Kinetics Mutual Funds

First Quarter 2018 - Conference Call with Peter Doyle

April 11, 2018

Important Risk Disclosures:

Kinetics Asset Management LLC ("Kinetics") is pleased to announce that on April 11, 2018, Peter Doyle, Co-Founder of Kinetics and Senior Portfolio Manager for Kinetics Mutual Funds, Inc., hosted a conference call to financial advisors. The transcript set forth below is intended to provide a summary of Mr. Doyle's remarks.

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Chris Bell: Good morning, everyone, and thank you very much for spending a little time with us. You can go to www.kineticsfunds.com for fact sheets, which will be updated in the next week or two. And this is going to be recorded. You will be able to have a replay of this for the next month. Also, please go to our Horizon Kinetics website for updated research. At this time, I'd like to turn it over to Peter Doyle, who will give some top-down information and talk about what we're seeing in the markets, and then James Davolos will give an update on a couple of our companies. So, Peter, take it away.

Peter Doyle: Thank you, Chris, and good morning to everyone. I'm just going to start off and tell what I consider to be pretty much a simple story. Really our methodology of investing over the 20-plus years that we've been doing this as an independent company has not really changed. The way we look at the world, I think, is pretty simple. And, right now, we're finding it incredibly difficult to find good opportunities where there's a margin of safety.

And, when you think about what has occurred over the last decade-plus, that really should come as no surprise. You had global monetary policy really that's been coordinated to bring interest rates down to historically low levels, and that has pushed up the price of financial assets fairly dramatically. And, as a result of that, it should be even more difficult to find investment opportunity in that environment.

You couple that with something that we've been talking about, and then it becomes almost bothersome that I—that we speak about it so frequently, about the growth of the ETF industry. And, from that standpoint, there's nothing that we haven't mentioned in the past. There's philosophically nothing wrong with the investing in indexation and indexation models. The problem is that, if it's taken to extremes, which we believe we're at extremes now, it's going to run into a problem.

And what we're seeing is that the ETF industry really makes no distinction on the price that they pay for a particular security. And it doesn't matter if it trades at 10x earnings, 20x earnings, 50x earnings, 100x earnings. As long as money is coming into that particular ETF, the ETF, by mandate, has to go out and purchase that security. And basic sense, common sense, really dictates that you can't uncouple your expected return from the price that you pay for an asset. And we think that has really become uncoupled, particularly in the large, liquid names.

So, just some brief measures of valuation: right now, based on 10-year average earnings as a measure, the S&P 500 trades at approximately 33x earnings. This level has been exceeded only once before, and that was in the year 2000. And we obviously know what has occurred after 2000, the correction that you saw in stocks over the period of time. An even simpler or better gauge, though, for stocks is the market-cap-to-GPD. And that measure is also approaching the all-time high of 2000 at approximately 140%.

So, really this is being driven by the inflows into ETFs. In 2005, there was 204 ETFs in the United States. Today, there's over 1700. And this is true even as the number of listed stocks have declined. And if you—to add further fuel to the fire, most ETFs really don't have an interest in smaller-cap names or names that have a large insider ownership. And so, the concentration is actually much more narrow than would appear on the surface, given the number of names that are—or stocks that are out there available for purchase.

So, that's why you're finding that large, liquid names such as ExxonMobil is in over 204 ETFs. And that includes value ETFs. That includes growth ETFs, momentum ETFs, dividend low-vol ETFs. So, apparently, ExxonMobil really represents everything to everybody. And really the reason for that is because it's large and liquid, and they can buy it.

Now, part of the problem with that is that the—most equity ETFs are market cap–weighted, float-adjusted. And, as a result of that, they're looking to make sure that there's liquidity in that particular name. But the ETF itself doesn't include its own purchase as being a non- or an insider, when in reality it is an insider, as long as money continues to come into that particular ETF. So, as they buy up more and more of the float, the remaining shareholders know that they have a price-indifferent buyer that has to come out and buy as long as money is coming into that particular ETF. And, if you're a holder on that, on the other side of that trade, you're going to basically make the price go up higher, and hold onto your security, and make them pay a higher price. And that's why you're seeing securities that trade at 22, 25, 27x earnings that really have not grown their revenues or earnings in the last five years.

And, ultimately, it all comes out in the wash. The investment returns that investors are going to receive are going to be coupled with the underlying business returns of the companies. And many of these companies really cannot justify their valuations. And, ultimately, it's going to end in a bad way.

And we may have seen a little bit of an indication of that happening in the recent past. So, over the last nine weeks, ETFs have actually had outflows. And that coincides with some of the volatility that we've seen in the recent past. That compares with the last—the prior 15-16 months, where there was direct inflows and you had virtually not a down—I don't think there was a down month in 2017. And stocks basically went up more or less in a straight line.

So, you can see how, if there was ever a desire to get out, and people wanted to get out at the same time, the movie will run in reverse. And the valuations will come down, and potentially come down quite hard. And there's some relatively disturbing signs that we're seeing in the recent past that may—that might indicate that that's going to occur.

