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Trading Up

It's fair to say that investors and policymakers alike don't seem overly concerned today about the prospects for inflation. James Davolos of Horizon Kinetics offers an idea for those who might not share that particular sense of calm.

It's not at all yet conventional wisdom, but some discerning investors see the seeds of future inflation in the fiscal and monetary policies pursued globally in response to the pandemic. "Given the money supply being created and the fiscal spending still to come, we believe there's going to be a price push, first in real assets and then in the Consumer Price Index," says James Davolos of Horizon Kinetics LLC.

While such a scenario isn't generally positive for equity investors, Davolos's firm expects to launch next month the actively managed Horizon Kinetics Inflationary Beneficiaries ETF [INFL] to invest in stocks it expects to shine in inflationary times. Holdings will include commodity and precious-metal producers that directly benefit from rising real-asset prices, as well as "asset-light" firms that don't need higher inflation to prosper, but should provide a countercyclical boost if it happens.

One asset-light example today is Intercontinental Exchange [ICE], founded 20 years ago as a digital exchange trading Brent crude-oil futures and now a global powerhouse in the financial exchange, clearing and data industry. It owns the New York Stock Exchange and also has leading and unassailable market-making positions in financial derivatives, fixed income, energy, agricultural products and metals. It has proven adept in capitalizing on analog-to-digital shifts in all manner of trading markets, while also repackaging and selling its vast stores of data. Operating margins exceed 50% and earnings per share have grown at a 17% annual clip over the past 15 years.

Related to inflation, Davolos believes the destabilizing impact of rising prices would create greater volatility and trading volumes across the company's platforms. That generates higher trading and clearing revenue and has historically also translated into higher demand for the firm's data and analytics services. "You could have an adverse equity market where this business would very likely outperform," he says.

Unrelated to inflation, he sees high potential in ICE's mortgage-related businesses, where he expects the company to turn its expertise into a variety of tradeable indices, options, futures and data products tied to the massive U.S. housing and mortgage markets. Less further along but with

INVESTMENT SNAPSHOT

Intercontinental Exchange
(NYSE: ICE)

Business: Operates financial exchanges, including the New York Stock Exchange, and sells exchange-related data products.

Share Information (@12/29/20):

Price	**112.90**
52-Week Range	63.51 – 114.29
Dividend Yield	1.1%
Market Cap	$63.76 billion

Financials (TTM):

Revenue	$5.66 billion
Operating Profit Margin	53.2%
Net Profit Margin	35.5%

Valuation Metrics
(@12/29/20):

	ICE	S&P 500
P/E (TTM)	31.0	39.9
Forward P/E (Est.)	23.7	26.5

Largest Institutional Owners
(@9/30/20 or latest filing):

Company	% Owned
Vanguard Group	7.2%
BlackRock	4.7%
State Street	4.2%

Short Interest (as of 12/15/20):

Shares Short/Float	0.9%

ICE PRICE HISTORY

THE BOTTOM LINE

The company's countercyclical growth potential isn't fully recognized in a stock trading at a 5% free cash flow yield, says James Davolos.

Sources: Company reports, other publicly available information timely catalysts for growth, he says, are exchanges trading carbon-emission credits, British-gilt futures, exchange-traded funds and Asian liquefied natural gas.

ICE shares at just under $113 trade at around 20x the $5.50 in run-rate annual free cash flow Davolos expects it to earn a year from now. Not an obvious bargain, he says, but the stock trades at a deep discount to data-driven firms like MSCI, Fair Isaac and S&P Global that he considers peers. Even with no re-rating, he believes a 5% free cash flow yield is more than reasonable for a business that can grow earnings at a low-teens annual rate and offers countercyclical upside. "In a market paying huge premiums for quality and resilience," he says, "this is one we don't think is being properly recognized." VII

IMPORTANT RISK DISCLOSURES

Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a statutory and summary prospectus by contacting 646-495-7333. Read it carefully before investing.

The Horizon Kinetics Inflation Beneficiaries ETF (Symbol: INFL) is an exchange traded fund ("ETF") managed by Horizon Kinetics Asset Management LLC ("HKAM"). HKAM is an investment adviser registered with the U.S. Securities and Exchange Commission. You may obtain additional information about HKAM at our website at www.horizonkinetics.com.

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. Earnings growth is not a measure of the Fund's future performance.

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.

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.

Definitions:

- The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.
- Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.
- Free cash flow (FCF) represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets.
- Free cash flow yield is calculated by dividing the free cash flow per share by the current share price.
- Price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).

Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security. Holdings are listed on https://horizonkinetics.com/products/etf/infl/#holdings.

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