Kinetics Mutual Funds

Third Quarter 2018 - Conference Call with Peter Doyle

October 9, 2018

Important Risk Disclosures:

Kinetics Asset Management LLC ("Kinetics") is pleased to announce that on October 9, 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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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® 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. The iShares MSCI ACWI Index seeks to measure the performance of both the MSCI World Index and MSCI Emerging Markets Index. The iShares EAFE Index measures international equity performance across large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Barclays 1-3 U.S. Credit Bond Index is composed of investment grade U.S. credit securities with a maturity between one and three years. The Barclays U.S. Aggregate Bond Index is composed of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, and includes securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. An investor cannot invest directly in an index.

Chris Bell: Good morning, everyone. Thank you for attending the Kinetics Mutual Funds Third Quarter Review. We'd like to make a few announcements prior to handing it over to Peter, who will make some comments about the market in general, and then James will dig into a few of our companies.

Sorry, actually we're going to start with James and then turn it over to Peter. Please, if you have any questions, you're able to submit them through the webinar and we will try and handle all the questions. And then you'll notice that there will be a replay in the next few days and slides will be with that replay[1]. If you have any questions, you can call us at 914-703-6950, or you can email us at info@kineticsfunds.com, or you can email Bob, or Tom, or myself, cbell@kineticsfunds.com. And with that, I'll turn it over to James.

James Davolos: Thanks everybody for joining, and I hope you enjoy our new webinar format. Just to go over briefly the agenda for the call today, we're going to start with a very basic market review, kind of where we've come from, a little bit into the portfolios, we'll talk about what we believe is the proper way to formulate long-term wealth creation, some macroeconomic considerations, even though that's not necessarily a big driver of what we do, and then we'll look into where we go from here.

This September marked the 10-year anniversary of September 2008, when financial markets were very precarious and obviously there was a lot of risk aversion. I don't think that even the most ambitious and optimistic investor would have envisioned the S&P 500 Index ("S&P 500") being up over 200% from September 2008.

However, I think this needs to be placed in context. Bonds have only returned 44%, which certainly has influenced the very strong returns of the S&P 500. There's a very strong decoupling with the All Country World Index, which is a global composite. Moving on to the second slide, another phenomenon—and I know that this has been a widely utilized slide, but this graph, for the 10-year trailing period, plots the S&P 500 Value Index versus the S&P 500 Growth Index.

Going back over this 10-year period, you've gotten about an extra 50% in returns through an allocation to growth stocks. And over the fullness of time this is a borderline unprecedented occurrence, which if you move over to the next slide, it plots over 20 years of the Growth Index less the Value Index. Just to give you an idea—obviously, they both started one for one, then you had that huge run up into the 2000 peak. But if you look at these three distinct time periods from 2000 to 2003, value declined 27%. Not a great experience, but growth declined over 51%. So that gets you from that first dot to the second dot.

Then from the next two—from '03 to '07, you had value again outperform up 121% relative to growth up 69%. So, those of you that remember that in late 2007, they were anointing the kings of value investing, and they were talking about Warren Buffett and others—as value as the only way to invest. True to format,

[1] Slides are appended at the end of this document.

right as the media says that, we can look at the gap from the 10-year trend plus, going back to that ’07 level, where value’s been up 90% versus growth up 212%.

So, a pretty stark divergence here where you saw the big value outperformance, and you saw the bigger growth outperformance. Not really much actionable there in and of itself because we have a lot of concerns about index construction, but it certainly shows the premium that investors have been willing to pay in terms of valuation for anything that exhibits what they end up putting into the Growth Index.

On the next slide, we’ll just touch on one more dynamic we spoke about. Over 10 years, if you were invested in an Emerging Markets Index, you would expect that, in a bull market expansionary cycle, you would outperform developed markets. People who are advocates of modern portfolio theory and various academic approaches to investing would assert that this would be higher risk and higher reward. But this has been abjectly false.

Even looking at our developed market peers in Europe, the Euro Stoxx 50 Index has been a full 60% below S&P 500 returns over this time period. So, the question is, is it possible for the U.S. to decouple to this magnitude and for this period of time against not only the rest of the world in developed markets but also emerging markets? There are three paths forward here: 1) the rest of the world catches up to U.S., 2) the U.S. reverts to where the rest of the world is, or 3) the status quo continues indefinitely, which basic math would suggest is probably quite unlikely.

So now, again, this was a backward looking view and where the world has come from, but let’s move into our portfolio construction, which is very different from what you’re seeing in these types of indices. And to this day, there really have always been four main components to our portfolios, and many of these companies, as we’ve mentioned before, represent several of these components.

You’ve got the discounted net asset value (NAV) companies, the compounders of capital, the owner-operators, and then the companies that are experiencing a cyclical fundamental recovery in their end markets. You put together these types of distinct companies over a very long period of time and you add in an element of yield, and what you end up with is a truly differentiated portfolio and something that we believe has the fundamental underpinning of long-term wealth creation.

So, before I go a little bit more into what we’re doing— and we’ll talk a lot more about individual securities at the end of the call—let’s differentiate what we view to be long-term wealth creation from what the rest of the world practices. So, a balanced portfolio—and, again, these are pulled from Vanguard, very traditional allocations of a 60/40 stock to bond, an 80/20 if you’re looking for some growth where, again, you’re looking at 8-9% over the history of this strategy, which is around 90 years.