Now, the caution that we have here is that the bonds trade at $0.88 on the dollar, yet the market capitalization of the company is over $50 billion. So, if you would think of a $50 billion company, there would be no question as to the potential payoff on those bonds, and yet there is some question. So, you're starting to see a disconnect there. And there's capital—there's an arbitrage issue there. And, generally, it's been our experience that the bond analysts tend to be a lot more sensible than the stock analysts, or whoever is purchasing the stock. So, it's something to watch out for.

In the recent past, the 10-year Treasury has risen from a 2.05% yield in September of 2017 to roughly—I don't know exactly where it is at this moment, but yesterday it was at 2.78. So, that's up 73 basis points. Over that same time period, high yield bonds have risen only 10 basis points. Kind of a strange circumstance, it might have to do with flows into ETFs. I'm not exactly sure of the reason. But it's very rare that you see the 10-year yield rise and stocks actually have a sell-off, which is what we're seeing. The last two times that occurred was in 1987, where we had a downdraft of roughly 22%, actually, in the Dow; and in 1994, where the S&P ended down 20%. So, not predicting that it's going to occur, but it's—there's some similarities.

To touch on a point that I started off with, the coordination and the influence of the central banks around the world, the Japanese 10-year government bond did not trade on March 13 of 2018. The one-year treasury, Japanese treasury bond, did not trade at all during the month. That's also true for—on certain days for the five- and 10-year Japanese treasury bonds.

So, now, why did that occur? It occurred because essentially the Japanese government owns all of the bonds that they issue, and the indebtedness, and they're willing to do whatever they need to do to basically keep rates low and try to stimulate the economy. Eventually, that's going to be a failed policy. So, just something to—it's kind of hard to believe that a 10-year treasury bond of a government wouldn't trade, and yet here we have an example.

20% of the stocks—just as another observation, 20% of the stocks in the S&P 500 have actually negative free cash flow. So, something else to pay attention to. These companies basically are indebted, and, if they can't basically generate enough cash to pay that, could run into problems.

After the recent spike in volatility in the VIX, the VIX is now in backwardation. And it's very rare that you see the VIX in backwardation at a level of 20 or above. Not exactly sure what that indicates, but, at a minimum, it indicates that people are anticipating higher volatility in the near term versus the long term. It could have impact on that.

So, there's a lot of things that are going on out there that just don't seem to make a lot of sense and should give people pause for concern. But the primary one is that the valuations are just incredibly rich. And if you believe, as we do, that ultimately your success or failure has to be predicated on the underlying returns of the businesses, and the prices that you pay for that, you can understand why we're actually very conservative and defensive.

And really that's all I have to say. And it's not dissimilar to what we have said in the recent past, and probably not too dissimilar with what we'll say in the not too distant future, because it really hasn't changed. And, until we see meaningful change in valuations, we're going to remain fairly defensive. James?

James Davolos: Thanks, Peter. Just to elaborate briefly on some of Peter's comments before going into certain names that are in the portfolios, I want to highlight what I'll call the fragility of asset prices, where all of the factors that Peter just mentioned are really not priced into equity markets when you look at what a rational investor should demand as a risk premium. So, the whole concept of requiring a higher rate of return in exchange for risk assumed is really nullified in the current market dynamic.

So, one of the things that always exacerbates the fragility of market factors is leverage and debt. And a lot of advocates that highlight the deleveraging of the U.S. consumer corporation, so on and so forth, I think are overlooking a variety of debt indicators that we find increasingly worrisome. So, for instance, as reported by the New York Stock Exchange, margin debt on equity accounts is currently at $580 trillion. The last time that it was anywhere near this high was in December of 2007, subsequent to one of the steepest declines in market history. And margin debt was at $322 trillion. Now, people might try to rationalize that by a higher notional GDP number. But the absolute level of leverage is glaring.

Similarly, if you look at household debt, where it's essentially the credit and mortgage debt of the average U.S. household, and compare the interest payments to GDP, in 2007, again, subsequent to the global financial crisis, debt service was approximately—excuse me, not as a percentage of GDP, debt service as a percentage of disposable personal income after tax. Debt service in 2007 was 13% of income. At the end of 2017, it was slightly over 10%. However, an important variable in that calculation is the interest rate. Where, at the end of 2007, the 10-year yield was at 4%, at the end of December of this year, it was at 2.4%. So, you can see, as interest rates have creeped up closer to 3%, that's obviously going to burden the consumer.

Obviously, the big transfer that has been from the private sector to the government, where, at present, U.S. debt to GDP is at 104%, relative to 62% in 2007. Global debt, on a total aggregate basis—and this number is from the Institute for International Finance—is at over 217 trillion, or 327% of global GDP, compared, again, to 149 trillion, or 276% of global GDP in 2007.

Finally, and probably most troublesome, is the Congressional Budget Office estimate that, in 2017, there was a 3.5% of GDP budget deficit run by our country. This compares to 1.1% in 2007, and many economic policymakers would advocate surplus—running a surplus during the ninth year of an economic expansion. However, based on extrapolations of current policies, by 2028, they estimate that the deficit will increase to 5.1% of GDP.

