Kinetics Mutual Funds
Second Quarter 2017 Commentaries

The Alternative Income Fund

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Dear Fellow Shareholders,

The Alternative Income Fund's (the "Fund") strategy seeks to provide an efficient source of income alongside traditional longer-term fixed income and broader yield-oriented strategies while, at the same time, beneficially diversifying risk exposures. Some of the strategy's intended benefits include:

a. *A reasonable rate of return; that is, income in excess of short-to-intermediate-term bonds.*
b. *Long-term volatility levels more consistent with bond markets than with equity markets.*
c. *Avoidance of duration, convexity[1], and reinvestment risks inherent in traditional long-term bonds.*
d. *Minimal or negative correlation with traditional bond portfolios.*
e. *Liquidity, transparency, and cost effectiveness, each of which has proven to be particularly important in a low-return world.*

The Fund intends to generate returns from a conservative, short duration bond portfolio, and from the time decay of out-of-the-money put option premiums. To this end, the Fund implements a two-part investment strategy focused on generating current income and gains in excess of traditional short duration, investment grade, fixed income indexes, yet, with similar volatility.

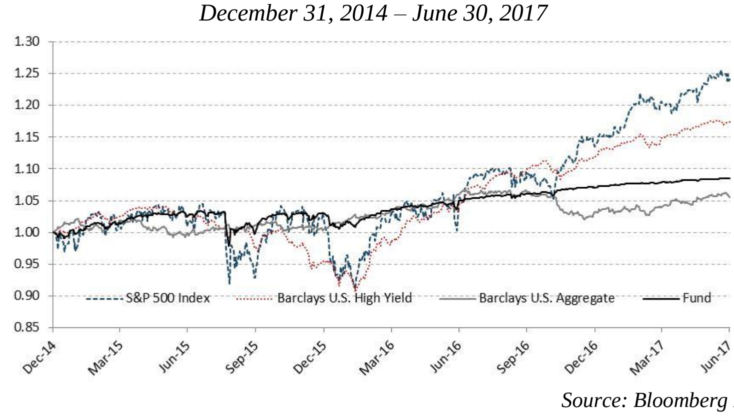
Part 1: A base strategy invests primarily in a diversified portfolio of short-term, investment grade bonds. Bond exposures seek to emphasize liquidity, diversification, and lower interest rate or duration risk (1-3 years).

Part 2: An equity put writing option strategy seeks to supplement bond portfolio income via the collection of option premiums. Option exposures are allocated broadly across quality companies and/or exchange-traded funds ("ETFs") offering similar exposures.

The 2nd Quarter

U.S. equity market volatility remained relatively subdued through the first half of 2017. The net result for the S&P 500 Index ("S&P 500") was a second quarter gain of 3.09%, compared to a first quarter gain of 6.07%. Investment grade bonds, as measured by the Barclays U.S. Aggregate Bond Index ("U.S. Agg."), realized a second quarter gain of 1.45%, compared to a first quarter gain of 0.82%. The Barclays U.S. High Yield Index ("High Yield") recorded a second quarter gain of 2.17%, compared to a first quarter gain of 2.70%. And the Barclays 1-3 Year Credit Index realized a second quarter gain of 0.54%, compared to a first quarter gain of 0.65%.

Cumulative Returns
December 31, 2014 – June 30, 2017

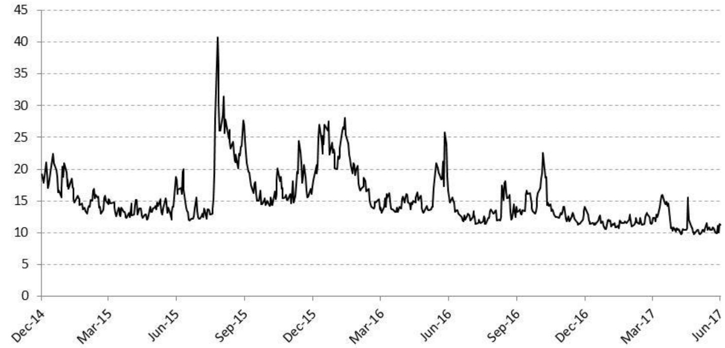


Source: Bloomberg LP

[1] Convexity is a measure of the rate of change of duration as interest rates change.

S&P 500 Index options implied volatility, defined as the CBOE S&P 500 Implied Volatility Index ("VIX"), increased briefly leading up to the U.S. presidential election in November but has since remained rather subdued. The collection of higher option premiums serves to protect against losses in the event of market declines and provides yield during periods of flat or rising markets. Much like an insurance business, the Fund will underwrite equity risk in exchange for a deductible, i.e., out-of-the-money options, and cash premiums, i.e., option premiums.

CBOE S&P 500 Volatility Index ("VIX")
December 31, 2014 – June 30, 2017



Source: Bloomberg LP

The Fund continued to perform as designed by experiencing significantly less volatility than U.S. equity market indexes and providing a return profile that was differentiated from that of U.S. bond market indexes. After a first quarter gain of 0.79%, the Fund realized a second quarter gain of 0.53%.

