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## Horizon Kinetics Inflation Beneficiaries UCITS ETF

(Ticker: INFBN NA)

Equities for the Full Business Cycle



Prepared in August 2023

## LONG-TERM INVESTMENT PARADIGM

- The global economy experienced over 30 years of generally low inflation, low and declining (real) interest rates, increasing profit margins and rising productivity. These trends have been **disinflationary** and strongly supportive of financial asset prices.
- These factors are rapidly ending or reversing, which will be **inflationary** on a secular basis for certain markets with structural supply shortages. This is separate and distinct from cyclical inflation experienced during the early part of the post-pandemic economic recovery.
- Critical hard asset industries such as energy, metals, and agriculture have experienced decades of insufficient supply growth, despite resilient and rising demand.
- These dynamics are likely to lead to enduring elevated, albeit volatile, inflation levels.

### Challenges to Conventional Business Models

- The emergent economic backdrop will challenge companies' abilities to grow revenue in real terms, while also pressuring operating margins as costs increasingly impact operations.
- Various hard asset industries which can benefit are extremely capital intensive (working capital and debt), and achieve low full cycle economic returns.

### Hard Asset Capital Light Companies

- High profit margins
- Scalability
- Limited debt financing
- Long-life, high-quality asset base
- Strong cash flow generation

# Hard Asset, Capital Light

High Quality Businesses for Inflation



## A Full-Cycle Investment Strategy



- The industries which are most likely to benefit from a shift towards higher structural inflation are largely cyclical, low return, and have high execution risk.
- We control for this by:
  1. Focusing on the **highest quality assets**
  2. Isolating “**capital light**” business models with low/moderate working capital and debt.
- We combine these attributes against a hybrid valuation methodology to optimize a **full-cycle investment strategy**, which can be held through the inevitable volatility in underlying or broader markets.

# INFBN Portfolio Construction



## Hard Asset, Capital Light Approach

***We define a hard asset company as one that earns revenues primarily related to a tangible, finite asset base.***

***A capital light business model requires lower working capital and debt, while earning higher returns on capital. This facilitates higher compounding of capital over full business cycles.***

***This is achieved through participation on the upside, but also mitigation of downside risk.***

The revenues of a capital light, hard asset business derive directly from the underlying asset, with minimal additional cost structure.

If the price of the resource rises or production volume increases, that's an immediate increase in revenues to the hard asset company. Importantly, almost all of that revenue becomes an increase in pre-tax profits, because there is minimal incremental operating expense. This operating leverage is what differentiates these companies as inflation beneficiaries.

These businesses earn attractive returns at mid-cycle price levels; hence investment success is ***not dependent upon higher inflation/rising price levels.***

Direct Beneficiaries

**Asset-light companies with direct exposure to inflationary asset(s)**

Indirect  
Beneficiaries

**Asset-light companies with indirect exposure to inflationary asset(s)**

Opportunistic  
Beneficiaries

**Companies with unique direct exposure to inflationary asset(s), but with moderate asset intensity**

# Full Cycle Investments That Benefit From Inflation



## Capital Light Business Models

Direct

### Royalty & Streaming Companies

Royalty/streaming business models can be simplified as earning revenue streams based on the production of 3<sup>rd</sup> party operators. These businesses have direct exposure to rising commodity prices and production volumes in **energy, base metal, and precious metal** markets, yet with no direct operating costs exposure, high operating margins and longer reserve lives.

### Real Estate and Infrastructure Managers

Real Estate and Infrastructure are recognized as having pricing power and benefitting from rising inflation/price levels. However, these assets are capital intensive, and command high valuation multiples which are very sensitive to interest rates. Companies which manage these assets, largely with other investors' capital, can earn high and rising margins throughout a full-cycle, without committing high amounts of capital, or taking on undue interest rate exposure.

Indirect

### Transaction Facilitators

These companies earn fees for facilitating transactions, and achieve operating leverage with volume growth, as variable costs are low. Examples include **financial exchanges**, which stand to benefit from trading volume if higher prices drive higher volumes from speculators and hedgers. Similarly, **brokerage firms** have similar unit economics matching buyers and sellers, in industries including insurance, commercial real estate and shipping.

### Data & Research Companies

Data/Research companies provide mission critical information and research services to various inflationary end markets operating in the **health care, insurance, energy, metals & mining, automotive and industrial** industries. The proprietary database and research infrastructure established by these companies facilitates high volume growth with minimal variable expense as pricing pressures increase in the end markets.

Opportunistic

### Timber

Timber companies have extensive asset bases in the form of timberlands, however the basic harvesting and milling is relatively low cost, as compared to the sale of the finished product. This generates high free cash flow conversion even at modest commodity prices, but materially higher margins during strong pricing cycles which could be driven by low residential housing inventories in developed markets.

### Agriculture

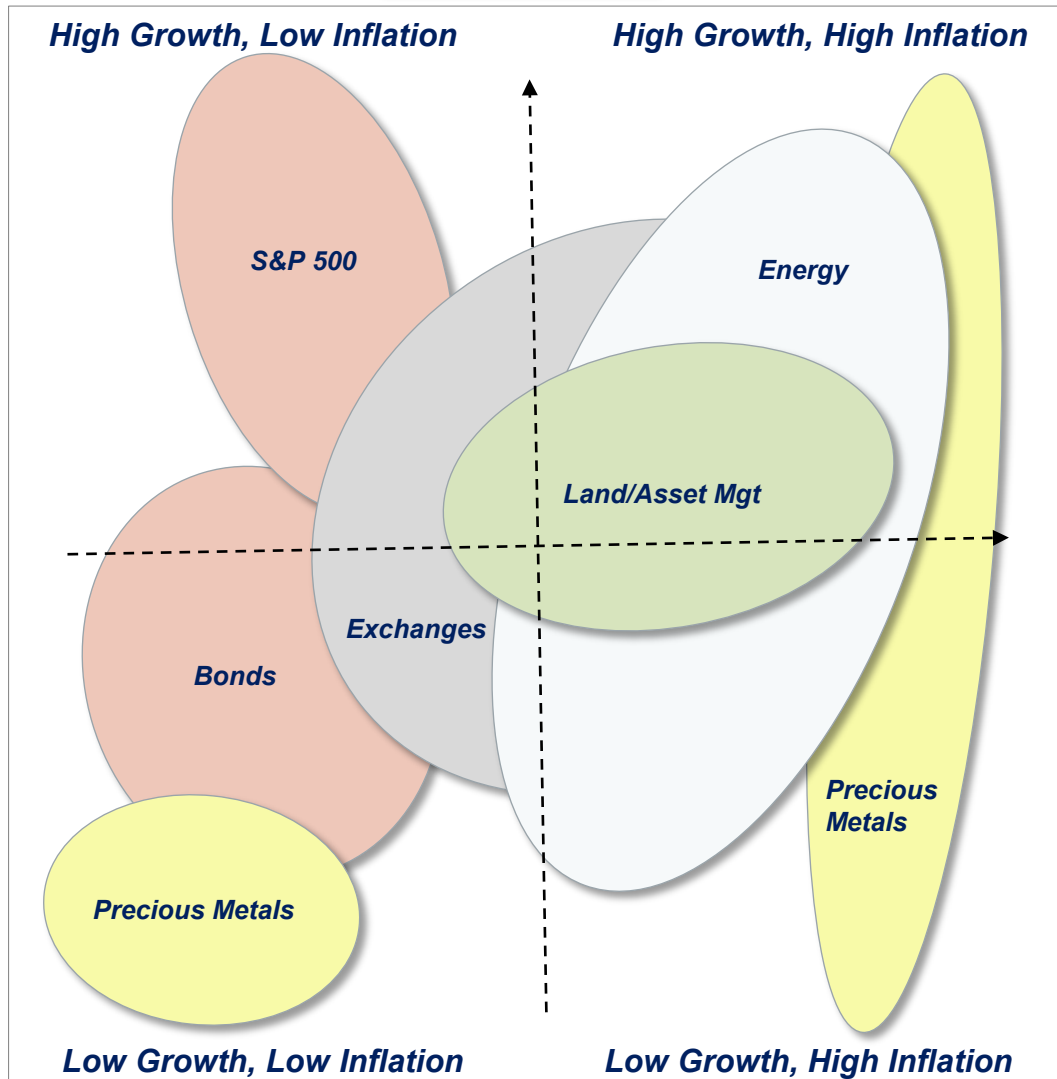
Agricultural demand is growing with global GDP per capita and higher global standards of living, however many companies within the food supply chain are not positioned to benefit from rising prices. **Grain/seed processing** companies are a unique example of scalable "throughput" businesses which can grow profit with pricing.