So, all of this in and of itself is nothing but data points. But I think that it really adds to the fragility of asset prices and that investors should really demand a much higher risk premium.

Moving over to our portfolios, and really the need to stay outside of what we'll call the broader market, we contend—we continue to emphasize and concentrate our investments in securities that are not—are primarily outside of indexation flows, outside of mainstream media. And that is really what's providing the discount for us.

So, a longer-term holding in the Paradigm Fund has been Liberty Sirius, which is John Malone's Liberty Sirius vehicle that owns a large stake, equivalent to approximately 70%, in Sirius XM Radio. Presently, the Liberty Sirius tracking stock trades at a 30% discount to the market value of its Sirius stake, which would imply a potential upside of 43%, should that gap narrow to zero.

I'll note that, on a year-to-date basis, Sirius XM is up 17%, while Liberty Sirius is up less than 3%. So, the spread has widened materially. And I can tell you from experience that there is a lot of hedge funds that have a pairs trade, which is exacting a tremendous amount of pain where people are long Liberty and short Sirius, trying to bet on that spread compressing.

Sirius, in and of itself, on a standalone vehicle, has a 6% free cash flow yield and has grown revenue at a 10% compound annual rate over the last five years. While the growth is certainly going to mature, as it has with most of the economy at this point, John Malone and company are working on a variety of measures to increase the viability of that business long-term, and ultimately convert the Liberty vehicle into an NAV to close that discount.

Certain transactions that are currently pending are Liberty Media has taken a large position in the debt of the terrestrial radio operator Clear Channel. To the extent that they can be successful in leading restructuring negotiations and integrate that with the Sirius service, there's a tremendous amount of scale and operating leverage that they can earn from a restructured Clear Channel. Additionally, they've also invested a toehold stake in competitor of sorts Pandora, which clearly has had some operational difficulties. But should the company seek to increase its presence in internet radio, which I don't see them doing in the short term because of the high cost of content, Pandora also remains an option for them to expand the company and consolidate the entity.

Finally, I think it's worth noting that Spotify, the digital streaming company, recently engaged in a unique transaction where they did a direct listing for their stock. As of the last time I checked, Spotify has the exact same market capitalization of Sirius XM, where Spotify has a negative operating income. So, that's before any interest, tax; and, even if you include their depreciation and amortization, the company still loses money on a trailing basis, compared to Sirius that throws off $1.5 billion in free cash flow, yet these companies have the same market value.

However, I think that they're very different businesses in and of themselves, where Sirius controls the car and it's a differentiated service through local content, talk radio, and a variety of other services that Sirius provides. Additionally, Sirius has connected car capabilities, which have a tremendous amount of potential in the future due to their satellite feed connection, where they have a cost of capital connection advantage over anybody who'd be using a modem in the car.

So, because this company is controlled by Sirius—or, excuse me, Liberty, then you have Liberty—that's why Sirius, I believe, is at a discount, at about a 6% free cash flow yield. Add to that Liberty Sirius, which is a tracking stock, again controlled. Now you end up creating these shares at what could be a 30% discount. So, over the fullness of time, we're very confident in letting John Malone and Greg Maffei and his team extract that value and earn probably low growth rates in terms of the profitability in a steady-state mode, but a lot of optionality through further consolidation. So, again, in a market that's very picked over, this is something that we can find a lot of opportunity in.

Before going into a reference transaction that I'd like to highlight that has implications for a variety of names in our portfolio, I would mention that another area of opportunity that Murray and Peter and I have been focusing on has been what I'll call counter-cyclicals, where there is a variety of companies in the market that have already undergone what we'll call their secular or industry-specific recessions. The stocks have been beaten up and are outside of certainly large active management pools and, to an even greater extent, passive asset management pools.

But, as Peter mentioned with South African strife, now there's Russian strife; there's a variety of companies that could benefit tremendously from operating leverage to stable, not even increasing, oil, gas, and gold prices. So, there's a multitude of companies within the services sector, not simply just mining and upstream companies,that we're continuing to play up greater focus on, obviously with two primary tenets. Number 1 is a sound capital structure and generating free cash flow. And Number 2 is at a purchase price where we can participate significantly in the upside.

So, moving on to the transaction that I'll—that I feel inclined to mention regarding various portfolio names, about two weeks ago, a large Permian oil and gas company called Concho Resources agreed to buy a slightly smaller operator, RSP Permian, for approximately $9.5 billion. This values the operating acreage at RSP Permian at approximately $72,000 per acre, which is the highest price ever paid in the Permian Basin and equates to $3 million per potential well location.

I must highlight that this is not a royalty acre. This is an operating acre where they're essentially buying the leasehold, which then they have the obligation to drill wells, extract the oil, and then earn a return on invested capital on top of that. So, this is in no way directly applicable to a royalty acre as it pertains to a company such as Texas Pacific Land Trust.