Obviously, that’s not repeatable given where interest rates have been and given the low base of growth in globalization and margin expansion, but this gives you an idea. But it also gives you an idea of the risk, where even this balanced allocation had a 26% drawdown and then the growth allocation had a 35%

drawdown. But this is really how much of the world views investing today, where you're allocating into a box. We can do something a little bit more modern, which I'll call a diversified portfolio. This is something akin to a Vanguard approach or maybe one of David Swensen of the Yale endowment, where you're 30% global, 20% real estate, 15% long-dated treasuries, 15% inflation protected, and 15% emerging markets.

The first thing that jumps out at you is that over the 1, 3, 5 and 10-year period, there's been no benefit from this tactical allocation, no benefit from this type of formulaic risk reduction, whether it's relative to balanced growth or to a full equity allocation.

Moving to the next slide, what is warranted here is to look at what we do versus the convention. And, again, nobody has ever accumulated true wealth through this type of tactical, top-down, formulaic asset allocation other than the banks that sponsor the platforms and the people that are getting paid to put their clients' assets into it. The actual principals of that capital are not accumulating a tremendous amount of wealth practicing that methodology.

Obviously you have an efficient frontier graph over here, but the way the world looks at the market is you diversify, you optimize, you allocate, you manage volatility as an assessment of risk, and at the end of the day, whether you're doing that through an active approach, a passive approach, or a hybrid approach, you're getting an asset class return. The wealth creators (of which I consider Horizon Kinetics to be an example, as are many of the businesses that we invest in) concentrate on high conviction, in highly asymmetric risk-reward investments; they buy and hold instead of optimizing portfolios on an annual or quarterly basis, thereby avoiding transaction costs and tax slippage. Probably most importantly, there's price discipline.

Instead of allocating purely based off of what a model says in terms of how to allocate regardless of price and into an index that doesn't pay any attention to pricing, you need to have price discipline. And then, finally, anyone who looks at the world holistically asks: what's the business risk? What's the risk of this business not performing the way that it has in the past or is presently, not just simply looking at volatility?

Moving on to the next slide, just to show you again how somewhat backwards the world is, Steven Bregman, our colleague, a few quarters back talked about the last index reconstitution, where the global industry classification sectors—created and maintained by Standard & Poor's and MSCI, the rating agencies, which also happen to be some of the largest index providers in the world, were changed. In that case, it was the creation of the Real Estate sector, which was mostly carved out from the Financials sector. There is a new example to discuss this quarter.

If you pulled up an ETF fact sheet for an S&P 500 Index tracker in June, you would've seen 26% in Information Technology, and then in September you would've seen 21%. What happened is that they moved some of the largest technology companies, Google, Facebook, among others, into Communication Services (which has been a renaming of Telecommunications). Now, the reason given in the press release

for why this change was made is that they wanted to give a broader representation of the actual underlying businesses. But in reality, much of the world is confined to an index-based approach where there are plenty of defined benefit plans or defined contribution plans that are effectively only allowed to allocate into indices because of the risk and the presumed risk of active management and its associated fees.

Suddenly the consulting world is looking at the concentration of the S&P 500 by sector, and realized that this re-arrangement of sectors was a not-so-eloquent but useful way to carve out a select number of the companies. Again, to compare the S&P 500 historically to what it is today and the incentives to moving around sectors given this top-down allocation world, people just need to look a little bit deeper.

But going back to long-term wealth creation, something that we've had many conversations about is cash. Obviously, in a 10-year bull market, the longest bull market and economic expansion in history, what does cash give you, especially when up until recently it was giving you less than inflation if you were in short-dated paper? Warren Buffett, who's had a lot of different views over the years, some different from ours, some that are always going to be consistent with ours, said "cash is just about the world's worst investment, except doing something dumb that you're doing for a longer term."[2]

I think that's a subtle and incredibly eloquent statement about the consequences of doing something dumb, where you're locked into something that's going to impair your capital for a very long term. And one of Buffett's biggest problems is the $314 billion of liquid assets that he has to worry about investing; he doesn't have the same type of pool that we do. But I'd like to highlight two things there, where Warren Buffett, the most esteemed portfolio manager in the world, has got about a third in cash and short-term treasuries. Now, granted, he's always going to keep some cash on hand for acquisitions, but he's also generating tens of billions of dollars a quarter from the likes of Geico and other operating entities.

While he might not come out and overtly state that he believes that there's not a tremendous amount of opportunity in the large liquid world, I think actions speak louder than words, and all you need to do is pull up Berkshire Hathaway's balance sheet from June 30th.

One other thing I'd like to mention is that we have also had a lot of conversations about concentration. And going back to those past few slides where you look at the world in terms of diversification and asset allocation—sure, you want to put 2, 3, 4% across 30, 40, 50 stocks, and you're going to get an asset tactical type return with extra fees if somebody does that actively. Very few people can run a portfolio with 50-100 names and create real value. Very few people question the long-term results and the logic of Warren Buffett, and while it certainly hasn't performed well thus far, and it may not turn around for him, you notice the last line item, Kraft Heinz, which, while it might only be about 5% of his broader portfolio, itis closer to 10% of his equity allocations.

