



## Kinetics Mutual Funds Third Quarter 2023 Commentaries



### The Internet Fund

[Click Here for Standardized Performance](#)

Dear Fellow Shareholders,

Since its inception, the Fund has embraced unconventional exposure to technology companies. This ideology is rooted in the belief that the only means to consistently access undervalued, high-quality technology is through non-traditional holdings. The efficient market can be very efficient, indeed, when investors are focused on a given asset, and there is little doubt that they persistently focus on successful (and prospectively successful) conventional technology companies, and they pay a variety of premiums for each bit of optionality.

The tech-laden Nasdaq Composite has been propelled higher this year primarily by the largest technology companies in the world. While it is undisputable that most of these businesses are excellent, it is similarly clear that their shares are already priced as such—and then some. We felt these companies were fully valued entering 2023, but the artificial intelligence (“AI”) narrative has driven multiples much higher, still, even for companies without direct exposure to AI.

There is a far subtler—but similarly remarkable—growth story in the financial technology markets, but whose narrative is being obscured by the AI boom. Securities exchanges, which for all intents and purposes are technology platforms, have thrived for decades on tech-driven financial innovation.

At the beginning of the exchange demutualization process about 20 years ago, which took them from being member-owned to publicly traded, the largest and most profitable exchange business line was basic cash equity trading. Cash equities are simply listed stocks, such as Apple or Disney. Profitable as this business was at the time, it was only a fraction of what the derivatives market would eventually become. Investors, hedgers and speculators now transact across trillions of notional dollars of derivatives—namely options and futures—that are based on underlying assets. The trading of these products has only been amplified by persistent advances in technology and algorithmic/programmatic trading.

The latest evolution of the derivatives market has been in in the ultra-short-maturity options markets, the shortest of which are Zero Day to Expiry (“0DTE”) options. As the name implies, these are options that are typically based on a single stock, such as Apple or Disney, which expire the same day that they are issued. For speculators, the appeal of these instruments is the embedded leverage within the option structure.

As an example, consider an interest rate-sensitive security such as a real estate investment trust (REIT) on a day when the U.S. Federal Reserve is announcing its interest rate policy. An investor could buy (or sell) a 0DTE option that is far away from the current stock price and will only have value if the stock reacts substantially to the rate announcement. The options traders access high leverage around such an event, but also risk a total loss of capital if the event doesn’t materialize. The exchanges benefit from the tremendous growth in 0DTE options volume directly, but also from the market maker and hedging ecosystem which has a multiplier effect on the original trading volumes: *trading begets more trading*.



The ODTE market is not limited to critical macroeconomic events: it could also include an auto delivery report for a particularly volatile and speculative auto manufacturer, or an earnings report for one of the AI darling companies.

As illustrated by the development of the ODTE, one set of significant innovations in the securities exchange sector is new instruments that provide far more specific, single-factor exposure—like an auto delivery statistic or oil inventory report—than the very broad, heterogenous traditional statistical data sets like GDP.

We would also be remiss if we didn't mention the potential for AI. To the extent that AI systems can trade effectively and profitably—early beta tests suggest not...at least not yet—the biggest (and direct) beneficiaries will be the exchanges handling the order flow and providing the market access and data. Data provision, incidentally, is a significant revenue center for today's generation of securities exchanges.

Exchanges are a clear technological beneficiary of various secular trends today, but given their lack of broader market recognition, these companies trade at valuations that are a fraction of the high-tech darlings. Meanwhile, the exchanges have equal or, generally, superior profit margins. Moreover, they are counter-cyclical growth drivers, since the greatest trading volumes and revenues are experienced during market turbulence or crisis periods—it is the exchanges where investors go to lay off risk.

We are comfortable and confident with this non-consensus technology exposure, even in the midst of a year when traditional tech is among the best relative performers in decades—since the late 1990s, in fact.

Internet Fund Top 10 Holdings (%) as of September 30, 2023	
Grayscale Bitcoin Trust	25.4%
Texas Pacific Land Corp	23.7%
CACI International, Inc. - Class A	7.8%
OTC Markets Group, Inc. - Class A	4.0%
MasterCard, Inc. - Class A	1.4%
Miami International Holdings, Inc.	1.2%
Verisk Analytics, Inc.	1.0%
CME Group, Inc.	0.5%
Mesabi Trust	0.5%
Galaxy Digital Holdings Ltd.	0.3%



## **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](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.*

*Because the Fund invests in a single industry, its shares do not represent a complete investment program. Internet stocks are subject to a rate of change in technology, obsolescence, and competition that is generally higher than that of other industries, and these shares have experienced extreme price and volume fluctuations. International investing presents special risks, including currency exchange fluctuation, government regulations, and the potential for political and economic instability.*

*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 bitcoin 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 bitcoin 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 Internet 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 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.*

*Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its 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.*

*The S&P 500<sup>®</sup> Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The MSCI All Country World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI All Country World Index ex USA Index captures large and mid- cap representation across 22 of 23 Developed Markets countries (excluding the US) and 26 Emerging Markets countries.*

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