Kinetics Mutual Funds
First Quarter 2017 Commentaries

The Alternative Income Fund

Click Here for Standardized Performance

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.

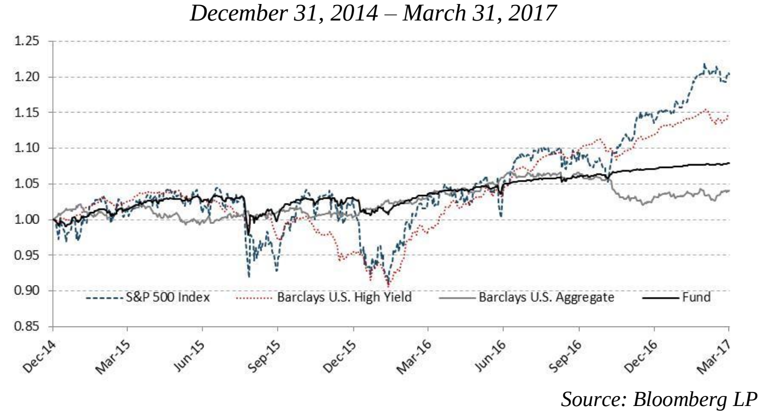
Part 1: A base strategy invests primarily in a diversified portfolio of short-term, investment grade bonds. Bond exposures seek to emphasize liquidity, diversification, and lower interest rate or duration risk (1-3 years).

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 1st Quarter

U.S. equity market volatility remained relatively subdued at the beginning of 2017. The net result for the S&P 500 Index ("S&P 500") was a first quarter gain of 6.07%, compared to a fourth quarter gain of 3.82%. Investment grade bonds, as measured by the Barclays U.S. Aggregate Bond Index ("U.S. Agg."), realized a first quarter gain of 0.82%, compared to a fourth quarter loss of -2.98%. The Barclays U.S. High Yield Index ("High Yield") recorded a first quarter gain of 2.70%, following its fourth quarter gain of

Cumulative Returns
December 31, 2014 – March 31, 2017



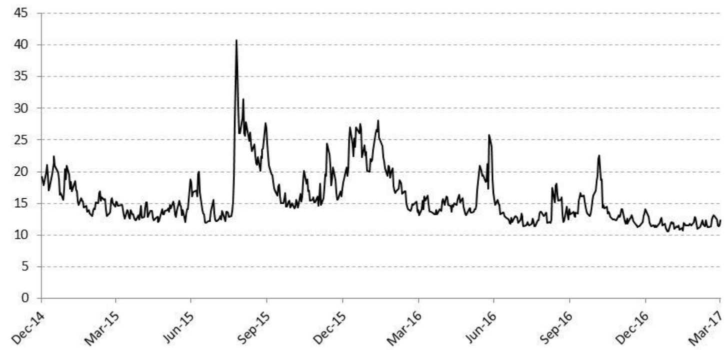
Source: Bloomberg LP

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

1.75%. And the Barclays 1-3 Year Credit Index realized a first quarter gain of 0.65%, compared to a fourth quarter loss of -0.27%.

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 – March 31, 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 fourth quarter gain of 0.91%, the Fund realized a first quarter gain of 0.79%.

Fund Positioning

During the first quarter, we continued our policy of seeking to reduce exposure to single name options via the normal course of option expiration, as well as our active covering of higher delta options, i.e., equity sensitive option positions. At the end of the first quarter, the fund had no exposure to single name options. The Fund's overall option exposure was 42%, compared to 64% at the previous quarter end. 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 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 and to 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: Active Managers and Central Bank Policies

The weight of financials in the S&P 500 Index was 14.1% as of the end of April, 2017, which is more or less where it was at the end of 2007. Then, as now, the equity market and the bond market viewed central banks as benefactors. Will a 100 to 200 basis point increase in interest rates be positive or negative for financials?