[2] https://www.cnbc.com/2018/05/07/warren-buffett-if-a-100-billion-deal-that-we-like-came-along-wed-get-it-done.html

If you look at his portfolio over time and you look at a lot of the other great allocators of capital, the John Templetons, the Charlie Mungers, the followers of Warren Buffett, people that are—we're talking going back decades and decades, none of them were trying to make sure that they had 60, 70, or 80 stocks. They found great, once in a cycle, once in a generation opportunities, and they really let them build and create a lot of wealth. I mean, I would love to see if somebody could properly and accurately quantify the results of Geico and their effect on the overall returns of Berkshire, both as a company in terms of return on equity and then also in terms of its profitability in the investment portfolio. And that was not a small position, nor is it today, nor was it at inception; then it was even bigger.

There are a lot of reasons to hold cash, a lot of reasons to hold idiosyncratic securities, and to know what you own, and own it long enough to let it make a difference. Continuing on the path of cash, one thing that I also want to bring up here is that, just like the decoupling we had where the U.S. has really decoupled and diverged from emerging markets and international markets, value and growth has had a similar divergence, something a bit more fundamental here. For those of you that aren't familiar with it, the NIPA profits are the National Income & Profit Accounts that are maintained by the Bureau of Economic Analysis in the United States.

On the left hand side of the slide, you have NIPA profits after tax relative to S&P 500 earnings per share. It's a pretty stark divergence when you see that NIPA profits have been flat for about five years on an after-tax basis, and the S&P 500 earnings have risen over 20%. Now, obviously, this number is going to change after this year when you have the full effects of tax reform, but just to keep us honest, on the right hand side you have NIPA pretax profits versus S&P 500 operating profits, and in this case, there is actually an even larger discrepancy between the two.

Again, going back to our logic of international emerging markets in the U.S., the three possible paths forward are: 1) the aggregate profitability of U.S. corporations catches up to the S&P 500, 2) the S&P 500 comes down to match the aggregate U.S. corporate profitability, or 3) you have a continuation of the status quo indefinitely. The math again certainly does not support option three, and to a certain extent it's very hard to support option one, where you've had this large divergence.

It's not a one-for-one as to what's driving this phenomenon, but the broad implication here is that the aggregate profitability of the U.S. corporations has not grown commensurately with the S&P 500 to the extent that all of the gains and then some have accrued to the index companies. Now, you can talk about accounting, you can talk about margins, you can talk about any number of factors that have led to this happening in the short term, but over the long term it's very difficult to see any way that it could be sustained.

Moving on from here—as I mentioned at the beginning of the call, I think that it's pretty easy to tell you where we've come from and how we look at the world today, but I'm going to turn it over to Peter here for the most important topic, which is looking ahead.

Peter Doyle: Thank you, James. And I think initially I'm just going to reinforce a lot of what James covered in the slides and why we've been defensive in holding a lot of cash, literally, over the last several years. And when we look at the broad market, it's fairly obvious not just to us but to everyone, that investment returns, stock returns, are driven by three things: interest rates, corporate profitability, and valuations. And on a bottom-up basis, we're finding it very challenging to find a wide array of assets. Our portfolios reflect that, i.e., a higher cash position and a larger concentration in our top names.

If you look at interest rates as one of the driving forces, you see that, starting in 2007, interest rates were at 5%. Following the financial crisis, central banks—not just the Federal Reserve—central banks around the world took rates down to virtually zero. And that was true up to and through 2016, when they started moving them higher.

Today, obviously, everyone's well aware that the Federal Reserve has been raising rates, and they've raised them from 2015 how many times? 1, 2, 3, 4, 5, 6, 7, 8 times from zero to 2.25% today. The winds behind the back of lower interest rates, which are like gravity for investment returns, are now in your face. You're not going to get a benefit from lower interest rates at least for the foreseeable future.

This is touching on what James had already spoken about and we're reusing that slide—in addition to this slide, the corporate profitability of the S&P 500, the margins are at an all-time high. It is hard to see how they're going to go much higher, hard to see how they can take on a lot more leverage, which they have been doing to buy back shares and to pay dividends. That's unlikely to improve going forward.

Number two of the three-legged stool is not going to be favorable for equities going forward. Next slide. And then if you look at valuations, just in the broad sense, these are very good ways of looking at the overall market. If you look at the total market capitalization of the stock market relative to GDP, you see that it's basically approaching or is at its all-time high. And when you get outside of the range of the ratio of GDP to—stock market capitalization above 115%, it is considered to be significantly overvalued.

Today, we're at 148%. Just on a broad basis, if you look at stock valuations, they're not cheap. Now, you can find opportunities within that broad market, but, overall, it's hard to see based solely on current valuations that you're going to find a lot of opportunities. On a P/E basis, it's the same story. If you're at the Shiller P/E long-term growth rates—long-term P/E multiples, right now we're at about 33.1 times earnings.