# Portfolio Positioning

Ability to Benefit Under a Variety of Regimes



**High Growth**



**High Inflation**

<b>Precious Metals</b>	Benefit from most inflationary scenarios, while also rising as a “store of Value” during risk aversion.
<b>Land/Asset Mgt</b>	Consistent long-term appreciation through various environments.
<b>Energy</b>	Demand inelasticity and supply insufficiency drive strong energy prices in various economic environments.
<b>Exchanges</b>	Throughput rises with nominal economic growth in most environments, with leverage to higher volume during volatility events.

# Current Economic & Inflation Backdrop

# Shifting Fundamentals have Contributed to Inflation



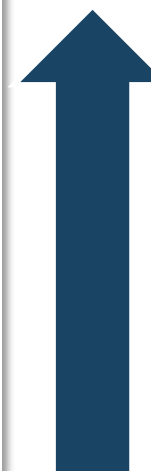
## Portfolios Must Adapt to the “New Regime”

*The inflation levels experienced since mid-2021 have been stubbornly high. Though recent observations show a slowing of the inflation rate, this is calculated of a new, higher price base established since the beginning of the cycle – lower CPI readings do not necessarily correlate to relief for consumers.*

*We believe that we are in the midst of a persistent, secular inflation cycle, driven by three fundamental shifts in the macroeconomic regime.*

- Following decades of increasing globalization of the economy, this trend is now stalling or even reversing. The supply chain disruptions experienced during the COVID-19 pandemic, along with national security considerations, are contributing to the **re-shoring of supply chains**, resulting in higher manufacturing costs.
- Similarly, after decades of exporting inflation by using **cheap labor and resources** in non-OECD countries, developed countries are now competing with emerging economies for those inputs, further increasing costs.
- **Productivity** gains have stalled. The step function increases resulting from growing adoption of internet technologies have largely played out.

*Many of the business models that thrived in the prior regime are highly sensitive to these changes. To be positioned for what is to come, it is necessary to rethink one's investments.*



### Structural Drivers

- Energy
- Food
- Industrial Metals
- Land
- Infrastructure



### Cyclical Drivers

- Used Autos
- Semiconductors
- Capital Goods



# Rising Debts Funding Rising Deficits

## The Growing Interest Burden

INFBN

Western policymakers have worked in tandem to combat inflationary pressures.

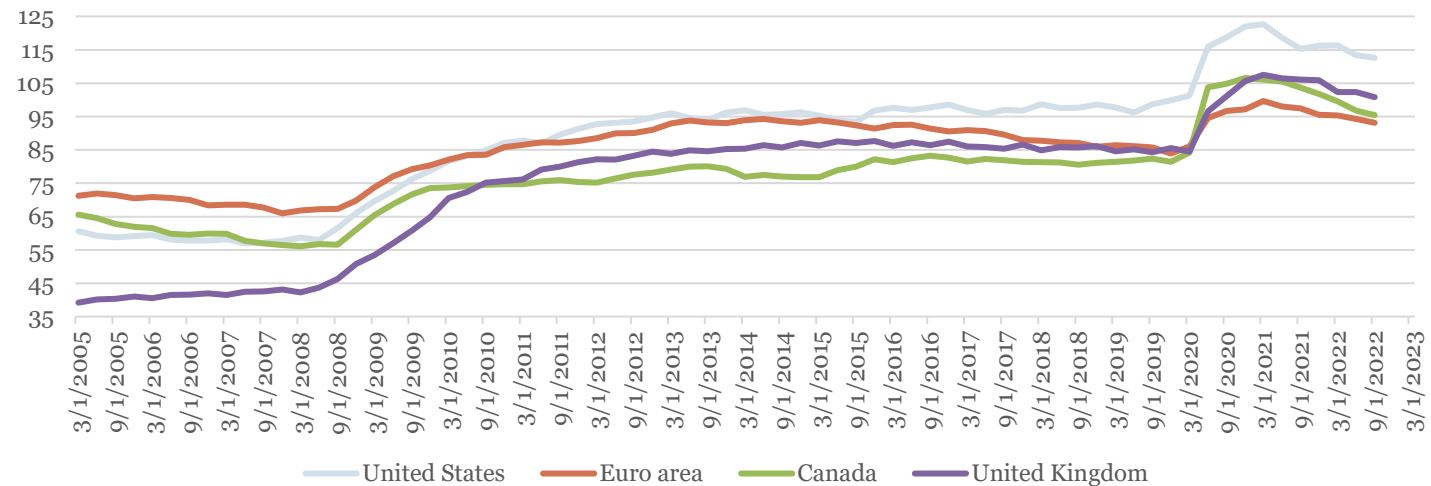
As debt rolls over, the problem becomes two-fold:

1. Higher debt levels
2. Higher average rates

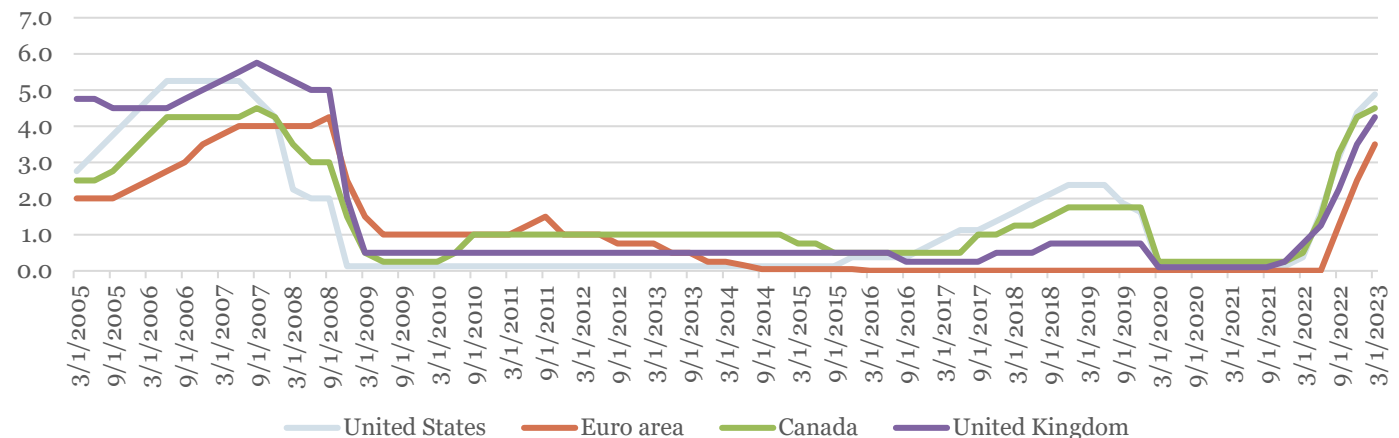
**The size of the debt and its rate of increase are now beyond the ability of the global economy to outgrow.**

Governments cannot fund themselves without higher debt issuance, which if purchased by central banks, will result in inflationary money supply growth.

