Kinetics Mutual Funds
First Quarter 2017 Commentaries

The Internet Fund

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Dear Fellow Shareholders,

The Internet Fund ("Fund") seeks to generate attractive risk-adjusted returns by allocating capital to companies that provide or benefit from the connectivity, communications and related benefits provided by the internet. This was a novel idea when the Fund was incepted in 1996, but today much less so, as nearly all of the major indexes have come to be dominated by such companies.

The S&P 500 Index ("S&P 500") purports to achieve diversified exposure to the vast majority of large capitalization stocks that are traded in the United States. A reasonable expectation would be a diversified return stream that encompasses all aspects of the U.S. economy, and even the global economy as it relates to U.S. multinationals. However, the return profile of the S&P 500 is much less diversified than one might think, as evidenced by the disproportionate market leadership of a select set of higher valued stocks. This was an often cited statistic during 2015, when the notorious "FANG" stocks (Facebook, Amazon, Netflix and Google) dominated market returns. There is a return to this dynamic this year, although we can now include Apple and Microsoft in the calculation, which happen to be the two largest weights in the S&P 500. Collectively, Apple, Microsoft, Amazon, Facebook and Alphabet (Google via two share classes) represent approximately 12% of the S&P 500. These companies have returned an average of 21.59% this year (ranging from Microsoft's up over 30% to Alphabet/Google's up over 7%), contributing approximately 270 basis points, or nearly half of the S&P 500's return. As of the end of March, these companies represented a collective 41% weight in the NASDAQ 100 Index, driving a year-to-date gain of over 12%.

Thus, if this type of company dominates the broad S&P 500 Index, much less the NASDAQ 100 Index, there is a predicament for an investor seeking to achieve attractive risk-adjusted returns. In our opinion, achieving such results requires a differentiated strategy; merely investing in the index leaders is of little utility. On top of this, we believe the valuations of these companies are quite optimistic, to be kind. Let's consider a basic premise of these leading companies, with the clarification that, with one exception addressed later, these are not held in the Fund.

All of these companies are considered to be experiencing secular growth and are largely immune to broader macroeconomic trends, let alone microeconomic factors within each industry. The valuations, it can be reasoned, imply the belief that this growth dynamic is perpetual, or at least, extremely enduring. However, let's consider the business of each company (shown in order of S&P 500 weight in the following table).

Company	Primary Business	Secondary Business
Apple Inc.	Phone handsets	Content services
Microsoft Corp.	Computer Software	Enterprise services
Amazon. Com Inc.	E-commerce	Enterprise services
Alphabet Inc. (Google)	Advertising	Enterprise services
Facebook Inc.	Advertising	N/A

Source: Standard & Poors, Horizon Kinetics Research

It can be argued that these businesses have all displaced incumbent businesses within their primary lines of business, with the exception of Microsoft, which pioneered its industry. In any event, there is cyclicality and competition within each of these primary industries. The phone and personal computer industries are highly saturated. The e-commerce industry operates at thin margins, and the prominent advertising spending industries (autos and retailers) are struggling. Though few would argue that these businesses will only face stiffer competition and a business down cycle eventually, the questions of who will emerge on top and when are only answerable in hindsight. Some investors rely on the far smaller businesses that are secondary in terms of revenue contribution to justify the stock valuations – the enterprise "cloud" services business has carried Microsoft stock to its lofty earnings multiple, and this is also the only profitable segment to speak of at Amazon. Meanwhile, Apple's services business primarily sells video and music content to Apple customers, a business that Facebook and Amazon are pursuing relentlessly.

We have made no mention of the valuations at which these companies currently trade, but, in our opinion, they all trade as if though they were non-cyclical and permanently competitively advantaged, despite compelling data to suggest otherwise. We exclude Alphabet/Google from this analysis, as we view it as a data company, with applications that are far less cyclical and sensitive to advertisers' whims. In any event, this is what the large cap, US indexes provide. We choose to allocate far differently.

Internet Fund **Top 10 Holdings (%) as of March 31, 2017**	
EchoStar Corporation - Class A	6.9%
Liberty SiriusXM Group - Class C	4.9%
CACI International, Inc. - Class A	3.0%
Alphabet, Inc. - Class A	3.0%
Alphabet, Inc. - Class C	2.9%
The Madison Square Garden Company - Class A	2.9%
Liberty Broadband Corporation - Series C	2.7%
PayPal Holdings, Inc.	2.4%
The Bitcoin Investment Trust	2.3%
Liberty Global plc - Series C	2.2%

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 http://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.

Because the Fund invests in a single industry, its shares do not represent a complete investment program. Internet stocks are subject to a rate of change in technology, obsolescence, and competition that is generally higher than that of other industries, and have experienced extreme price and volume fluctuations. International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability.

The Internet 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.

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.

The S&P 500® Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index. 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.

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