However, something that can give you a better idea of how this does pertain to Texas Pacific Land Trust: RSP Permian, amongst their roughly 90,000 net acres in the Permian Basin, 45,000 are in the Delaware Basin, primarily in Winkler and Loving Counties. The company estimates that this Delaware acreage holds approximately 1.8 billion barrels of oil equivalent resources that can be extracted, which implies to over 40,000 barrels per acre within this core acreage.

Now, just to give you an idea of TPL's exposure to Loving County, they currently have approximately 48,000 royalty acres at 1/16th and 6,000 acres at 1/128th, in addition to 73,000 surface acres. This equates to approximately 3,050 net royalty acres and 73,000 surface acres. You can kind of—you can do the math based on the resource in place, and it gets to a pretty compelling valuation for Loving County alone.

However, what I've found even additionally interesting is that, within the RSP Permian presentation, in the appendix, they note their Delaware Basin test well and assumptions for well spacing. Now, this is very important because it also ties into how much of a recoverable resource there is per acre. RSP Permian has identified nine monetizable strata within the shale layer in Loving County acreage. This includes the Avalon Shale, three separate sectors of the Bone Spring Shale, and five separate sections of the Wolfcamp Shale. Based on current economics, they believe that, excluding the two bottom layers of the Wolfcamp, there can be as many as 40 wells per section.

Now, again, if you take—a section is a 640-acre parcel of land in Texas. And I'll let you do the math on your own. But if you net out the amount of section that TPL owns in Loving County, 40 wells per section, use broad assumptions for the estimated recoverable resource per well of between 500,000-1 million barrels, and then your assumptions for pricing per well, the numbers get pretty significant, certainly within the context of the entire market cap for the company just for Loving County.

Now, one more thing I'd like to touch on that slightly relates to this is a company that we've long followed that is a royalty company in the Permian Basin. It's called Viper Energy Partners ("Viper"). This is a Midland Basin–focused royalty company. It also has exposure to the Delaware and Eagleford. And they primarily receive their acreage through an MLP dropdown structure from Diamond Back Energy and RSP Permian. This company currently has about a 7% distribution yield, based on their royalty barrels and revenues distributable cash flow from the fourth quarter.

Now, again, the implications for this company, their enterprise value divided by their 10,500-odd wells, again provides a very interesting reference point for TPL's royalty acreage, although I would argue that it slightly undervalues TPL's royalty acreage due to the nuances of operating this limited partnership versus TPL.

However, Viper announced, probably a day or two after the Concho deal, that they're actually going to convert from a limited partnership to a taxable entity. And this has vast implications, particularly in the world that we're looking at with so many institutional and index investors that can't or will not own limited partnerships. So, the company did a strategic review and realized a conversion to a taxable entity under the new tax code can be extremely accretive to shareholders. And I think that this is a company that probably has a much broader appeal and should probably not trade as high as a 7% distribution yield after all is said and done and they report their pro forma numbers.

This also pertains, kind of coming full circle, to our view of the markets and the need to differentiate away from markets. Blackstone Corp. new chief operating officer, John Gray, mentioned that Blackstone is actually exploring a conversion away from a limited partnership because of this market structure dynamic. Now, it's a very complex valuation due to the carried interest versus fee-based versus stable assets under management at Blackstone, but certainly I believe that a lot of the market data exposures that most asset management providers are providing these days provide little to no value-add. And, to the extent that these types of alternative managers can provide that, there's a retail market of about $50 trillion with only about 2% to alternatives out there. So, again, this plays into our broader view of market structure and serving an actual value-add and alpha generation for end clients.

So, with that, I'll turn it back over to Chris Bell and Peter for some closing comments. And I hope that gave you a pretty good idea of what we're looking at and what we're trying to achieve over the next six months and ensuing years.

Peter Doyle: Thank you, James.

Now, we always knew that the oil was below TPL's land. There was just never the technology to extract it the way there is today. So, from where we sit, the prospects for Texas Pacific Land Trust is more attractive today than it was when we originally found the company, going back now several decades. And, again, it requires patience, and it requires being off the beaten path. And, if we're right, in the longer term, we believe the valuation of that company should rise as the business operations continue to improve and the earnings and cash flow increase. And the—and, conversely, for the S&P 500, those companies that are trading well above their business operation characteristics will ultimately come down. And that's irrespective of what the government tried to do to prop up financial assets. That's going to come out in the wash.

So, again, our equity focused-funds are mostly defensive because of the lack of opportunities. But, on the opportunities that we've found, we can see that we can make a lot of money for investors with the passage of time.

Chris Bell: Carolyn, this is Chris Bell. Are there any—can you start the question queue, please?

Operator: Certainly. If anyone does have a question at this time, please press the Star key, followed by the digit 1 on your touch-tone telephone. Once again, everyone, that is Star-1 if you have a question at this time.

Chris Bell: James, I had a question that was just sent to me as you were talking about Liberty Sirius. Can you talk about the three share classes?