### Government Debt/GDP %

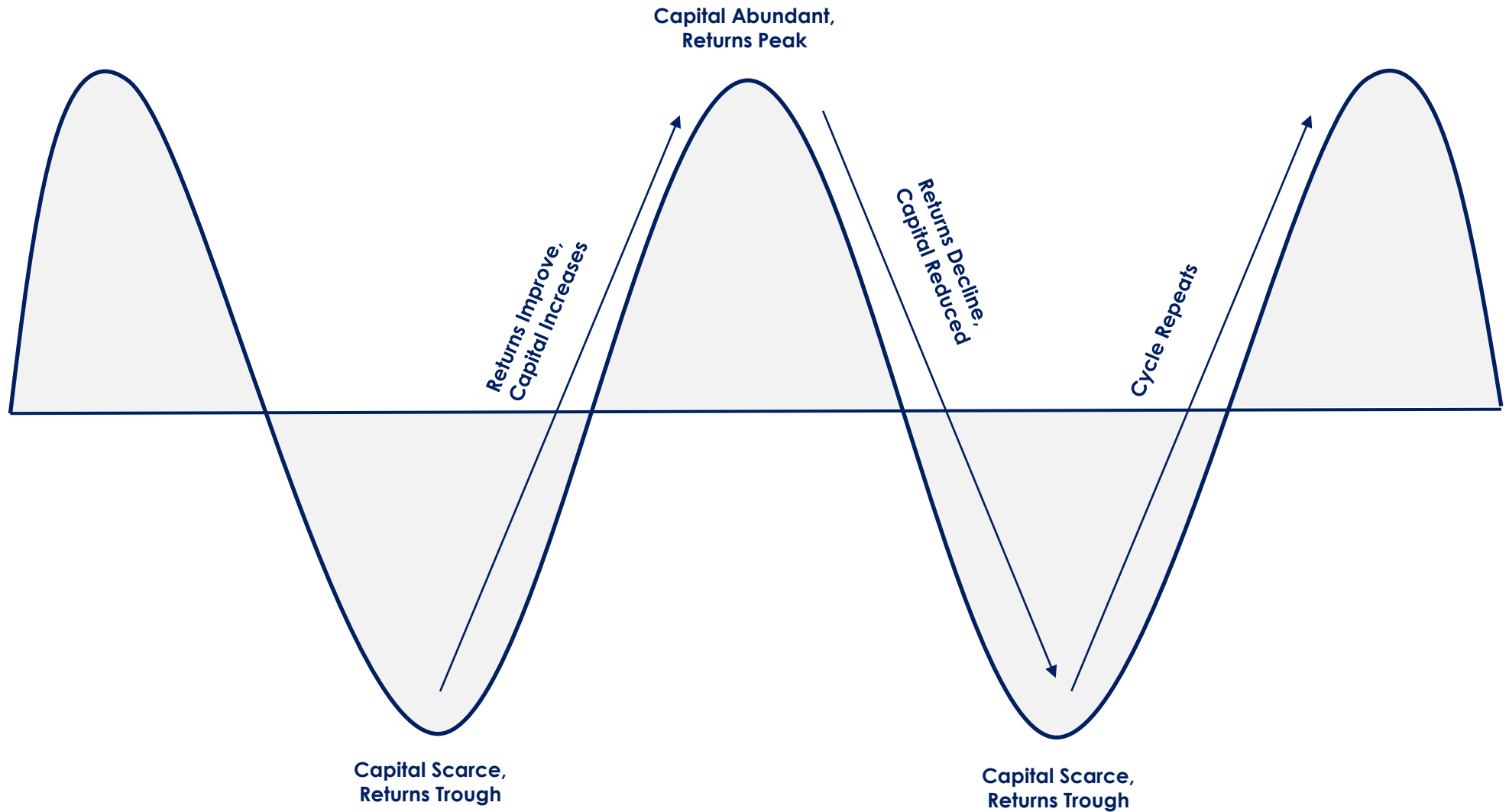


### Central Bank Policy Rates %



# Capital Cycle Theory

## Hard Assets

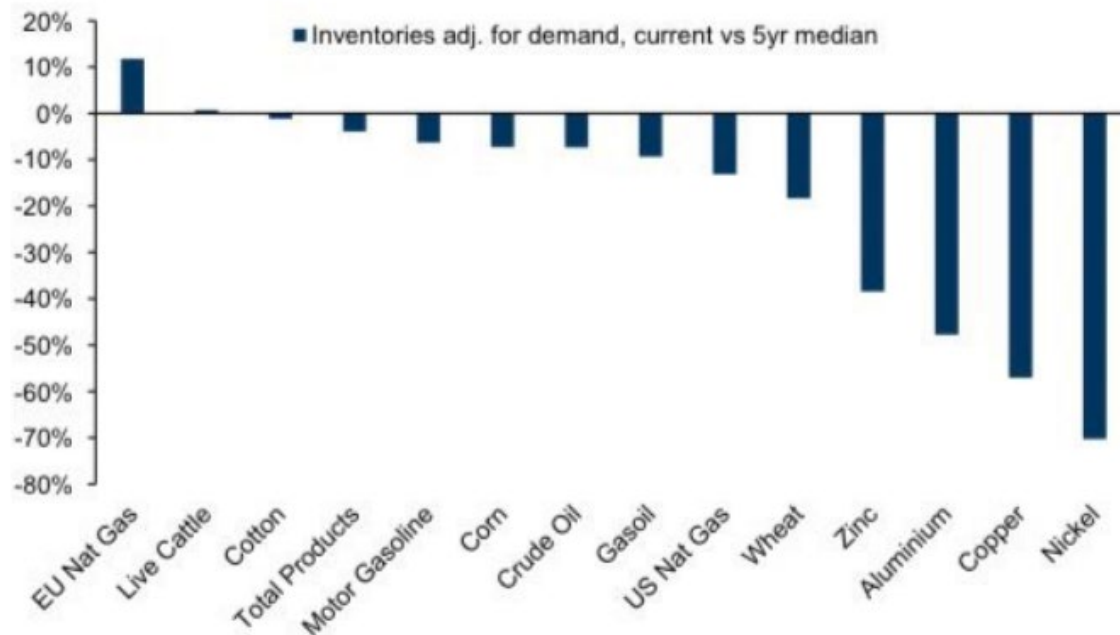


# Capital Cycle

## Critically Low Inventories



**Exhibit 12: Inventories in almost all markets are significantly below the 5-year median and at risk of depletion**



Source: Bloomberg, USDA, EIA, Wind, Goldman Sachs Global Investment Research

**Structural inflation** is likely to persist for many years given supply shortages that are not being addressed today. Federal Reserve policies are aimed at reducing inflation simply through demand reduction. This is likely to reduce discretionary **cyclical inflation** drivers such as semiconductors, capital goods, automobiles, etc.

Commodity (spot) prices are set based on discrete supply/demand balances at specific periods of time.

However, longer-term pricing is set based on demand relative to **inventory**. Current inventories are critically low relative to 5-year averages.... As China appears to be restimulating its economy.

# Case Studies

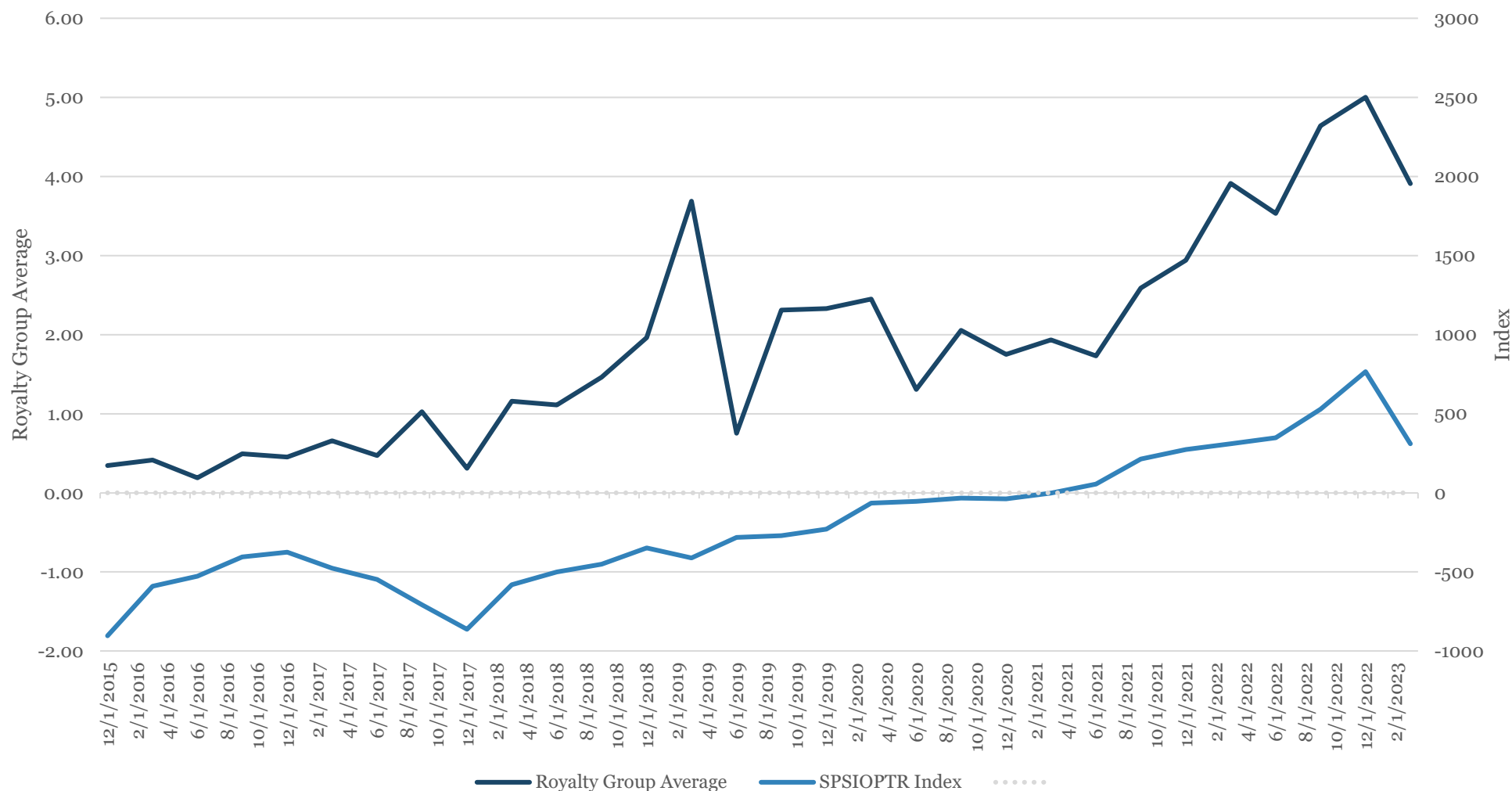
Hard Asset, Capital Light Investing Through Cycles

# Full-Cycle Royalty Operating Income – Direct Beneficiaries

Oil and Gas

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Free Cash Flow/Basic Share (quarterly)