The all-time high was 44.2, and that was in December of 1999 and was basically the tech boom and the internet craze. And the all-time low was 4.8, which was in 1920. At 33%, when the long-term average is something around 16%, it is hard to see how you're going to get an expansion of P/E multiples, and that coincides with the rising interest rates. That's not going to happen. All in all, it bodes well to be fairly prudent in your positioning of the portfolio and that's one of our concerns. Looking here at another concern that we have is the entire debt burden. The total market value of U.S. debt securities outstanding is slightly

over $70 trillion. If you were to fund that debt at a 1% higher interest rate, it would be close to $700 billion annually.

On the one hand, I can see how the Federal Reserve would like to normalize things; on the other hand, I don't see how they can be really aggressive about raising rates. You have a situation where if they get too aggressive about raising rates, it's going to choke off the economy, profits will come down, and they'll have to lower rates—perhaps a positive for stocks. But it's hard to see how, with this type of debt burden, you're going to be able to grow the economy. And if you look at what's gone on in the growth in the economy, we have taken on an additional trillion dollars of debt in each of the last ten years and that essentially accounts for the entire GDP of the country. There really hasn't been a tremendous amount of significant growth here that wasn't fueled by the additional debt that the companies are willing to take on.

Next slide. Looking ahead, we're not all negative and there's a lot to be very positive about, and this is a radical turn here. If you look at this chart, the average 65-year old American male in 2018 is expected to live another 19.2 years, to the age of 84.2. That's an increase of five years—an additional five years in the last 40 years. That's astounding.

If you were born 40 years ago, you were going to live to basically just below 80-years of age; today you're expected to live to84. It's not quite as dramatic for females because they had lived longer in the past and they still live longer but their gain hasn't been as great. But that's an astounding statistic. I happen to be reading a book right now, called *Factfulness*: *Ten Reasons We're Wrong About the World—and Why Things Are Better Than You Think* and it's a book by a man named Hans Rosling. He explains that the world view that people have is very outdated. People are using statistics, at least in their mental mindset, from the 1960s-1970s. And he goes through a list of 20 questions, and the 20 questions are about how well you understand the world and the progress that's being made. And the typical person—I'm not talking about uneducated people—highly educated people, in some cases world leaders, would get maybe 2 out of 12 answers correct.

Here, shown on slide 23, is a list of three of the questions that the book has. In all low-income countries, what percentage of females finish primary school? Most people answer A, 20%. The answer is C, and it's actually going higher. Where does the majority of the world's population live? Most people think of India, and China, and Pakistan, and low income. And the answer is B for that one. And then question number three, in the last 20 years, the proportion of the world's population living in extreme poverty—most people believe it's actually doubled. The true answer is C: it halved.

T here's a tremendous amount of progress going on in the world and people—their mindset and their ability to understand that model is not really keeping up to date. Now, that has nothing to do with the stock valuations that we talked about and our position of our funds, but there's a lot in the world that's going right and people should also keep an eye on that as well.

With that, I guess we're going to close our formal remarks. And I see that there are several questions out there and I'll take the first one, which is about Texas Pacific Land Trust ('TPL"), which is an extremely large position relative to our other holdings and would we care to comment on that? And the answer is that TPL is really an outgrowth of what we just discussed. The opportunity set that we're finding from a bottom-up basis and that we're also seeing from a top-down basis is very limited because the valuations are very rich, and they're rich for a variety of reasons, many of which we just went through. TPL is, in our opinion, a once in a generation type of investment. They have an asset. That asset is now understood. It's basically a sea of oil underneath the property that they're attached to, and they're going to exploit that and take that asset out of the ground. They're not going to do it themselves, but they're going to help facilitate that. They are merely going to be the beneficiaries of receiving ever and ever larger checks in the future.

On the surface, TPL does not look like a very cheap stock on a P/E basis or anything like that, price to book or anything like that. But if you understand the asset that's being exploited out there—and it's in the very early, early stages of that—this is a company that, in our opinion, is going to be substantially larger in the future and the amount of capital that they will receive as a result of payments from easements, payments from royalties, payments from water rights that they own, among others, will continue to grow in a manner that's very impressive.

James Davolos: This is James. Just to add to that, one of the things with TPL is you really know the hard asset. You know where the royalty acres are, where the land is. The lesser known variables which skew between very knowable and very unknowable are—I'd say something very knowable is what we think the estimated ultimate recoverable resource is for the royalty acres.

We also know the land position well, and what people have to pay the Trust in order to cross their land and use their land. And I think something that not many people from the outside looking in appreciate as much as we do is their water business, where a very general exercise people can do on their own is they can look at how many wells were drilled last year, and then how many wells are going to be drilled this year. And that's only on TPL's royalty land.

There's obviously a tremendous opportunity on wells that are not on TPL's royalty land, and then also there's an even better opportunity for wells that are on their surface that's not overlapping with royalties.

I think that this is a very, very small sampling of the addressable market because of the nature of their land grant and their ability to be highly competitive relative to any other providers. But if you were to assume, let's say, broadly around 300 to 400,000 barrels of water going into each well, and then call it anywhere from 3-4 million barrels of water going out of each well, and then make certain assumptions about TPL's ability to source, transport, remove, remediate, and recycle, and dispose of that water, the numbers get very, very large very, very quickly. And the number of those wells is only going to grow at about 25-35% over the next five years.