Active managers have dramatically underperformed in the past 6 to 7 years because they have avoided the segments of the equity market that have benefited most from extreme central bank policies: the high-P/E stocks, the Amazons, the Facebooks, the biotechs, among others. They have also avoided the financials, in particular the banks, because of their historically very high valuations, and they have sidestepped the high dividend payers, such as the utilities.

On the bond market side, the compensation offered is now very low for what have traditionally been considered higher-risk sectors. For example, the table below displays yields for a selection of iShares bond funds.

iShares Bond Fund Yields

		SEC 30-day Yield	Std. Dev.
CMBS	iShares CMBS ETF	2.79%	2.73%
MBB	iShares MBS ETF	2.02%	2.06%
IEF	iShares 7-10 Year Treasury Bond ETF	2.26%	5.28%
EMHY	iShares Emerging Markets High Yield Bond ETF	5.54%	7.45%
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	5.19%	5.91%

Source: iShares as of 3/31/2017

The iShares MBS ETF (MBB), is comprised of mortgage backed securities, which are Fannie Mae and Freddie Mac bonds. It yields 2.02% for a 7 year maturity, with a standard deviation of 2.06%, versus the iShares 7-10 Year Treasury Bond ETF (IEF) yield of 2.26% and a standard deviation of 5.28%. By way of comparison, as a reminder, the iShares Emerging Markets High Yield Bond ETF (EMHY) has a yield of 5.54%, and the iShares iBoxx High Yield Corporate Bond ETF (HYG) has a yield of 5.19%.

Essentially, if one uses modern portfolio techniques for measuring risk or volatility vis-à-vis return, one effectively views central banks as benefactors and prefers investments in classical dividend payers, and bonds of all sorts, to control variability. One would prefer financial services equities like banks, conventional momentum stocks, private equity, among others—essentially, all the beneficiaries of current Federal Reserve policies—because as far back as various ETF fact sheet volatility statistics go, those beneficiaries historically have low variability and high returns in relation to the low variability. (One understands, of course, that these are not all of the historical volatility statistics, only the recent ones, which reflect the current policy cycle.) One would avoid commodities of all sorts, such as gold, energy, metals, and similar assets. In other words, one would avoid all of the current low valuation investments that exhibit high volatility statistics. For those who do not employ these modern portfolio techniques, including the active manager, it is very painful to be this type of equity investor.

In the bond market, it is even more painful to bet against the current environment and its continuation, since the obvious way to do so is via credit- spread- widening trades. In other words, sell short a high-risk asset and go long a lower risk asset and necessarily accept a negative carry. Very few investors are willing to engage in a trade such as that.

Alternative Income Fund **Top 10 Holdings (%) as of March 31, 2017**	
iShares 1-3 Year Credit Bond ETF	10.0%
Vanguard Short-Term Corporate Bond ETF	6.1%
SPDR Barclays Short Term Corporate Bond ETF	2.6%
PIMCO Enhanced Short Maturity ETF	1.7%
American International Group, Inc.	1.4%
Phillips 66	1.2%
Becton Dickinson and Co.	1.1%
Aetna Inc.	1.1%
Becton Dickinson and Co.	1.1%

Pfizer, Inc.	1.1%

Important 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 www.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. The Fund may rely on SEC orders that permit it to invest greater than 5% of its total assets in the securities of other investment companies, some of which may be ETFs. As a shareholder in an ETF, the Fund will bear its pro rata portion of an ETF's expenses, including advisory fees, in addition to its own expenses.

The Fund may invest in debt securities. Investments in debt securities rated below investment grade (i.e., junk bonds) are subject to increased risks. The Alternative Income Fund is classified as a non-diversified fund. Therefore, the value of its shares may fluctuate more than shares invested in a broader range of industries. In a non-diversified fund, more of the Fund's assets may be concentrated in the common stock of any single issuer, which may make the value of the Fund's shares more susceptible to certain risks than shares of a diversified mutual fund. You should consult the Fund's prospectus for a complete list of risks associated with your investment.

The S&P 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. An investor cannot invest directly in an index.

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.