

Horizon Asia Opportunity
Q1 2016 Commentary
April 2016

In the first quarter of 2016, the Horizon Asia Opportunity Institutional Composite (“Strategy”) declined 1.7%, net of fees, compared to the MSCI All Countries Asia Index (“Index”), which declined 2.3%. Consumer discretionary and Consumer Staples names in Japan, Hospitality companies in Thailand, and Macau gaming companies contributed positively. The Strategy’s position in a Chinese Pharmaceutical company and Internet companies in Japan detracted from performance.

During the first quarter, the Asian equity markets experienced increased volatility, as commodity prices—especially oil prices—faced initial headwinds, then recovered just as quickly as they fell. Since last year’s botched attempt by the Peoples Bank of China (“PBOC”) to devalue the Chinese Yuan, further devaluation is an ongoing concern. Investors were troubled by the Chinese Central bank’s clear mismanagement of the last devaluation in August 2015. In addition, the Bank of Japan (“BOJ”) introduced negative interest rates on 9% of financial assets in late January of this year. Contrary to BOJ’s intention, the Yen strengthened, the yield curve flattened, and equity markets declined.

We are becoming increasingly concerned about very aggressive central bank intervention utilizing unconventional measures, such as negative rates. We are in the late stage of this economic cycle and when the cyclical downturn materializes, central banks might not have many policy options left to offset the downward pressures on the global economy. The credibility of the central banks is on the line.

China was a bright spot during the quarter. The hard landing that China bear investors have been waiting for has yet to materialize. This is a communist economy, after all, and the government still has significant control over many parts of the economy and society. The service and consumer sectors are still growing rapidly, which is offsetting the downward pressure created by the manufacturing and export sectors. At the moment, Chinese economic growth seems to be stabilized at around a 7% level. It is too early to call a hard landing in China. We remain cautious toward the Chinese equities, as corporate governance is our biggest concern.

At the moment, the Strategy has a sizable exposure to the Japanese equity markets. Despite the macro headwinds, which include a declining population, stagnant economic growth, the threat of deflation, or perhaps because of them, we see very attractive secular investment opportunities emerging in Japan, namely, outsourcing industries. Because of the declining population, some key industries are experiencing a shortage of workers; as a result, companies are thinking more about sharing resources. At the same time, in utility industries, the declining population has been putting pressure on smaller municipalities to streamline their cost structure, so as to provide essential services such as water supply. We have several investments in Japan which are taking advantage of this emerging trend:

Transcosmos Inc. (9715 JP)

Market Capitalization: USD 1.3 billion

Valuation: P/E 14.6x, EV/EBITDA 9.4X, P/B 1.5x, Dividend Yield 2.1%

Transcosmos Inc. (“Transcosmos”) is one of the largest business process outsourcing service providers in Asia. The company typically holds long-term contracts with major corporations in Japan to manage clients’ various back office operations, including finance/accounting, human resources, order and transaction processing, IT system development, help desk services, and call center operations. Transcosmos has also

started offering operations services in digital marketing and E-commerce. The company builds and manages corporate websites and provides big data analytics for effective marketing. The company also offers one stop E-commerce solution services and builds E-commerce websites and platforms, and provides fulfillment, customer service, web marketing, and data analytics. Since its founding as a data entry service provider in 1966, the company's strength has been its operations and execution capability regarding the tasks that major corporations prefer to outsource, so as to focus on their core business operations. Transcosmos is an owner-operator company founded by CEO Koki Okuda, who, with his family, owns over 30% of the shares.