Peter Doyle: Let me provide a little bit of history on this. This is a position that our colleague Murray Stahl discovered in 1985, and he owned it either in a former organization or at the start of Horizon's conception since that time. And we always knew that there was this tremendous potential there, but the technology was never available to extract that potential. The technology has improved dramatically, i.e., fracking, and that's really what has made this so unique.

And there's no question that the asset is there, as James pointed out, and the ability to extract that asset is now there, and it's there in a way that it's among the lowest cost to extract among any of the reserves around the world. It's not a question of if they're going to do it; it's a question of when. And the timing of that is not in our hands, but the work that's being done out there is going on 24/7 and very aggressively. And if you look at the filings in the reports from all of the large oil companies, they're investing significant money to build this out and to develop that property. And TPL is going to be a very large beneficiary of that.

Chris Bell: Once again, if you have a question, please submit it through the webinar. And I'd also like to remind everyone that factsheets for the mutual funds should be available in about two weeks and will be on the website at www.kineticsfunds.com. You can also see our various whitepapers and research on www.horizonkinetics.com. Again, please submit questions if you have an interest. And we have another question.

James Davolos: One is on Icahn Enterprises ("Icahn"), which has been a pretty volatile stock this year. For those of you who aren't familiar with it, it's basically a hybrid where you have a variety of operating entities historically in the industries of oil and gas refining, gaming and entertainment, railcar leasing and manufacturing, and auto parts. And then you also have Carl Icahn's hedge fund. I think that one of the things that makes the stock a little bit more volatile than it would otherwise be is the fact that it pays a very generous dividend yield, over 10% a year, as of the current run rate.

I think that right now is probably a really opportune time to own Icahn because he has monetized a large quantity of his portfolio of operating companies at what I consider to be very attractive prices. First of all, he monetized American Railcar Leasing. That was last year, to a Japanese bank in a cash transaction, monetizing that asset in a pretty cyclical business also at a pretty robust multiple. The second business that he monetized earlier this year was Tropicana Entertainment, which is a gaming company that is probably one of the more cyclical lower market businesses, again, at a very great multiple.

A real estate company took the assets and then an operating company took the casinos. And then he also monetized Federal-Mogul through a cash and stock merger with Tenneco, where he still has some equity optionality but he, on top of that, got rid of the debt. He has a tremendous amount of liquidity going into what I think any reasonable person would consider is probably towards the very late stages of the current cycle. As for what was going on with the price action and all the volume, I really have no unique insight into that other than the fact that there are certainly algorithms out there that look at where the yield has

been historically and where it got down to a much lower rate, and maybe there was somebody trying to arbitrage that or price that. But going forward, I think that the fundamentals remain very strong in terms of where he's created the liquidity, and the hedge fund performance seems to be turning in the right direction.

Chris Bell: We've got another question about what other opportunities we're looking at, and can we discuss anything? And they're also asking if we can discuss Civeo Corp. ("Civeo")

Peter Doyle: As a matter of fact, we found a very large and very liquid name that is likely to be a big position in our funds in the not too distant future that we think has real tremendous opportunity. We'll probably be taking down the cash position in a number of portfolios and adding that to the portfolios. I cannot give you the name because we're in the process of buying it but it's something that people have heard of, I'm sure, and you'll see it show up in our position slides in the not too distant future.

James Davolos: To the same point, I have a follow-up question on that with Civeo. And, obviously, the higher and longer oil prices stay above—call it $80 for Brent Crude, the more and more attractive their core markets in Alberta become. The current cash flow is really what I'll call kind of a recurring maintenance cash flow that they're earning based off of 30-plus year projects of oil sands, mining. Tthat's—call it the run rate cash flow, similar with the metallurgical coal down in Australia.

But the huge optionality, to get back to these massive inflection points in cash flow, is from new CapEx, mostly greenfield, some brownfield where they're expanding into old projects. But something that's been very positive. I think that the Suncorps of the world are looking much more long term at greenlighting new projects where hydrocarbon prices are, but something more immediate would be the fact that you have the liquid natural gas (LNG) Canada pipeline, which seems to be slated to begin construction, bringing LNG from the Athabasca Region of Calgary down to Kitimat, which is just outside of Vancouver.

This is a long pipeline contract where Civeo had already said they've won multiple contracts for workforce lodging along the pipe, but then there are going to be some much longer term contracts that are going to be awarded as they make progress for workforce at the train terminals down in Kitimat. Again, I think that a lot of momentum is going in the right direction to see that cash flow inflection point, but a lot of these projects are a long time coming so we'll see exactly what these companies decide on and announce over the next 6-8 months.

Chris Bell: We have a question regarding the flow of funds into passive ETFs and what the effects on returns will be as a result of that, and how far along the line we are. Peter, you study that.

Peter Doyle: Sure. One of the things that concerns us about the valuation in the market has been the flow into passive strategies. And, again, my colleague Murray has written about this extensively, and fundamentally and philosophically there's nothing wrong with indexation, and that's really essentially what an ETF is.

The problem becomes if money flows come in and they continue to buy the same names, and they make no distinction between paying 10 times earnings, 15 times earnings, 37 times earnings. There's no real price discrimination. And you can't uncouple your expected returns from the price that you pay for something. It's our belief that the typical person buying a broad based ETF is buying in at a level that is going to be very unsatisfactory for them return-wise, and it's going to end in a bad way. What's going to cause that to decline?