James Davolos: Sure. So, indicative of a lot of John Malone's Liberty entities, there is an A share, a B share, and a C share. The B share has 10 votes. The A share has one vote. And the C share has zero votes.

Now, due to that dynamic, I don't see much reason to pay a premium for the one vote per A share, although, in the Paradigm Fund, due to the nature of the distributions from the old Liberty breakup, we own A shares and C shares. However, last I checked, they trade almost completely in line with one another. So, I wouldn't really see any reason to pay a premium for one versus the other.

Chris Bell: Okay. Thank you, James. Peter, I had another question, and that was: given our concerns about overvaluation, can you speak to our cash levels?

Peter Doyle: Yeah, that we're carrying a relatively high cash balance. In an ideal world, we'd love to have traditional cash balances to handle the daily redemptions or admissions coming into the funds. But, as a result of basically a lack of opportunities where we are comfortable where there's a margin of safety, cash has been building up over the recent past.

Chris Bell: Thank you. Carolyn, do we have any questions?

Caller 1: Hi. Peter, again, thank you for a great call. Just wonder what your feelings are with Icahn Enterprises. Obviously they've been making some significant moves, with the sale of Federal Mogul and Tenneco got some seats on the board there, and even more moves in the automotive sector. And wonder what your feelings are there. And also, do you have any comments on their short book?

Peter Doyle: Sure, Harold, I'm going to let James, as he steps closer to the phone, handle this.

James Davolos: Hi, Harold. So, I think one of the things that's interesting about Carl Icahn is that he really has a lot of the positions that we would seek in this type of market, where they're not the high-beta, high-growth, market-driving names, and thus performance at the hedge fund and then the NAV growth has not been stellar over the three- and five-year periods. But one thing that you—that we have noticed is that he has been increasing his liquidity, first through a sale of his ARL Railcars, and now, just yesterday, with the sale of Federal Mogul to Tenneco.

So, the deal actually valued Federal Mogul almost exactly where the indicative NAV was, based on Carl's tender offer for Federal Mogul last year. However, it removes about $4 billion of net debt at the subsidiary level, provides Carl with $800 million of cash, and also the remaining call it 1.1-1.2 billion of equity, Carl stands to continue to achieve the gains from what Tenneco is doing, where they have identified a significant amount of synergies between the two businesses and are going to spin off into two separate companies, focusing on two very separate divisions within power train and after-market. So, I applaud this as a very significant liquidity bolster/deleveraging, which also kind of contributes to allowing Carl to be nimble and to potentially make more moves through what we agree with him is probably not going to be a market that continues to rise indefinitely.

He has reduced his short exposure, although he doesn't really give you a look-through into what he's shorting. But I think he realized that the pain of holding that short position until things seemed to be going more into his favor was too significant. And so, I think he basically just wanted to remove that capital from the market until he saw a more compelling opportunity to allocate capital, both on the long and the short side.

But he—one thing that I forgot to mention is that, commensurate with the monetization of the Railcar business, they increased the distribution this year to where at one point it was well over 7%. And we continue to think that Carl should be able to compound capital well in excess of what the implied compounding rate on the broader equity market is going to be over 10 years. So, even though it is trading probably at about 1.2x-ish net asset value, I think that there's a lot of levers he can pull to justify that and then continue to earn an even higher rate of return relative to the market over the long term.

Chris Bell: Carolyn, do you have another call?

Operator: Yes.

Caller 2: Yes, good morning, and thank you, gentlemen, for the call. My question is on one of the smaller companies that you've had for a while. I'm wondering if it'll ever come back, Dundee Corp. In '09, it was under two bucks. And then, by 2012, it was, I think, 25-26. And now it's under 2 again. Any hope for a recovery?

James Davolos: Hi, this is James again. I'll—I've been following Dundee for quite a while. And so, Dundee was the investment vehicle of Ned Goodman up in Canada. And, historically, the largest asset base at Dundee was in Dundee Real Estate. They spun off Dundee Real Estate into Dream Unlimited, which we continue to have a very sanguine view towards, particularly given the valuation and the fact that a lot of things are moving in the right direction for Dream.

However, the legacy Dundee assets are primarily very illiquid, natural resource–based, development-stage, illiquid types of stakes in companies. And I think it would take probably an inflationary environment, notably higher metal prices, and a variety of other elements driving inflation for that portfolio to appreciate materially.

That being said, although the company is burning through free cash flow every quarter, it's trading at, last time I looked, about 30-40% of their IFRS assessment of book value. So, should you look for something that would benefit with very, very high leverage to an inflationary environment, Dundee would be something to take a look at. But, given the cash burn profile and the otherwise less than—the lack of current cash flow, it's something that needs to be evaluated within a very high context of risk.

