fact may be further strained due to economic resilience, particularly in non-OECD countries.

The world is approaching an inflection point where the supporting factors that created the current excesses are now facing headwinds—and, in some cases, a complete reversal in trajectory. We've spoken at length on the relationship between monetary issuance and inflation, and the need to build exposure to companies tied to hard assets. But the creeping, early evidence of an inflation-linked "regime change"—such as reshoring (reversing decades of exporting labor costs from developed nations to low-wage countries), and deglobalization (e.g., reduced reliance on increasingly uncertain international supply chains)—haven't yet been realized in valuations.

The federal funds effective rate[1] has surpassed the earnings yield on the S&P 500 Index for the first time in roughly a quarter of a century. In the previous cycle, it was possible to fund business initiatives with historically cheap debt, with incremental returns measured against the cost of near-zero financing. Even if these initiatives underperformed peers, the capital at risk was limited due to the ability to continually finance at that same low rate.

As long as this central-bank-engineered backdrop remained, and companies could artificially grow revenue, momentum would be the driving force behind equity results, and objectively excessive asset valuations (whether stocks, bonds or real estate) could remain so indefinitely. Those investment managers with more stringent selection criteria were overlooked in the wake of this trend, so value managers' relative underperformance rivaled that experienced during the technology bubble that peaked in 2000. Throughout the era of artificially low interest rates and fiscal stimulus, which we define as 2009-2022, the S&P 500 Index was able to achieve historic profit margins with attendant record valuations.

A break in this status quo, which has already started by many measures (e.g., risk-free interest rates, which have risen from near zero in February 2022 to 5.08% as of June 2023) doesn't just

[1] The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates.

imply a unidimensional formulaic financial revaluation of securities. It presents a serious impending challenge to business operations. As debt rolls over, to be refinanced at twice or greater the prior rates, the historically high margins achieved by the S&P 500 will be affected in multiple ways. For most companies, income statements will bear a higher interest expense burden, lowering margins if all else remains equal. Moreover, on the growth side of the equation, the ability to fund new projects now requires a higher bar—the expected rate of return from those projects—and the implications for failure become far more serious. The expected returns on capital expenditures must exceed the cost of capital, while earning an acceptable risk premium in order to justify robust equity valuations.

In our view, exposure to businesses with high operating profit leverage is the most attractive way to navigate such an environment. This view is expressed in the pro-cyclical, value exposure of the Fund, including positions with capital light exposure to real assets, such as energy royalty companies and real estate service operators (such as property management agents and brokers). Such companies are well-positioned for a new normal in interest rates: They typically have strong balance sheets and relatively low fixed costs, relative to other businesses in the same industries. Critically, they have the potential to thrive in a variety of economic environments, but especially in an inflationary one.

One company poised to benefit from a regime change is Mario Gabelli's GAMCO Investors. GAMCO Asset Management, the institutional and separate account arm of the company, has an exemplary track record, recording a 14.1% annualized net return versus 11.5% for the S&P 500 (from the founding of the Firm in 1977 through the end of 2022). Despite that, perhaps incredibly, we see a company whose assets under management have declined substantially over the prior cycle. In 2013, AUM was listed at $47 billion. It dropped to $34 billion in 2018 and to $29.3 billion at the end of 2022.

Despite this enormous 'cost' of maintaining its value-investing orientation, GAMCO has maintained its asset class focus: over 60% of the AUM is listed as "Value Equity," as the company truly exhibits a Graham & Dodd style in their approach to investing. Unfortunately, this magnitude of withdrawal has been common for value managers over this long market cycle. But GAMCO is no stranger to regime changes. The company was founded in 1977, when interest rates and inflation soared, with the exit from the Vietnam War and a presidential resignation hanging overhead.

GAMCO's mantra is "Private Market Value (PMV) with a Catalyst." It maintains a consistent focus on cash flow and inflation-indexed earnings, plus some catalyst to cause the realization of the investment thesis. Our view of the upcoming inflection point is a bit different than some of Mario Gabelli's typical catalysts (spin-offs, workouts, merger arbitrage, et cetera). But we see a major opportunity for this style of investing. This value manager is trading as a value stock, at approximately 8x trailing earnings per share. This multiple clearly assigns no possibility to the regime change that will catalyze a reversal in the fortunes of value stocks—and value managers. Like so many asset-light businesses, neither appreciation of GAMCO's holdings, nor an inflow of new AUM require any additional operating costs; the incremental revenue is tantamount to incremental pre-tax profit. That is a relatively rare type of business model, and exemplifies operating leverage.

Spin-Off and Corporate Restructuring Fund **Top 10 Holdings (%) as of June 30, 2023**	
Texas Pacific Land Corp	52.0%
CSW Industrials, Inc.	8.1%
Associated Capital Group, Inc. - Class A	5.6%
DREAM Unlimited Corp.	4.2%
GAMCO Investors, Inc. - Class A	3.6%
Civeo Corp.	3.3%
Graham Holdings Company - Class B	2.1%
Capital Southwest Corporation	1.5%
The Howard Hughes Corporation	1.2%
Liberty Media Corp.-Liberty Formula One - Class A	1.1%

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 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 Spin-Off and Corporate Restructuring Fund (the "Fund") underwent a proxy where shareholders voted to approve Kinetics Asset Management LLC ("KAM") as investment adviser to the Fund, effective December 8, 2017. Previously, Horizon Asset Management LLC ("HAM"), an affiliate of KAM, was the Fund's sub-adviser. The portfolio managers of the fund prior to the restructuring are the same portfolio managers that manage the fund post-restructuring. In April 2019, KAM and Kinetics Advisers, LLC ("KA") reorganized into HAM, following which HAM was renamed Horizon Kinetics Asset Management LLC ("HKAM"). KAM, HAM and KA were all wholly-owned subsidiaries of Horizon Kinetics LLC, and HKAM will remain a wholly-owned subsidiary. As such, the Fund's investment objective and investment strategy have not changed.

The 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 companies. 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 report standards. There may also be heightened risks investing in spin-off companies. Such companies are generally newly formed and may not have a track record upon which to evaluate management's experience or historical balance sheet information upon which to evaluate its financial strength. There are also risks associated with investing in small and medium sized companies whose share values may fluctuate more than larger companies. 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.

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 500 returns assume that dividends are reinvested.

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. 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.