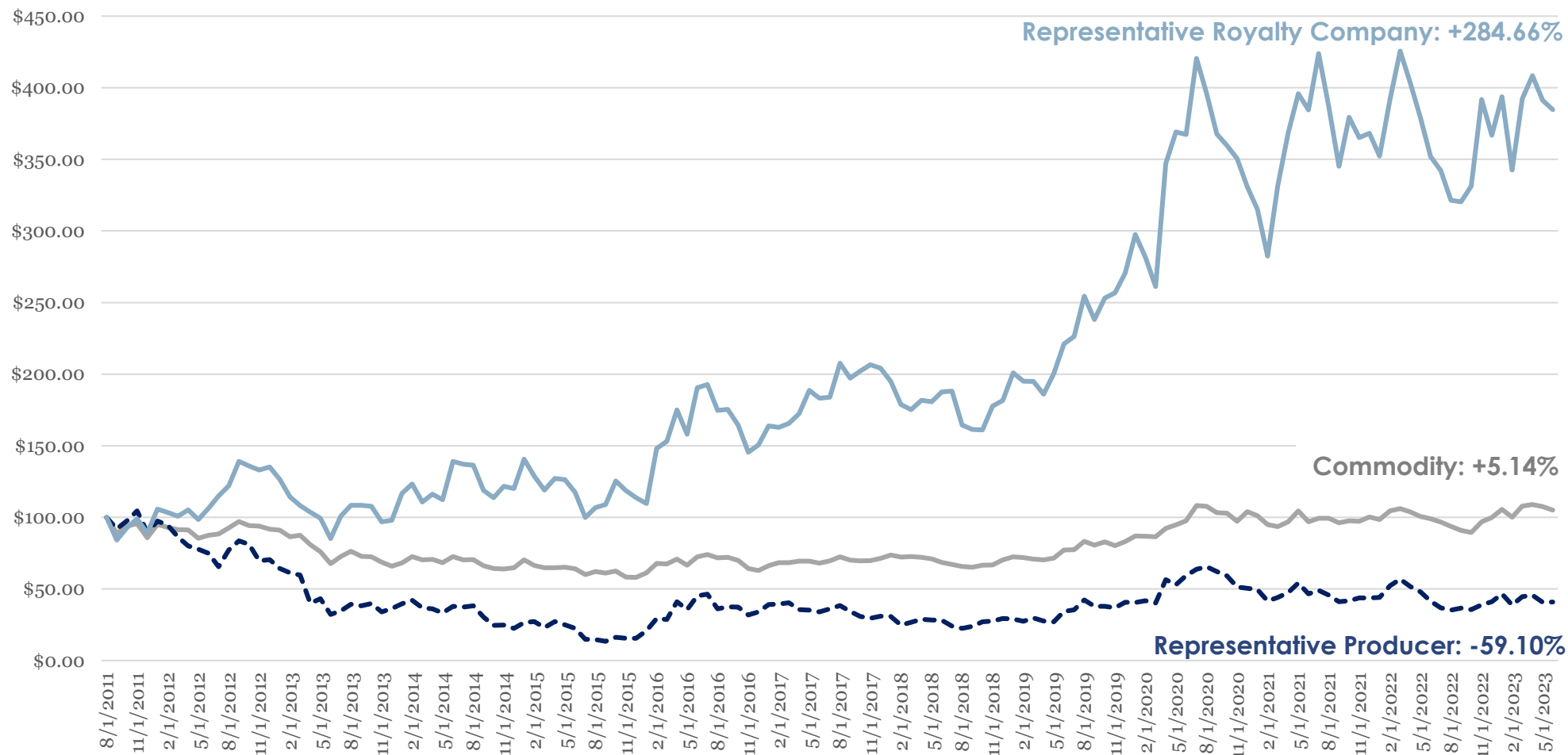
Source: Bloomberg, Royalty Group consists of Texas Pacific Land Corp, Black Stone Minerals LP, Viper Energy Partners LP, and PrairieSky Royalty Ltd.

# Full-Cycle Royalty Returns – Direct Beneficiaries



Gold

## Gold v. Gold Producer v. Royalty Company



Gold – Previous Cycle Peak Aug 2011

Source: Bloomberg, Normalized to a 100 base

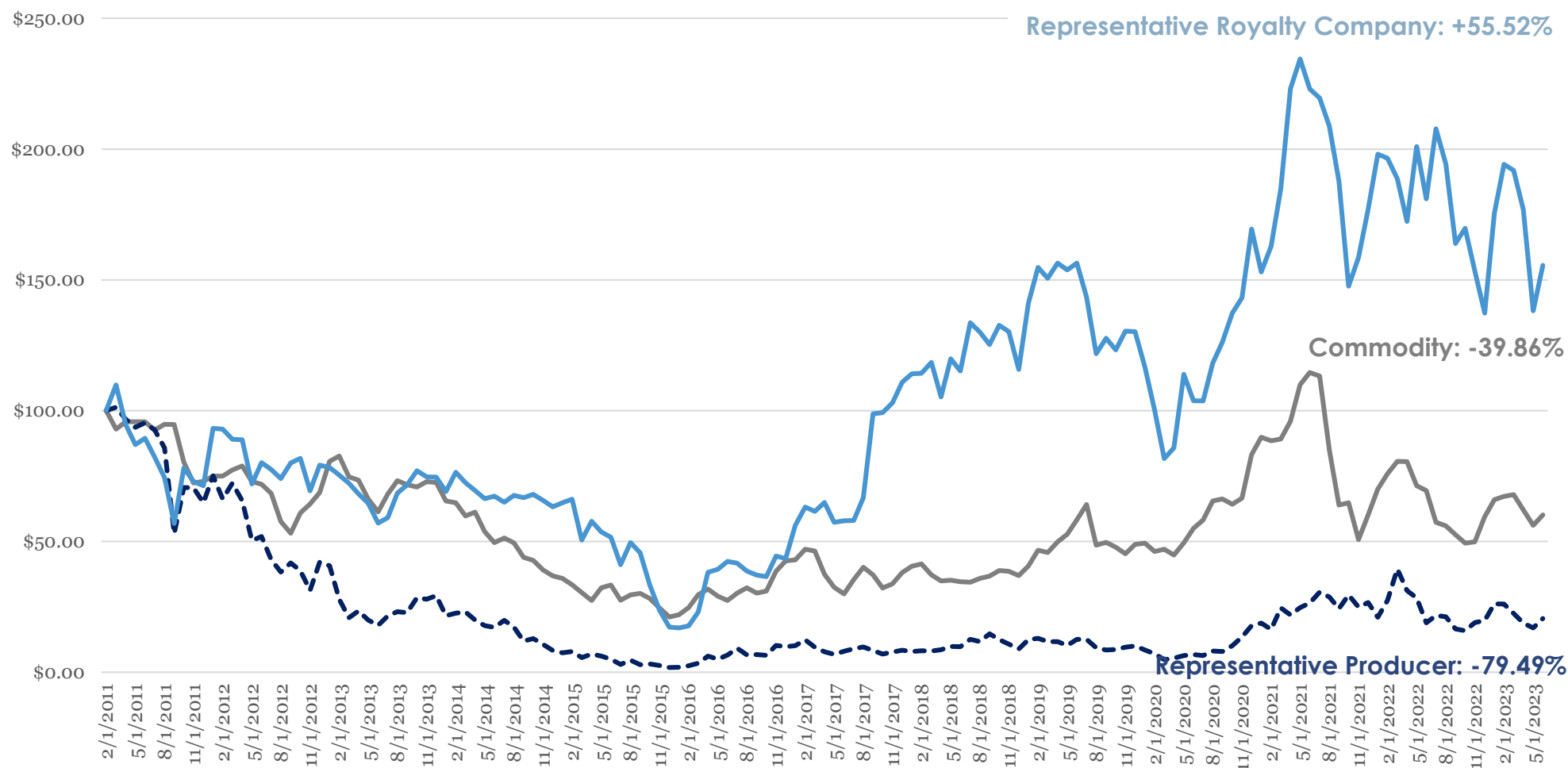
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# Full-Cycle Royalty Returns - Direct Beneficiaries