Internet Initiative Japan Inc. (3774 JP)

Market Capitalization: USD 961 million

Valuation: P/E 21.7x, EV/EBITDA 5.7x, P/B 1.5x, Dividend Yield 1%

Internet Initiative Japan Inc., the first Internet connecting service provider in Japan, was founded by the chairman and CEO Koichi Suzuki in 1992. As Internet penetration rose in Japan, the business expanded to Internet network construction and maintenance. Today, the company provides system integration services to design, develop and construct trusted customized network systems for over 8,500 corporations and government ministries and administers the network and server maintenance and management that includes the operation of data center and cloud computing services. The recurring revenue from the network maintenance and cloud computing service represents over 80% of the company's total revenue, and the system integration orders, which become recurring business after completion, have been growing at double digit rates, as Japanese corporations' demand for outsourcing non-core business operations increases.

Metawater Co Ltd. (9551 JP)

Market Capitalization: USD 686 million

Valuation: P/E 17.5x, EV/EBITDA 7.5X, P/B 1.4x, Dividend Yield 2%

Metawater Co Ltd. ("Metawater") was founded after a merger of the water environment business divisions of Fuji Electronics and NGK Insulators in 2007 and was listed in 2014. The company provides plant engineering services for the design and construction of water purification and sewage plants, waste treatment and recycling plants, as well as the installation of machinery and electronics, and provides plant operations and maintenance services. The majority of Metawater's clients are local governments who own and have operated their public services for many years. Most of the plants and facilities in Japan were built in the 1970s during a period of high economic growth, and now require major upgrades and renewals. As local governments face serious population declines and financial budget issues challenge their ability to continue operating the facilities by themselves, Metawater has seen rising demand for outsourcing designing, building and operating plants to the private sector. Metawater has installed its machinery and electronics systems in over 2000 facilities and currently operates over 70 facilities.

DISCLOSURES

Past performance is not indicative of future returns. This information should not be used as a general guide to investing or as a source of any specific investment recommendations, and makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives. This is not an offer to sell or a solicitation to invest.

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The MSCI All Countries Asia Index[®] captures large and mid-cap companies represented across 3 Developed Markets countries and 8 Emerging Markets countries in Asia. With 930 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Note that indices are unmanaged, and the figures shown herein do not reflect any investment management fee or transaction costs. Investors cannot directly invest in an index. References to market or composite indices, benchmarks or other measures of relative market performance (a "Benchmark") over a specific period are provided for your information only. Reference to a Benchmark may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, correlation, concentrations, volatility, or tracking error targets, all of which are subject to change over time. The strategy is a total return strategy, and the benchmark is provided for illustrative purposes only. It is not our intention to state, indicate or imply in any manner that our future results will be profitable or equal past results.

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Asia Opportunity - Institutional Composite



As of 3/31/2016

Investment Approach

- The strategy seeks long term capital appreciation by investing in undervalued stocks in Asia.
- Our investment process involves bottom-up, fundamental research to identify mispriced securities. We conduct face to face meetings with managements and competitors as well as analysis of business models and balance sheets. The strategy emphasizes management quality, with a preference for owner-operator companies.
- Returns are often generated by identifying businesses that cater to local economies, e.g. infrastructure, consumer, financial services, etc. Although the majority of the holdings are equities, the portfolio may invest in other parts of the capital structure when the research process identifies unique opportunities.

Portfolio Construction

- The strategy generally seeks to avoid significant portfolio turnover which has historically averaged 20 to 25% per annum.
- Portfolio typically invests in 30 to 40 securities and position sizes generally range from 0.5% to 10.0%
- The portfolio seeks to manage co-dependency across business models and does not measure risk versus a specific benchmark.

Investment Time Horizon:
5+ Years

Representative Benchmark:
MSCI All Country Asia

Assets Under Management:

Horizon Kinetics (\$bln) 6.0

Horizon Institutional (\$bln) 2.3

Inception Date:
January 2008

Portfolio Manager:
Murray Stahl
38 yrs investment experience

Aya Weissman
33 yrs investment experience

(1) Horizon Kinetics LLC is the parent company to Horizon Asset Management LLC, Kinetics Asset Management LLC, and Kinetics Advisers, LLC, each of which is an SEC-registered investment adviser.