Peter Doyle: So, I'm just going to add to that. There—and I meant to mention it in my observations about some of the things that are a little off-kilter. There's a website called Shadow Government Statistics. And, if you go on that website—and it's not meant to be a conspiracy. But, if you go on that website, the gentleman who runs the website, John Williams, who is a noted economist, he goes back and he actually does the calculation for how they calculate the CPI, going back into the 1980s and 1990s. And, based on the old calculations, the CPI number would be averaging about 6% per annum. And I always wondered why the government would say that it's 2% inflation but every bill that I seem to pay goes up much more than that on an annual basis. And the calculation has been changed twice, fairly dramatically, to lower that, for the reasons that the government doesn't want to pay out as much money in cost of living adjustments.

So, there is higher inflation. And then the second thing that could play into that is, as the—if Donald Trump is successful in securing the border, and there's low—the people that might be coming in illegally, taking the low-paying jobs, if they can't replace those jobs with low-paying wages, that could actually have an impact on inflation in the not too distant future. So, I don't want to tell you it's going to unfold that way. But Dundee could be a beneficiary of those types of dynamics.

Operator: And we'll go to the next caller.

Caller 3: Hi, guys. Thanks for the call. James, the Noralta Lodge deal closed for Civeo. I was wondering how you think that will impact the earnings, and also, what your thoughts are on oil.

James Davolos: Sure. So, looking at—there's—the biggest part of the Noralta deal is, A, they're reducing their pro forma debt from about 4.4x EBITDA to closer to 3x EBITDA. So, if you consolidate removing any synergies from operations between the run rate EBITDA of the trailing 12 months going into year-end and then the run rate at Noralta, you arrive at about a 9 multiple. Historically, that's at the upper end of the range. However, I would add that, during that five-year range, a lot of the comps and similar lodging type of—and Civeo itself, a great amount of their free cash flow is being reinvested into growth capex. And, going forward, virtually zero is going into maintenance, and none is going into growth other than accretive acquisitions, which also includes a Lake Charles deal for about $28 million.

So, if you look at their gearing towards higher occupancy, primarily in Canada, based on oil sands, to a much lesser extent in Australia, based on metallurgical coal, you can see an upward revision to where, in a year—in a few years, you're well below the current multiple. If you look at where EBITDA levels were in, let's say, 2015, based on—well, West Texas Oil at 49 bucks and gas at 2.5, versus last I checked, where it's 65 and 2.65, you can see some very, very steep upward revisions to that EBITDA number. And, again, now you have a much, much reduced debt profile, which gives them a lot more latitude, both for what to do with their cash flow and then also how they can pay down debt and ultimately optimize the experience of the equity holders.

So, we're very positive on the deal. One caveat is that there were some labor negotiations disclosed with a union. However, fortunately, the lodge was owned by an individual. So, they were able to easily implement a purchase price adjustment based on any increase in labor rates, so that the run rate EBITDA multiple would be static based on whatever comes of the labor negotiations.

Chris Bell: Peter, would you like to make some closing comments?

Peter Doyle: Sure. Part of it is thank you for, you know, continuing to have interest in us. And, as we work diligently to get you better returns, you know, we obviously can never guarantee anything, but, to us, it seems like there are some real signs in cracking in the ETF market. And ultimately, you know, and really why you're invested with us is that you think that there are capable active managers that can outperform. And I think, longer-term, you know, what we've been saying is that you buy the returns of the businesses. And, if you pay a sensible price for that, the math is really written. And, if you let that unfold with the passage of time, you have the ability to outperform. And that's not changed from the day we opened our doors. And it's not changing now. And I think that the opportunity for us to, on a relative basis and on an absolute basis, to shine is still in front of us.

Chris Bell: Thank you, everyone, for joining us today. I'd like to remind you to go to our website at www.kineticsfunds.com or www.horizonkinetics.com. And, if you would like any further information, you can email Bob or Tom at buhly@horizonkinetics.com or tgormley@horizonkinetics.com, or call us at 914-703-6950. Thanks very much for the call.

PERFORMANCE AND HOLDINGS INFORMATION

Internet Fund

As of March 31, 2018	WWWFX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**-14.24%**	-0.76%	2.32%
One Year *(annualized)*	**28.98%**	13.99%	19.48%
Three Year *(annualized)*	**8.79%**	10.78%	12.96%
Five Year *(annualized)*	**11.29%**	13.31%	16.67%
Ten Year *(annualized)*	**10.95%**	9.49%	11.98%
Since Inception*(annualized)*	**14.36%**	8.34%	8.47%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for WWWFX is October 21, 1996. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.87%. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Medical Fund

As of March 31, 2018	MEDRX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**-1.66%**	-0.76%	2.32%
One Year *(annualized)*	**4.70%**	13.99%	19.48%
Three Year *(annualized)*	**-0.81%**	10.78%	12.96%
Five Year *(annualized)*	**9.00%**	13.31%	16.67%
Ten Year *(annualized)*	**8.93%**	9.49%	11.98%
Since Inception*(annualized)*	**8.94%**	6.00%	5.24%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for MEDRX is September 30, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 2.08%. Kinetics Asset Management LLC, the Investment Adviser to the Medical Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.39% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Global Fund