## Iron Ore

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### Iron v. Iron Producer v. Royalty Company



Iron - Previous Cycle Peak Feb 2011

Source: Bloomberg, Normalized to a 100 base

# Global Securities Exchanges – Indirect Beneficiaries



## Leading Derivatives Exchange

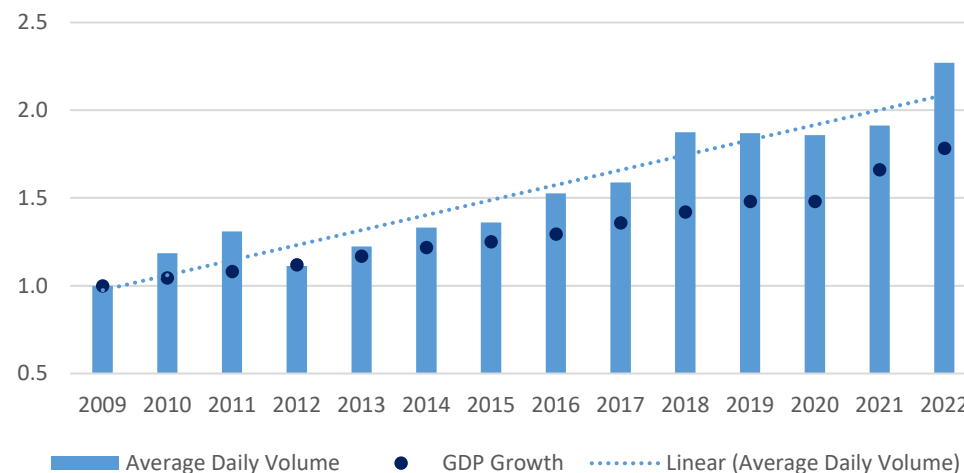
Average daily volumes have grown in excess of GDP, as primary drivers are linked to both economic activity and expected volatility.

Heightened uncertainty provides an additional lever of upside in excess of the market activity these exchanges service.

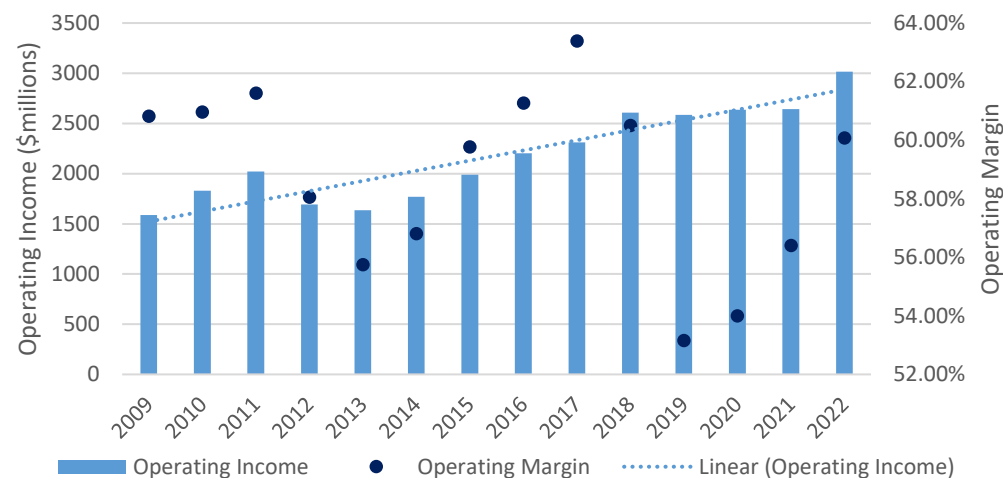
Margins remain consistently high, as operating expenses are relatively fixed.

Once breakeven has been reached, each dollar of additional activity can flow to the bottom line.

Trading Volumes vs Nominal GDP (growth)



Operating Income



Source: Bloomberg, Company Reports, St. Louis Fed



# Why INFBN?



## Quality Exposure to Price Levels

### High Quality Businesses

The Fund's emphasis on hard asset, capital light businesses results in high operating margins, operating leverage and minimal debt through full business cycle.

### Durable Assets

The asset base of the companies have long reserve lives, which maximizes the benefits of rising underlying prices, while limiting the sensitivity to reinvestment costs.

### Attractive Valuations

INFBN has higher and rising profits, a lower valuation, less debt and faster sales growth compared to the S&P 500 Index.

### Non-Binary Returns

The return profile of the companies in the Fund do not require higher prices and earn attractive returns under current conditions. However, returns are incrementally higher under certain rising price environment.

### Diversification

Major global equity indexes have little to no exposure to these sub-industries and specific companies in the Fund. This exposure provides high quality diversification to traditional asset allocations.

# Inflation Beneficiaries UCITS ETF

## Performance and Portfolio Data

# INFBN Overview



## An Active Approach to Inflation Risk

### FUND DESCRIPTION

#### Investment Objective:

The Horizon Kinetics Inflation Beneficiaries UCITS ETF (the "Fund") seeks long-term growth of capital in real (inflation-adjusted) terms.

#### Strategy:

An actively-managed ETF that seeks to provide positive real investment returns in an inflationary macroeconomic environment. The Fund seeks to achieve this by investing in the public equity securities of profitable businesses which we believe are also inflation beneficiaries with scalable, economically resilient business models.

#### Portfolio Managers:

James Davolos – 18 years of investment experience

Peter Doyle – 38 years of investment experience

Steven Bregman – 38 years of investment experience

### FUND DETAILS

<b>Ticker/ISIN</b>	INFBN/IE000Z7ELYY2
<b>Inception Date</b>	March 16, 2023
<b>Expense Ratio</b>	0.85%
<b>Index Tracked</b>	None (Active ETF)
<b>Distributor</b>	Horizon Kinetics Asset Management LLC
<b>Stock Exchange</b>	EAM/XDUB
<b>Share Currency</b>	USD, EUR, GBP
<b>Depository</b>	Elavon Financial Services (U.S. Bank Depository)
<b>Management Company:</b>	KBA Consulting Management Limited
<b>Administrator</b>	U.S. Bank Global Fund Services (Ireland) Limited

Following the successful launch of our NYSE-listed [Inflation Beneficiaries ETF \(INFL\)](#) in January 2021, we are pleased to offer our European clients a product that will follow a similar strategy to INFL, emphasizing exposure to hard asset, capital light businesses.