(2) Horizon Institutional is defined as the traditional, long only separate accounts and private investment fund assets managed by Horizon Asset Management LLC. Horizon Institutional excludes separately managed, non-direct accounts and other accounts that either are serviced by wrap/dual contract sponsors or utilize a wrap or bundled fee structure. Please refer to Important Disclosures on the following page.

Performance Statistics	MTD	QTD	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Total Return (gross)	3.7	-1.4	-1.4	0.3	5.7	9.2	8.7
Total Return (net)	3.7	-1.7	-1.7	-0.7	4.7	8.1	7.6
MSCI All Asia NR	8.1	-2.3	-2.3	-9.5	1.9	1.8	0.0
Excess Return (gross)	-4.4	0.8	0.8	9.8	3.9	7.4	8.7
Standard Deviation (%)	—	—	—	14.1	12.1	14.2	15.8
Tracking Error (%)	—	—	—	10.2	6.8	7.9	10.6
Sharpe Ratio	—	—	—	0.1	0.5	0.7	0.6
Information Ratio (arith)	—	—	—	1.0	0.6	0.9	0.8
Beta	—	—	—	0.6	0.8	0.8	0.7
UpMkt Capture Ratio (%)	—	—	—	62	91	102	89
Down Capture Ratio (%)	—	—	—	42	69	64	54

Top 10 Holdings*	% Port
transcosmos Inc.	5.7%
Pigeon Corporation Un-sponsored ADR	4.5%
Internet Initiative Japan Inc. Sponsored ADR	4.4%
Unicharm Corporation	3.9%
Minor International Public Co., Ltd.	3.7%
Pola Orbis Holdings Inc.	3.2%
Kakaku.com, Inc.	3.2%
COOKPAD Inc.	2.8%
Genting Hong Kong Limited	2.6%
H.I.S. Co., Ltd.	2.4%

*Tax considerations may have led certain accounts in the composite to temporarily hold index ETFs. Such ETFs, which are not part of the composite, are included for performance purposes, but are not displayed as top holdings in the chart above.

Strategy Characteristics*	
Number of Positions	31
Avg. Market Cap. (B)	5.2
P/E ⁽¹⁾	13.7
Price/Book ⁽¹⁾	2.1
Dividend Yield	1.2%
Turnover (1 Year) ⁽²⁾	8.5%
Active Share ⁽³⁾	98.7%

⁽¹⁾ Weighted Harmonic Average

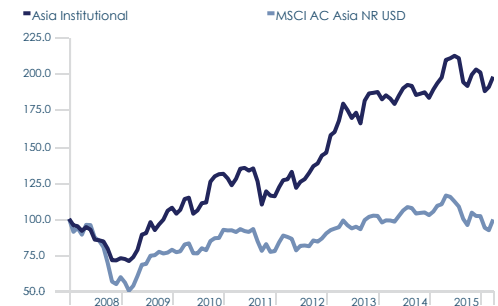
⁽²⁾ Based on Model Portfolio

⁽³⁾ Calculated as of the most recent quarter-end using the MSCI AC Asia Index as a benchmark.

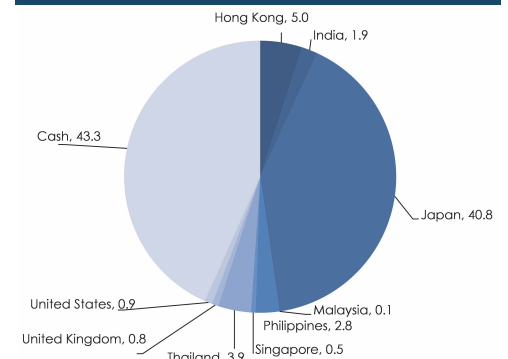
*Tax considerations may have led certain accounts in the composite to temporarily hold index ETFs. Such ETFs, which are not part of the composite, are included for performance purposes, but are not included in the chart above.