As of March 31, 2018	WWWEX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**-9.51%**	-0.76%	-0.96%
One Year *(annualized)*	**33.73%**	13.99%	14.85%
Three Year *(annualized)*	**8.52%**	10.78%	8.12%
Five Year *(annualized)*	**6.89%**	13.31%	9.20%
Ten Year *(annualized)*	**6.10%**	9.49%	5.57%
Since Inception*(annualized)*	**-0.54%**	5.28%	4.13%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for WWWEX is December 31, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 3.06%. Kinetics Asset Management LLC, the Investment Adviser to the Global Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.41% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Paradigm Fund

As of March 31, 2018	WWNPX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**0.43%**	-0.76%	-0.96%
One Year *(annualized)*	**27.18%**	13.99%	14.85%
Three Year *(annualized)*	**10.47%**	10.78%	8.12%
Five Year *(annualized)*	**12.65%**	13.31%	9.20%
Ten Year *(annualized)*	**7.00%**	9.49%	5.57%
Since Inception*(annualized)*	**9.63%**	5.28%	4.13%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for WWNPX is December 31, 1999. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.75%. Kinetics Asset Management LLC, the Investment Adviser to the Paradigm Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Small Cap Opportunities Fund

As of March 31, 2018	KSCOX (Net of Fees)	S&P 600 Index	S&P 500 Index
TOTAL RETURN			
Year-to-Date	**5.91%**	0.57%	-0.76%
One Year *(annualized)*	**35.43%**	12.68%	13.99%
Three Year *(annualized)*	**11.54%**	10.76%	10.78%
Five Year *(annualized)*	**12.89%**	13.56%	13.31%
Ten Year *(annualized)*	**8.55%**	11.35%	9.49%
Since Inception*(annualized)*	**10.55%**	9.82%	5.38%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for KSCOX is March 20, 2000. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.78%. Kinetics Asset Management LLC, the Investment Adviser to the Small Cap Opportunities Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.66% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Market Opportunities Fund

As of March 31, 2018	KMKNX (Net of Fees)	S&P 500 Index	MSCI EAFE Index
TOTAL RETURN			
Year-to-Date	**-5.39%**	-0.76%	-1.53%
One Year *(annualized)*	**41.35%**	13.99%	14.80%
Three Year *(annualized)*	**14.30%**	10.78%	5.55%
Five Year *(annualized)*	**12.89%**	13.31%	6.50%
Ten Year *(annualized)*	**8.27%**	9.49%	2.74%
Since Inception*(annualized)*	**8.84%**	8.41%	3.83%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for KMKNX is January 31, 2006. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.97%. Kinetics Asset Management LLC, the Investment Adviser to the Market Opportunities Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.64% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Alternative Income Fund

As of March 31, 2018	KWINX (Net of Fees)	Barclays 1-3 Yr. Credit	Barclays U.S. Aggregate
TOTAL RETURN			
Year-to-Date	**-1.01%**	-0.31%	-1.46%
One Year *(annualized)*	**0.49%**	0.69%	1.20%
Three Year *(annualized)*	**2.25%**	1.20%	1.20%
Five Year *(annualized)*	**2.54%**	1.29%	1.82%
Ten Year (annualized)	**0.39%**	2.58%	3.63%
Since Fund Inception*(annualized)*	**0.30%**	2.93%	4.13%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for KWINX is June 29, 2007. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.82%. Kinetics Asset Management LLC, the Investment Adviser to the Alternative Income Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 0.99% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Performance prior to January 1, 2013 reflects the Fund's prior investment objective and strategy and may not be indicative of the fund's prospective results. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Multi-Disciplinary Income Fund

As of March 31, 2018	KMDNX (Net of Fees)	Barclays U.S. Aggregate	Barclays U.S. High Yield
TOTAL RETURN			
Year-to-Date	**-0.71%**	-1.46%	-0.86%
One Year *(annualized)*	**2.36%**	1.20%	3.78%
Three Year *(annualized)*	**3.38%**	1.20%	5.17%
Five Year *(annualized)*	**2.90%**	1.82%	4.99%
Ten Year (annualized)	**4.71%**	3.63%	8.27%
Since Inception*(annualized)*	**4.66%**	3.63%	8.11%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for KMDNX is February 11, 2008. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 2.01%. Kinetics Asset Management LLC, the Investment Adviser to the Multi-Disciplinary Income Fund, has voluntarily agreed to waive fees and reimburse expenses so that Total Annual Fund Operating Expenses do not exceed 1.65% for No Load Class shares. These waivers and reimbursements may be discontinued at any time. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

Spin-Off and Restructuring Fund

As of March 31, 2018	LSHUX (Net of Fees)	S&P 500 Index
TOTAL RETURN		
Year-to-Date	**2.43%**	-0.76%
One Year *(annualized)*	**17.38%**	13.99%
Three Year *(annualized)*	**3.89%**	10.78%
Five Year *(annualized)*	**7.24%**	13.31%
Ten Year *(annualized)*	**3.79%**	9.49%
Since Inception*(annualized)*	**1.52%**	7.58%

Performance data quoted is as of March 31, 2018. All figures are annualized. Past performance does not guarantee future results. The inception date for LSHUX is July 11, 2007. As a no-load fund, there is no sales charge. The above performance is without dividends reinvested. Investment return and principal value will vary, and shares may be worth more or less at redemption than original purchase. The Fund's operating expense ratio, gross of any fee waiver or expense reimbursements is 1.63%. Visit www.kineticsfunds.com for the most recent month-end performance data and a copy of the most recent Prospectus.