I don't believe that the ETF industry is ever going to get 100% of the market, and I think the rate of growth has to slow down, and I think a lot of people are invested that way solely because they think that the stocks are going to go higher and that's the best way to get exposure through that. The same thing can work in reverse. They can easily get out and get out in a way that would cause a lot of stocks to come down very aggressively. You talk about a company like Facebook, and Amazon, and Tesla, and all of those companies that are priced in such a way that it's just hard to see how you're going to do well as an investor—it would not surprise me in the right scenario that people start looking for exits out of ETFs, and those stocks come down 50-70 percent. In our opinion, you want to be as far away from that as you can possibly be and doing something truly unique. And I think that's what our portfolios offer.

Chris Bell: There's a question about whether you think the next few interest rate moves upward would cause a dispersion and might slow down corporate buybacks and those sorts of things because of more expensive debt. What do you think?

Peter Doyle: There's no question about that. One, they can't take on more debt because their debt burden is so large and their ability to pay it back is not higher. And then if they have to do it at a higher rate, that makes their ability even less so. Of course, that would have a negative impact on it.

James Davolos: But I think just to add to that, I think the interest rates rising, even though if you were to simply apply an extra 100 basis points to a cash flow stream that you're valuing, all else equal, absent an inflection point in growth, it devalues that asset. But that's typically not how the market works.

What actually ends up happening, if you look at past cycles where the Fed has hiked us into a recession, it actually softens consumer demand because the American consumer is the lifeblood of this economy. The American consumer is highly leveraged. You go back to that 70 trillion figure, you look at household debt in the form of mortgage and consumer debt, that's where a rise in interest rates is really going to make probably the first inroads.

People talk about what it does to the corporate mantra and valuations but fundamentally what does that do to the demand function? Right now the market doesn't seem like you're going to have any type of correction purely based off of valuation. It rarely does.

There needs to be a fundamental reckoning: are growth expectations out of whack? And then is there a corresponding decline in the demand function? And you look at what's happening in China right now where you have the 10-cent Alibaba/JD.com complex of stocks, where those stocks have rerated very sharply, not because they've reported any negative results, but because they had very, very intrepid valuations and people are looking with a very discerning eye at what happens to the demand function if the second largest economy in the world is no longer subsidized by the largest economy in the world. And not to mention, you think our debt figures are scary? If you look at the shadow debt in the Chinese system that has facilitated what the IMF is still saying is 7% long-term growth, I'd be shocked if they could grow organically at a quarter of that without debt.

Chris Bell: Peter, we have another question about our current tax loss carryforwards, which I believe are approximately $120 million, but that also goes in with expected cap gains for the year. As has been in the past, I would say because of the tax loss carryforwards continuing to be large, the 10-year anniversary of 2008 caused some of the tax loss carryforwards to expire, but we do have continued tax loss carryforwards of approximately $120 million, I believe, is the number at the end of 2017. As such, we don't anticipate a cap gains payout in the Paradigm Fund. Some of the other funds don't have as many tax loss carryforwards anymore.

James Davolos: There are two questions from separate people that I'll address together. You have Howard Hughes and you have Dream Unlimited ("Dream"). I'll address them together because they're what I consider to be orphan securities with very robust development and operating asset portfolios of what we consider to be high quality, advantaged niche markets. What I mean by that is in Toronto for Dream they have certain complexes that are not in the downtown condo skyscraper boom, where it was billed as a more affordable kind of micro-economy, which can be compared to The Woodlands outside of Houston, where Howard Hughes has a very large stake. And if you were to value either of these companies on a current net operating income yield and compare that to where REITs are trading today, in our opinion, you'd have very substantial upside on both of these stocks, to the tune of perhaps a doubling.

I think the bigger differentiator is if you look at the publicly traded real estate markets, there's a lot of trouble there. You have a lot of retail and a lot of these dividend yielding stocks in either the mall space or something like a realty income trust where it's strip malls and shopping centers—they're going to have a lot of trouble replacing tenants, even at current rates, if they can remain occupied. Now, you're seeing a big shift out of city center office into shared office, and you look at the economics of some of these shared office providers, that's not all that attractive either. But if you're looking for real estate, I think that these two companies have significant discounts and very, very high quality assets.

James Davolos: I think one last one here is CACI, which I think is an interesting one that Murray has followed for years. Actually, when I first joined the company around 14 years ago, we owned CACI. Simply put, it's a defense contractor in the greater Washington D.C. area, but unlike what I'll call capital intensive defense contractors, your Boeing, your Lockheed, your Northrop Grumman—boats, and planes, and bombs—that's really not what modern warfare and defense and security is.

It's cybersecurity and it's intelligence, and data, and monitoring. Virtually all of CACI's revenue is earned from the Department of Defense and related civilian and defense agencies in the United States where they have about a $5 billion backlog of contracts. CACI provides, I think, a niche low-capital intensive service that is really the future of where security's going to play a bigger and bigger role.

I think if you look at, just recently, this Bloomberg report about chips being snuck into products from Chinese manufacturers and affecting the servers of Apple and Amazons of the world, where they've obviously denied these claims, but the CACIs of the world are the ones that solve that. This is nothing that's going to get solved in Silicon Valley with tech people running around; this is something that needs to be done at a very high-level concentrated way, and CACI provides that. Now, you're buying the company at a high teens earning multiple, which is historically a little bit above where it historically traded.