We originally launched the strategy for our U.S. clients, but inflation is a global phenomenon which impacts all businesses and investors. The portfolio is designed to provide a full-cycle inflation exposure, that has the potential to thrive in a variety of economic scenarios.

For INFL performance and resources, please visit <https://horizonkinetics.com/products/etf/infl/>

# Horizon Kinetics, LLC

Investing Differently Since 1994

# Firm Overview

## At a Glance



### Horizon Kinetics LLC

- Independent, employee owned, serving clients since 1994.
- \$6.3 billion in firm-wide assets under management<sup>1</sup>.
- 74 employees.
- Offices in New York City, White Plains, NY and Summit, NJ.

### Stable, tenured investment team

- Co-Founders investing together for over 30 years.
- 19 Investment Professionals with an average tenure of 18 years with the firm and 31 years in the industry.

### Dedicated Culture

- Committed exclusively to investment research and portfolio management across the capital structure.
- Independent publisher of research for institutional investment community since 1995.
- Adhering to a research-intensive, time-tested fundamental investment philosophy.
- Institutional quality client service and operations infrastructure.

### Investment Approach

- Independent Thinking
  - Primary source data driven process.
  - Research analysts culturally guided to overcome confirmation biases and data availability errors.
- Opportunity
  - Seek above market returns with reduced chances of loss by capturing high discount rates associated with the “Equity Yield Curve.”
  - Earn returns of underlying fundamental business and potential narrowing of discount rate.
- Focus
  - Research team and process organized around attributes associated with long-term excess returns.
  - Seek to avoid the permanent loss of capital.
- Differentiated
  - Philosophy and process lead us to explore lesser researched and less frequently trafficked investments.
  - High active share<sup>2</sup> by design.
- Discipline
  - Portfolio Managers and Research Analysts must write logical, clear and understandable investment theses that withstand internal and external scrutiny.
- Patience
  - Capturing long-term excess returns requires commitment.

<sup>1</sup> As of June 30, 2023

<sup>2</sup> 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.

# Firm Overview

## Strategy and Client Type Overview



**Firmwide Assets Under Management<sup>1</sup>**

**\$6.3 B**

**Separately Managed Accounts<sup>2</sup>**

**\$3.1 B**

- Equities
- High-Yield
- Opportunistic Investments, i.e. Distressed Debt

**Kinetics Mutual Funds and Active ETF<sup>3</sup>**

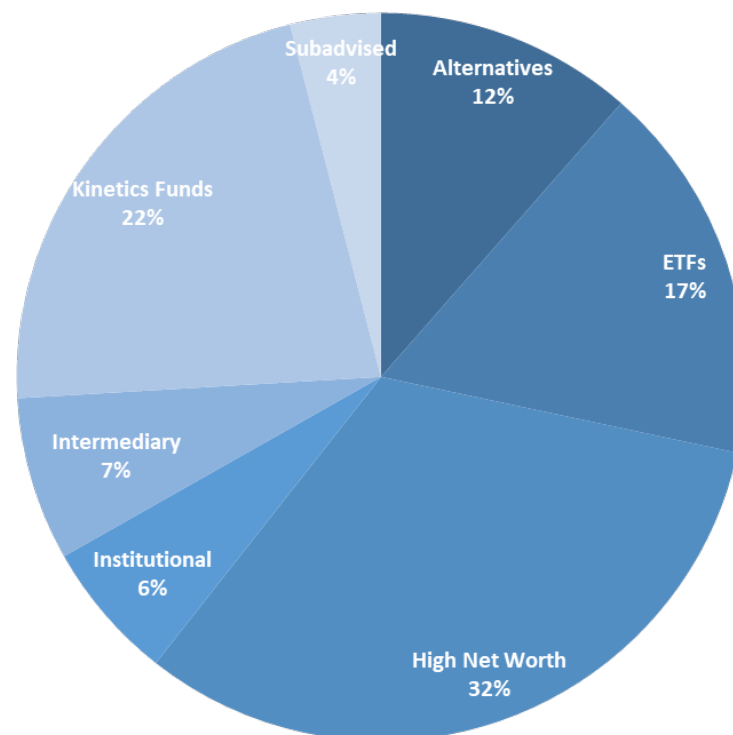
**\$2.4 B**

- Broad Markets
- Specialty Markets
- Income-Related
- Inflation Beneficiaries

**Alternative Investments\***

**\$0.7 B**

**Client Assets by Type<sup>1</sup>**



\*Alternative Investment values are based on previous month end fund administrator values. Additional information available upon request for qualified investors.

<sup>1</sup>AUM and client type as of 6/30/2023

<sup>2</sup>Includes assets in customized portfolios, other strategies developed for intermediaries, and sub-advised assets.

<sup>3</sup>Kinetics Mutual Funds, Inc. ("Kinetics Funds") are distributed by Kinetics Funds Distributor LLC ("KFD"), an affiliate of Horizon Kinetics LLC. KFD is not affiliated with the Kinetics Funds.

<sup>4</sup>Includes individual client accounts through intermediaries. The Horizon Kinetics Inflation Beneficiaries ETF (INFL) is distributed by Foreside Fund Services, LLC ("Foreside"). Foreside is not affiliated with INFL or Horizon Kinetics LLC or its subsidiaries.

You should consider the investment objectives, risks, charges and expenses of the mutual funds carefully before investing. For a free copy of the mutual funds' prospectus, which contains this and other information, visit our website at [www.kineticsfunds.com](http://www.kineticsfunds.com) or call 1-800-930-3828. You should read the prospectus carefully before you invest.

## **Murray Stahl**

*Chairman, Chief Executive Officer, Chief Investment Officer*

Murray is Chief Executive Officer, Chairman of the Board of Horizon Kinetics and is a co-founder of the Firm. He has over thirty years of investing experience and is responsible for overseeing the Firm's proprietary research. Murray serves as the Firm's Chief Investment Officer, and chairs the Firm's Investment Committee, which is responsible for portfolio management decisions across the entire Firm. He is also the Co-Portfolio Manager for a number of registered investment companies, private funds, and institutional separate accounts. Additionally, Murray is the Chairman and Chief Executive Officer of FRMO Corp. He is a member of the Board of Directors of the Minneapolis Grain Exchange, the Bermuda Stock Exchange, and Texas Pacific Land Corporation. Prior to co-founding the Firm, Murray spent 16 years at Bankers Trust Company (1978-1994) as a senior portfolio manager and research analyst. As a senior fund manager, he was responsible for investing the Utility Mutual Fund, along with three of the bank's Common Trust Funds: The Special Opportunity Fund, The Utility Fund, and The Tangible Assets Fund. He was also a member of the Equity Strategy Group and the Investment Strategy Group, which established asset allocation guidelines for the Private Bank. Murray received a Bachelor of Arts in 1976, a Masters of Arts in 1980 from Brooklyn College, and an MBA from Pace University in 1985.