Cumulative Growth of \$100 (gross)

Time Period: 1/1/2008 to 3/31/2016



Country Allocation (%)



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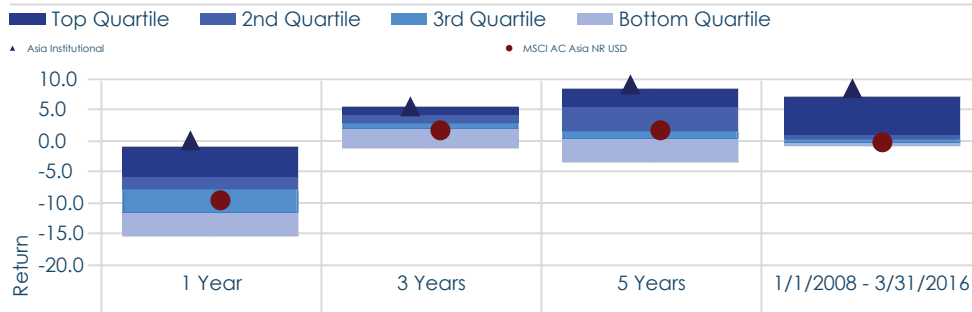
Asia Opportunity - Institutional Composite



As of 3/31/2016

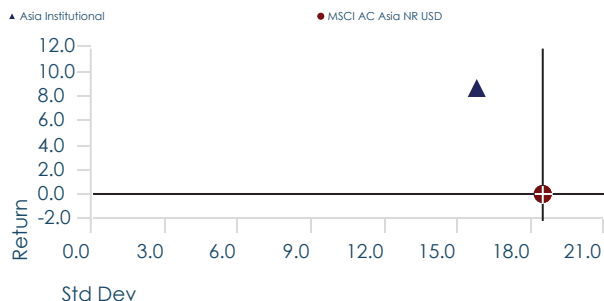
Performance Relative to Peer Group (gross)

As of Date: 3/31/2016 Peer Group (5-95%): Separate Accounts/CITs - U.S. - Diversified Pacific/Asia



Risk/Reward (gross)

Time Period: 1/1/2008 to 3/31/2016



Monthly Performance (gross)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Index
2016	-6.4	1.5	3.7										-1.4	-2.3
2015	3.2	2.3	2.0	6.2	0.5	0.8	-0.8	-7.9	-1.4	4.1	1.8	-1.0	9.6	-0.7
2014	-2.7	1.5	-1.2	-2.0	3.2	2.7	1.2	-0.4	-3.3	0.5	0.5	-2.1	-2.2	0.5
2013	8.4	1.4	4.9	7.1	-2.5	-3.1	2.2	-4.3	9.5	2.8	0.2	0.3	28.8	13.4
2012	5.5	4.0	0.5	4.0	-8.4	3.4	1.5	3.3	3.6	1.4	4.0	1.3	26.0	15.8
2011	-2.5	-3.7	3.6	5.5	0.4	-1.4	1.1	-6.7	-12.7	8.3	-2.5	-0.4	-11.9	-15.9
2010	-3.9	2.6	7.0	0.8	-9.7	2.2	4.7	0.4	12.9	2.9	1.1	0.2	21.8	17.6
2009	-0.8	-1.9	3.9	6.8	13.4	1.1	8.5	-5.7	4.2	3.5	6.2	2.0	48.0	31.7
2008	-4.4	-0.7	-3.4	2.9	-1.9	-7.5	-0.5	-0.9	-6.0	-10.1	-0.2	2.1	-27.2	-40.3