But, historically, a lot of the factors that controlled its profits and profitability were, basically: is the U.S. at war or at peace, what administration's coming in, and is it an election cycle where they're going to be allowed to spend? I don't think any of those factors really have that much of an impact on the path forward now, because the dynamics of what they provide and what the world needs are really in their favor.

Chris Bell: I think we've been speaking for a while. I think we'll end it here. If you have any questions, please don't hesitate to reach out to one of your sales representatives or wholesalers. We're always happy to help. You can reach us at 914-703-6950 or you can email any one of us. Bob is buly@horizonkinetics.com, Tom is tgormley@horizonkinetics.com, Jim McShane is jmcshane@ horizonkinetics.com, and Mark Schumacher is mschumacher@horizonkinetics.com. Feel free to reach out to any of us if you have a question and thank you very much.

PERFORMANCE AND HOLDINGS INFORMATION

Internet Fund

As of September 30, 2018	WWWFX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**-13.15%**	10.56%	16.56%
One Year *(annualized)*	**10.63%**	17.91%	23.87%
Three Year *(annualized)*	**13.44%**	17.31%	20.31%
Five Year *(annualized)*	**8.35%**	13.95%	16.36%
Ten Year *(annualized)*	**12.58%**	11.97%	14.42%
Since Inception*(annualized)*	**14.07%**	8.67%	8.91%

Performance data quoted is as of September 30, 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 September 30, 2018	MEDRX (Net of Fees)	S&P 500 Index	NASDAQ Index
TOTAL RETURN			
Year-to-Date	**8.29%**	10.56%	16.56%
One Year *(annualized)*	**5.18%**	17.91%	23.87%
Three Year *(annualized)*	**5.95%**	17.31%	20.31%
Five Year *(annualized)*	**8.13%**	13.95%	16.36%
Ten Year *(annualized)*	**9.94%**	11.97%	14.42%
Since Inception*(annualized)*	**9.25%**	6.44%	5.82%

Performance data quoted is as of September 30, 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 September 30, 2018	WWWEX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**-6.43%**	10.56%	3.83%
One Year *(annualized)*	**13.90%**	17.91%	9.77%
Three Year *(annualized)*	**15.75%**	17.31%	13.40%
Five Year *(annualized)*	**5.34%**	13.95%	8.67%
Ten Year *(annualized)*	**10.20%**	11.97%	8.19%
Since Inception*(annualized)*	**-0.35%**	5.75%	4.28%

Performance data quoted is as of September 30, 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 September 30, 2018	WWNPX (Net of Fees)	S&P 500 Index	MSCI ACW Index
TOTAL RETURN			
Year-to-Date	**22.52%**	10.56%	3.83%
One Year *(annualized)*	**32.08%**	17.91%	9.77%
Three Year *(annualized)*	**24.13%**	17.31%	13.40%
Five Year *(annualized)*	**13.53%**	13.95%	8.67%
Ten Year *(annualized)*	**11.78%**	11.97%	8.19%
Since Inception*(annualized)*	**10.53%**	5.75%	4.28%

Performance data quoted is as of September 30, 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 September 30, 2018	KSCOX (Net of Fees)	S&P 600 Index	S&P 500 Index
TOTAL RETURN			
Year-to-Date	**24.88%**	14.54%	10.56%
One Year *(annualized)*	**33.39%**	19.08%	17.91%
Three Year *(annualized)*	**25.04%**	19.41%	17.31%
Five Year *(annualized)*	**12.33%**	13.32%	13.95%
Ten Year *(annualized)*	**13.38%**	12.86%	11.97%
Since Inception*(annualized)*	**11.23%**	10.31%	5.85%

Performance data quoted is as of September 30, 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 September 30, 2018	KMKNX (Net of Fees)	S&P 500 Index	MSCI EAFE Index
TOTAL RETURN			
Year-to-Date	**8.72%**	10.56%	-1.43%
One Year *(annualized)*	**29.89%**	17.91%	2.74%
Three Year *(annualized)*	**23.53%**	17.31%	9.23%
Five Year *(annualized)*	**13.50%**	13.95%	4.42%
Ten Year *(annualized)*	**12.35%**	11.97%	5.38%
Since Inception*(annualized)*	**9.67%**	8.99%	3.68%

Performance data quoted is as of September 30, 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 September 30, 2018	KWINX (Net of Fees)	Barclays 1-3 Yr. Credit	Barclays U.S. Aggregate
TOTAL RETURN			
Year-to-Date	**0.31%**	0.73%	-1.60%
One Year *(annualized)*	**0.67%**	0.66%	-1.22%
Three Year *(annualized)*	**3.03%**	1.43%	1.31%
Five Year *(annualized)*	**2.54%**	1.39%	2.16%
Ten Year (annualized)	**1.78%**	3.03%	3.77%
Since Fund Inception*(annualized)*	**0.41%**	2.90%	3.93%