Fund Positioning

During the second quarter, we continued our policy of actively covering higher delta options, i.e., equity sensitive option positions. The Fund's overall option exposure was 43%, compared to 42% at the previous quarter end and 64% at the end of 2016. While the reduction in the Fund's aggregate notional exposure has continued to help mitigate the additional risks associated with short-term index options, the reduced exposure has limited the Fund's participation during this year's continued market advance. Over time, we believe the higher return potential of index options will result in a higher total return, with only a modest increase in the Fund's total return volatility.

Despite the recent positive returns in short-term U.S. investment grade credit, we continue to allow the Fund's U.S. corporate bond exposure to mature, as we replace it with cash and short-term U.S. Treasuries. In general, we believe we are not being adequately compensated for assuming credit risk at current levels and are satisfied with slowly increasing the Fund's collateral portfolio yield as the Federal Reserve moves to normalize rates. Over time, we expect portfolio duration to remain between approximately 0.75 and 1.25 years.

Market Note

Financial market volatility has been a popular topic for media and investment managers recently due to its anomalously low levels. Broadly, volatility refers to the variability of asset prices over a specific period of time. The greater the variability of asset prices, the higher the volatility. Recently, the magnitude of daily asset price variance has been particularly muted compared to historical averages, which has led some to suggest that a reversal, or an increase in volatility, is imminent. Others contend that the low levels are the result of particularly accommodative investment conditions and support further market gains.

A more objective interpretation of the current volatility level focuses upon how it impacts asset prices and prospective returns. Market volatility has a considerable impact on income oriented investors; typically, during higher volatility periods, investors place a premium on "safe" assets. This compresses the yields offered on risk-free rates, but often results in higher rates on higher risk assets. However, during the current market cycle, risk-free rates have remained low, while the higher risk asset spread has compressed, resulting in a lower yield on those securities as well. This is a paradox that is unlikely to persist indefinitely.

Due to the lack of attractive absolute yields in both low and high risk assets, the Fund remains largely positioned in short-term cash equivalents. The direction of short-term interest rates and risk premiums is nearly impossible to forecast; hence, we look for attractive risk-adjusted returns, based on current prices and yields. Absent this dynamic, we elect to prioritize the preservation of capital, even if it results in a short-term loss of purchasing power.

Financial markets have a tendency to extrapolate past events into the future, at least in the short-term, essentially expecting trends to remain in place until broken. This is currently the case with the implied volatility level, as measured by the CBOE Volatility Index ("VIX"), which has been hovering for months at historically low levels. Implied volatility measures the expected future market volatility based upon market prices for options. The low prices of options, as measured by the VIX, suggest that market participants are expecting the low realized market volatility to continue, as higher volatility assumptions increase option prices, based on standard valuation frameworks. This is important to the Fund, as it seeks to achieve current income through selling market protection by writing put options. However, with record low volatility expected to continue, the cost to buy (and therefore, the potential income from selling) market protection is very low.

The economics of selling market protection currently can be approximated by the price at which an at-the-money put option can be sold, divided by the current price. There are complexities in calculating an annual return, as options can be sold for under a one year maturity and re-written or "rolled." As of this writing, the yield on a one-month option is approximately 0.66%, or an annualized rate of slightly over 8%. This value actually approximates the return on the CBOE PutWrite Index for each of last ten calendar years, if 2008 and 2009 are excluded. The average return drops below 7% when including 2008 and 2009, when the index returned -26.25% and 29.76%, respectively.

The goal of put writing is to collect premiums when the returns are attractive, and to avoid writing puts at premiums that aren't expected to cover a market decline, such as that experienced in 2008. Given the premiums currently available and our concerns about the extended valuation levels in the broader markets, the Fund is only approximately 43% exposed to puts currently, while we are awaiting higher option premiums, so as to justify further activity. We believe this positioning should enable the Fund to generate attractive current income, while not being subjected to an outsized risk of a market decline (rising volatility) that has the potential to disrupt the current dynamic.

The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years. The iShares Core High Dividend ETF (HDV) seeks to track the investment results of an index composed of relatively high dividend paying U.S. equities iShares is property of Blackrock.

The CBOE S&P 500 Volatility Index is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The CBOE Volatility Index® (VIX® Index®) is a registered trademark of Chicago Board Options Exchange, Incorporated (CBOE).

The Morningstar® Dividend Yield Focus Index is designed to track high-yielding, qualified dividend paying, U.S.-based securities screened for companies with superior quality and financial health. The index is a subset of the Morningstar US Market Index, a broad market index representing 97% of U.S. equity market capitalization. The Morningstar Dividend Yield Focus Index represents the top 75 high yielding stocks that meet the screening requirements.

The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Bloomberg is a trademark and service mark of Bloomberg Finance L.P. Barclays indices are trademarks of Barclays Bank PLC.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its 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.

Distributor: Kinetics Funds Distributor LLC is an affiliate of Kinetics Asset Management LLC and is not an affiliate of Kinetics Mutual Funds, Inc.