# Kinetics Mutual Funds
# Fourth Quarter 2022 Commentaries

## The Multi-Disciplinary Income Fund

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Dear Fellow Shareholders,

We have lamented about the dearth of real yields in the fixed income market, coupled with suppressed option implied volatility pricing, for many years. The long-term trend of low and declining interest rates and structurally low volatility appears to have ended in 2022. Inflation acted as a catalyst for the Federal Reserve bank to increase interest rates at the fastest pace in history, which drove both major bond and equity indexes down sharply. Despite the market tumult, the CBOE Volatility Index ("VIX") averaged only 25.5 for the year, which, while an elevated figure, it is not nearly commensurate with the level of realized market volatility.

There were limited avenues to avert market losses in 2022, particularly in the fixed income and options markets. Short maturity instruments reduced the duration profile on fixed income, which reduced any mark to market losses, which were ultimately recuperated at maturity. The ICE BAML US Treasury Bill Index re-tuned approximately +1.33%. While this was well shy of U.S. CPI (+6.5%), it was far superior to long duration bonds such as the ICE U.S. Treasury 20+ Year Index (-30.76%). It was simply best to avoid options markets, specifically, as a seller of volatility, with the CBOE PutWrite Index returning -7.66%. In hindsight, there clearly wasn't an attractive risk reward in bonds or options, with the U.S. 10-Year Treasury yield and the VIX ending 2021 at 1.51% and 16.6, respectively.

The math is slightly more encouraging as we enter 2023, but there remain hazards aplenty. The nominal yield on the U.S. 2-Year Treasury ended the year at 4.42%, which is 54 basis points higher than the yield on the U.S. 10-Year Treasury. This is the direct result of higher demand for long-term bonds, which can be an implicit function of expected rate cuts. To this end, the ICE Inflation expectations tool was pricing in approximately a 50-basis point cut in interest rates by year-end. This is consistent with 1-Year implied inflation break-even levels of approximately 2.5%. We interpret both the federal funds and inflation market expectations as including a U.S. recession, with concomitant declining inflation.

If this is the base case, historical equity market declines during recessions would suggest that the yearend VIX level of 21.7 is wholly inadequate for option writing. Furthermore, historical recessions often result in dis-inflation, or outright deflation. We believe that this relationship may break down in this cycle, due to structurally embedded inflation in raw materials prices that are largely supply driven. Should this occur during an economic contraction, it would result in a stagflationary environment, which is categorically negative for bonds and stocks (option writing alike).

These challenges have led us to revisit the existing strategy of collateralized option writing, and to embrace a wider swath of the fixed income market. We look forward to providing updates as this progresses, and seek to earn sustainable attractive real yields as a result.

| Multi-Disciplinary Income Fund<br>**Top Fixed Income Holdings (%) as of December 31, 2022** | |
|---|---|
| PIMCO Dynamic Income Fund | 7.2% |
| DoubleLine Opportunistic Credit Fund | 4.6% |
| Ball Corporation 5.250% due 01-Jul-2025 | 1.3% |
| Valaris Ltd. | 1.1% |

**Important Risk Disclosures**

***You should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. For a free copy of the most recent Prospectus, which contains this and other information, visit our website at www.kineticsfunds.com or call 1-800-930-3828. You should read the Prospectus carefully before you invest. Performance data quoted represents past performance, which does not guarantee future results. Investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit http://kineticsfunds.com/ for the most recent month-end performance data.***

***Portfolio holdings information, if any, is subject to change at any time and is as of the date shown.***

The opinions expressed are not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Additionally, the views expressed herein may change at any time subsequent to the date of issue hereof.

The Fund invests in options and other derivative instruments, which are specialized activities and entail greater than ordinary investment risks, including that they may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses. Additionally, the Fund may invest in debt securities. Investments in debt securities rated below investment grade (i.e., junk bonds) are subject to increased risks. International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Non-investment grade debt securities (i.e., junk bonds) are subject to greater credit risk, price volatility and risk of loss than are investment grade securities. Further, options contain special risks, including the imperfect correlation between the value of the option and the value of the underlying asset.

The Kinetics Multi-Disciplinary Income Fund is classified as a diversified fund. Diversification does not ensure a profit or protect against loss in a declining market. You should consult the Fund's prospectus for a complete list of risks associated with your investment.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Funds pursue their investment objectives by investing all of their investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. You will be charged a redemption fee of 2.0% of the net amount of the redemption if you redeem or exchange your shares 30 days or less after you purchase them.

The Bloomberg Barclays U.S. Aggregate Bond Index measures the performance of the U.S. investment grade bond market.

The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 index.

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 Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market.

Index returns assume that dividends are reinvested and do not include management fees or expenses. You cannot invest directly in an index.

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