Performance data quoted is as of September 30, 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 September 30, 2018	KMDNX (Net of Fees)	Barclays U.S. Aggregate	Barclays U.S. High Yield
TOTAL RETURN			
Year-to-Date	**1.80%**	-1.60%	-4.25%
One Year *(annualized)*	**1.74%**	-1.22%	-4.39%
Three Year *(annualized)*	**5.60%**	1.31%	3.26%
Five Year *(annualized)*	**3.51%**	2.16%	2.01%
Ten Year (annualized)	**5.83%**	3.77%	4.93%
Since Inception*(annualized)*	**4.68%**	3.44%	3.83%

Performance data quoted is as of September 30, 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 September 30, 2018	LSHUX (Net of Fees)	S&P 500 Index
TOTAL RETURN		
Year-to-Date	**22.77%**	10.56%
One Year *(annualized)*	**25.63%**	17.91%
Three Year *(annualized)*	**16.41%**	17.31%
Five Year *(annualized)*	**7.83%**	13.95%
Ten Year *(annualized)*	**8.44%**	11.97%
Since Inception*(annualized)*	**3.55%**	8.24%

Performance data quoted is as of September 30, 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 1.83%. 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 September 30, 2018**	
Texas Pacific Land Trust	13.4%
The Bitcoin Investment Trust	12.6%
PayPal Holdings, Inc.	4.1%
CACI International, Inc. - Class A	4.0%
The Madison Square Garden Company - Class A	3.8%
Liberty Media Corp.-Liberty SiriusXM - Class C	3.7%
Alphabet, Inc. - Class A.	2.9%
Alphabet, Inc. - Class C	2.8%
Copart, Inc	2.7%
OTC Markets Group Inc. - Class A	2.5%

Paradigm Fund **Top 10 Holdings (%) as of September 30, 2018**	
Texas Pacific Land Trust	39.6%
The Howard Hughes Corporation	7.4%
Icahn Enterprises LP	4.3%
Brookfield Asset Management Inc. - Class A	3.5%
Live Nation Entertainment, Inc.	2.6%
Liberty Media Corp.-Liberty SiriusXM - Class C	2.2%
Markel Corporation	1.9%
Cboe Global Markets, Inc.	1.8%
The Bitcoin Investment Trust	1.7%
Liberty Media Corp.-Liberty SiriusXM - Class C	1.5%

Medical Fund **Top 10 Holdings (%) as of September 30, 2018**	
Eli Lilly & Company	9.2%
Pfizer, Inc.	8.3%
Biogen Inc.	7.4%
Bristol-Myers Squibb Company	7.1%
Johnson & Johnson	6.9%
Novartis AG - ADR	6.7%
Sanofi - ADR	6.2%
Merck & Co., Inc.	5.9%
AstraZeneca plc - ADR	5.3%
AbbVie Inc.	5.3%

Market Opportunities Fund **Top 10 Holdings (%) as of September 30, 2018**	
Texas Pacific Land Trust	34.3%
The Bitcoin Investment Trust	5.2%
Icahn Enterprises LP	3.0%
The Howard Hughes Corporation	2.0%
Dream Unlimited Corp. - Class A	1.9%
Associated Capital Group, Inc. - Class A	1.6%
Partners Value Investments LP	1.4%
Visa, Inc. - Class A	1.3%
CME Group, Inc.	1.1%
MasterCard, Inc. – Class A	1.0%

Global Fund **Top 10 Holdings (%) as of September 30, 2018**	
Texas Pacific Land Trust	17.5%
The Bitcoin Investment Trust	8.7%
Civeo Corporation	5.9%
Bollore SA	2.7%
Fairfax Financial Holdings Limited	2.3%
GMO Internet Inc.	2.3%
Siem Industries Inc.	2.2%
Clarke Inc.	1.7%
CACI Intl Inc.	1.4%
Clarkson plc	1.3%

Small Cap Opportunities Fund **Top 10 Holdings (%) as of September 30, 2018**	
Texas Pacific Land Trust	30.5%
Icahn Enterprises LP	6.8%
Dream Unlimited Corp. - Class A	4.1%
Civeo Corporation	3.7%
The Howard Hughes Corporation	3.7%
Live Nation Entertainment, Inc.	2.7%
The Wendy's Company	2.5%
Associated Capital Group, Inc. - Class A	2.1%
Partner Value Investments LP	1.8%
Onex Corporation	1.6%

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of September 30, 2018**	
Penske Automotive Group, Inc.	8.9%
Lamb Weston Holdings, Inc.	8.8%
Brookfield Residential Properties	8.0%
Icahn Enterprises	7.5%
Ashland Inc.	7.5%
TRI Pointe Holdings, Inc.	5.0%
Lennar Corporation	4.8%
Stolt-Nielsen Limited	4.8%
The Howard Hughes Corporation	4.0%
Murphy Oil Corporation	3.0%

Spin-Off and Restructuring Fund **Top 10 Holdings (%) as of September 30, 2018**	
Texas Pacific Land Trust	35.4%
The Howard Hughes Corporation	6.1%
Associated Capital Group, Inc. - Class A	5.5%
DREAM Unlimited Corp.	4.9%
PayPal Holdings, Inc.	4.3%
Civeo Corp.	4.2%
Cable One, Inc.	4.1%
Graham Holdings Co.	3.3%
CSW Industrials, Inc.	3.2%
Avanos Medical, 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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