## **Peter Doyle**

*Managing Director, President of Kinetics Mutual Funds, Inc.*

Peter is a Managing Director and co-founder of the Firm. He is a senior member of the research team, and a member of the Investment Committee and the Board. Peter is a Co-Portfolio Manager for several registered investment companies, private funds, and institutional separate accounts. He is also responsible for oversight of the Firm's marketing and sales activities and is the Vice President of FRMO Corp. Previously, Peter was with Bankers Trust Company (1985-1994) as a Senior Investment Officer, where he also served on the Finance, Utility and REIT Research sub-group teams. Peter received a BS from St. John's University and an MBA from Fordham University.

## **Steven Bregman**

*President*

Steven is the President of Horizon Kinetics and is a co-founder of the Firm. He is a senior member of the Firm's research team, a member of the Investment Committee and Board, and supervises all research reports produced by the Firm. As one of the largest independent research firms, Horizon Kinetics focuses on structurally inefficient market sectors, including domestic spin-offs, global spin-offs (The Spin-Off Report and Global Spin-Off Report), distressed debt (Contrarian Fixed Income) and short sale candidates (Devil's Advocate), among others. Horizon Kinetics has also taken an interest in creating functionally improved indexes, such as the Spin-Off Indexes and the Wealth Indexes (which incorporate the owner-operator return variable). Steve is also the President and CFO of FRMO Corp., a publicly traded company with interests in Horizon Kinetics and is a member of the Board of Directors of Winland Electronics, Inc. He received a BA from Hunter College, and his CFA® Charter in 1989. Steve has authored a variety of papers, notably "Spin-offs Revisited: A Review of a Structural Pricing Anomaly" (1996) and "Equity Strategies and Inflation" (2012).

## **James Davolos**

*Portfolio Manager*

James joined the Firm in 2005 and currently serves as Co-Portfolio Manager for the Inflation Beneficiaries ETF (INFL), the Internet Fund as well as several private funds and institutional separate accounts. He began his investment career with the Firm in 2005, as a member of the trading desk and joined the investment team in December 2006. James began his tenure on the investment team as a generalist analyst covering investment and research opportunities for various strategies managed by the Firm. James received a BBA in Finance from Loyola University in Maryland, and an MBA from New York University.

# Corporate Bios



## **Alun Williams**

*Chief Operating Officer*

Alun joined the Firm in 2009 and, after 12 years as the firm's Director of Trading and Operations, took over the role of Chief Operating Officer in 2021. As Chief Operating Officer, Alun is responsible for overseeing daily operations and administrative functions for Horizon Kinetics. Prior to 2009, Alun was at Goldman Sachs where he was the head of GSAM Operations Salt Lake City. Alun joined Goldman Sachs in 1996 and in his time there held a number of operational and control positions within the equity, private wealth and asset management divisions. Alun received a BSc in Business Administration from Bath University, England.

## **Chris McCarthy, CFA®**

*Managing Director, Head of Institutional Sales*

Chris joined Horizon in 2014 as Head of Institutional Sales. Prior to joining the Firm, Chris spent nearly 11 years at Delaware Investments, most recently as Senior Vice President, Institutional Sales, where he was responsible for the Northeast region. Previously, he served as co-head of Financial Institutional Sales, where he developed Delaware's sub-advisory, private banking and UCITS fund channels. Chris began his tenure at Delaware as the National Sales Manager for their Defined Contribution (DCIO) business. Prior to Delaware Investments, Chris worked at ExpertPlan, Inc., a web-based retirement platform, as Vice President, Sales and as Director of Business Development at American Skandia (now a unit of Prudential Financial). Chris has a BSBA from the University of Massachusetts, Amherst and an MBA from the University of Notre Dame. He is a member of the Boston Security Analysts Society and the CFA Institute.

## **Jay Kesslen**

*General Counsel, Managing Director*

Jay joined the Firm in 1999 and currently serves as General Counsel, Managing Director, and is a member of the Board. He oversees all aspects of the Firm's legal affairs, advises on all material compliance matters, and is responsible for the Firm's corporate governance. Jay is the Firm's Anti-Money Laundering Officer and also serves as a Director for several private funds managed by subsidiaries of the Firm. He is also Vice President and Assistant Secretary for Kinetics Mutual Funds, Inc., a series of U.S. mutual funds managed by Kinetics Asset Management LLC, a subsidiary of the Firm. Jay also serves as the General Counsel of FRMO Corp., a publicly traded company. Jay holds a BA in Economics from the State University of New York at Plattsburgh (cum laude) and a JD from Albany Law School.

## **Russell Grimaldi**

*Chief Compliance Officer, Associate General Counsel*

Russ joined the Firm in 2005 and currently serves as the Chief Compliance Officer and Associate General Counsel. He oversees the Firm's compliance program and supports all legal and regulatory functions. Russ has substantial experience with the rules and regulations governing the investment management industry and is a frequent speaker at various industry events. He is also a member of several of the Firm's operating committees and is the Anti-Money Laundering Compliance Officer for the Firm's offshore private funds. Russ holds a BA in Legal Studies from Quinnipiac University (cum laude) and a JD from Albany Law School.



# Contact Information

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[www.horizonkineticsetf.com](http://www.horizonkineticsetf.com)*

# Important Risk Disclosures



*Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, you may obtain the Fund's Prospectus by clicking [HERE](#), the Fund's Prospectus Supplement by clicking [HERE](#), or by contacting 646-495-7333. Read them carefully before investing.*

The Horizon Kinetics Inflation Beneficiaries UCITS ETF (the "Fund") is an actively managed UCITS ETF that seeks long-term growth of capital in excess of inflation. It seeks to achieve its investment objective by investing primarily in domestic and foreign equity securities of companies that are expected to benefit, either directly or indirectly, from rising prices of real assets (i.e., assets whose value is mainly derived from physical properties such as commodities) such as those whose revenues are expected to increase with inflation without corresponding increases in expenses.

The Fund's Ticker is INFLBN and is traded on the Euronext Amsterdam Stock Exchange (EAM) and Euronext Dublin Stock Exchange (XDUB).

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The Fund's investments in securities linked to real assets involve significant risks, including financial, operating, and competitive risks. Investments in securities linked to real assets expose the Fund to potentially adverse macroeconomic conditions, such as a rise in interest rates or a downturn in the economy in which the asset is located.

The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets.

The Fund may invest in the securities of smaller and mid-capitalization companies, which may be more volatile than funds that invest in larger, more established companies. The Fund is actively managed and may be affected by the investment adviser's security selections. **Diversification does not assure a profit or protect against a loss in a declining market.**

**Sustainable Finance Disclosures Regulation Details:** [CLICK HERE](#)