Source: Morningstar Direct

Definitions: Historical Statistics

- **Excess Return** is the measurement of a portfolio's return minus the return of the representative index.
- **Standard Deviation** is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.
- **Tracking Error** is the standard deviation of a portfolio's return relative to a benchmark.
- **Sharpe ratio** is a statistical measure that uses standard deviation and excess return to determine reward per unit of risk. A higher Sharpe ratio implies a better historical risk-adjusted performance. Morningstar chooses a risk-free benchmark based on the portfolio's domicile, e.g. the 3-month Treasury bill for portfolios based in the United States.
- **Information Ratio** is a ratio of portfolio returns above the returns of a benchmark (usually an index) to the volatility of those returns.
- **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.
- **Up-Market Ratio** is the statistical measure of an investment manager's overall performance in up-markets. The ratio is calculated by dividing the manager's returns by the returns of the index during the up-market.
- **Down-Market Ratio** is the statistical measure of an investment manager's overall performance in down-markets. The ratio is calculated by dividing the average manager's returns by the average returns of the index during the down-market.
- **Turnover** is the lower of total buys or total sells divided by the average market value of the account. Turnover ratio is calculated by Fiserv APL.
- **Active Share** is a measure of the percentage of holdings in a portfolio that differ from a benchmark index. It is calculated by taking the sum of the differences of the weight of each holding in the portfolio and the weight of each holding in the benchmark index and dividing by two. Active share is measured against the strategy's primary benchmark.

Important Disclosures

Horizon Asset Management Institutional ("Horizon Institutional" or "the Firm") is defined as the traditional long only separate accounts and private investment fund assets of Horizon Asset Management LLC ("Horizon" or the "Firm"), an SEC-registered investment adviser and a wholly owned subsidiary of Horizon Kinetics LLC. Horizon Institutional excludes separately managed, non-direct accounts and other accounts that either are serviced by wrap/dual contract sponsors or utilize a wrap or bundled fee structure. Horizon Institutional claims compliance with the Global Investment Performance Standards (GIPS®). A GIPS® compliant presentation and/or a list of composite descriptions are available upon request by contacting CSBD@horizonkinetics.com.

The Horizon Asia Opportunity Composite ("Strategy") seeks above market long-term returns by investing primarily in a focused portfolio of common stocks of Asian issuers. Performance is expressed in USD. Past performance does not guarantee future results and the value of the investments and the income derived from them may increase or decrease. Note that indices are unmanaged and the figures shown herein do not reflect any investment management fee or transaction costs. Investors cannot directly invest in an index. References to market or composite indices, benchmarks or other measures of relative market performance (a "Benchmark") over a specific period are provided for your information only. Reference to a Benchmark may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, correlation, concentrations, volatility or tracking error targets, all of which are subject to change over time. The Strategy is a total return strategy and the benchmark is provided for illustrative purposes only. It is not our intention to state, indicate or imply in any manner that our future results will be profitable or equal past results.

On February 29th 2012 the benchmark for the Horizon Institutional Asia strategy was changed retroactively from the S&P Asia 50 index to the MSCI All Country Asia Index, as we believe that the regional coverage within the MSCI All Country Asia Index better reflects the universe of the strategy (The MSCI All Country Asia is an equity index drawn from eleven major Asian markets - Japan, Hong Kong, Singapore, Korea, Taiwan, China, Philippines, Malaysia, India, Indonesia, and Thailand.) It is designed for investors seeking broad market exposure through an index that is efficient to replicate. The underlying prices for the MSCI All Country Asia are collected in local currencies and index levels are released in U.S. dollars and calculated on a real-time basis).

Unless otherwise noted, the portfolio characteristics shown above relate to the composite as of the date noted above. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) market prices of individual securities at the time of investment; (iii) and individual client circumstances. On August 1st 2014, the name of this composite was changed from the Horizon Asia Institutional Composite to the Horizon Asia Opportunity Composite, in order to better reflect the Firm's strategy of investing in companies and regions in which potential, long-term growth opportunities have been identified. The Firm reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. This Strategy may invest in both equity and fixed income securities without regard to market capitalizations or issue size. Horizon does not necessarily fully invest portfolios immediately after an account is funded. There can be no assurance that any securities discussed herein will remain in an account. The securities discussed may not represent an entire account and in the aggregate may represent only a small percentage of an account's holdings.

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