(Holdings begin on next page)

Internet Fund **Top 10 Holdings (%) as of March 31, 2018**	
The Bitcoin Investment Trust	14.8%
PayPal Holdings, Inc.	3.3%
Liberty Media Corp.-Liberty SiriusXM - Class C	3.3%
EchoStar Corporation - Class A	3.1%
CACI International, Inc. - Class A	3.1%
The Madison Square Garden Company - Class A	2.8%
Copart, Inc.	2.5%
Alphabet, Inc. - Class A	2.3%
Alphabet, Inc. - Class C	2.3%
OTC Markets Group Inc. - Class A	2.2%

Paradigm Fund **Top 10 Holdings (%) as of March 31, 2018**	
Texas Pacific Land Trust	34.3%
The Howard Hughes Corporation	11.0%
Icahn Enterprises LP	4.5%
Brookfield Asset Management Inc. - Class A	4.0%
Cboe Global Markets, Inc.	2.8%
Liberty Media Corp.-Liberty SiriusXM - Class C	2.8%
Live Nation Entertainment, Inc.	2.7%
Markel Corporation	2.3%
Onex Corporation	2.1%
Franco-Nevada Corporation	2.0%

Medical Fund **Top 10 Holdings (%) as of March 31, 2018**	
Pfizer, Inc.	7.9%
Bristol-Myers Squibb Company	7.9%
Eli Lilly & Company	7.6%
Alkermes plc	6.9%
AbbVie Inc.	6.7%
Johnson & Johnson	6.3%
Novartis AG - ADR	5.6%
Biogen Inc.	5.4%
Sanofi - ADR	5.3%
AstraZeneca plc - ADR	4.8%

Market Opportunities Fund **Top 10 Holdings (%) as of March 31, 2018**	
Texas Pacific Land Trust	23.5%
The Bitcoin Investment Trust	7.9%
Icahn Enterprises LP	2.9%
The Howard Hughes Corporation	2.7%
Dream Unlimited Corp. - Class A	2.5%
Onex Corporation	2.1%
Associated Capital Group, Inc. - Class A	1.6%
Partners Value Investments LP	1.6%
Visa, Inc. - Class A	1.2%
CME Group, Inc.	1.2%

Global Fund **Top 10 Holdings (%) as of March 31, 2018**	
The Bitcoin Investment Trust	12.0%
Texas Pacific Land Trust	10.6%
Civeo Corporation	5.5%
Bollore SA	3.5%
GMO Internet, Inc.	2.8%
Siem Industries Inc.	2.5%
Fairfax Financial Holdings Limited	2.2%
Dream Unlimited Corp. - Class A	1.8%
Clarke Inc.	1.5%
Brookfield Asset Management Inc. - Class A	1.1%

Small Cap Opportunities Fund **Top 10 Holdings (%) as of March 31, 2018**	
Texas Pacific Land Trust	25.9%
Icahn Enterprises LP	7.9%
Dream Unlimited Corp. - Class A	6.7%
The Howard Hughes Corporation	5.9%
Civeo Corporation	4.6%
The Wendy's Company	3.9%
Live Nation Entertainment, Inc.	3.1%
Rubis SCA	3.0%
Onex Corporation	2.8%
Associated Capital Group, Inc. - Class A	2.6%

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of March 31, 2018**	
Penske Automotive Group, Inc.	7.7%
Lamb Weston Holdings, Inc.	7.6%
Brookfield Residential Properties	7.0%
Ashland Inc.	6.5%
Icahn Enterprises	6.4%
PIMCO Dynamic Income Fund	5.7%
TRI Pointe Holdings, Inc.	4.3%
Lennar Corporation	4.2%
Stolt-Nielsen Limited	4.1%
The Howard Hughes Corporation	3.5%

Spin-Off and Restructuring Fund **Top 10 Holdings (%) as of March 31, 2018**	
Texas Pacific Land Trust	23.1%
The Howard Hughes Corporation	8.0%
DREAM Unlimited Corp.	6.2%
Associated Capital Group, Inc. - Class A	5.4%
Cable One, Inc.	4.7%
PayPal Holdings, Inc.	4.2%
Graham Holdings Co.	3.9%
CSW Industrials, Inc.	3.0%
Icahn Enterprises LP	2.8%
Welbilt, Inc.	2.8%

The information contained in these charts is updated at the discretion of Kinetics Asset Management LLC and is only representative of each Fund's portfolio on the date specified. Additionally, position size may not be indicative of actual market position due to the use of call and put options.

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