Kinetics Mutual Funds
First Quarter 2017 Commentaries

The Market Opportunities Fund

Click Here for Standardized Performance

Dear Fellow Shareholders,

The name of the Fund is quite apt for the prevailing investment environment, highlighting the opposing directions in which capital allocations are being made. On the one hand, we have the "market." To most observers, in the United States, the market is synonymous with the S&P 500 Index ("S&P 500"), a large capitalization index that, by its own definition, captures 80% of the investable market capitalization of U.S. stocks available. The performance of the stock market is understood by many to mirror the performance of the U.S. economy—while this belief is deeply flawed, the economy and the market's performance are interrelated. Given that the S&P 500 captures 80% of the investable market capitalization available, many conclude that it provides investors with an exposure to the returns of the U.S. economy, i.e., its leading businesses. The critical missing variable in this assumption revolves around the price at which the businesses are trading; historically, this has been far more deterministic of market returns than has economic performance. We are far more concerned with asset prices than with economic factors, as the former is far more predictable, quantifiable, and in terms of our decision making, controllable.

On the other hand we have "opportunity," a set of circumstances that makes it possible to do something. There may be opportunities in the broader market, understood to be the S&P 500, when a set of circumstances enables return potential that is incommensurately high compared to risk. Absent such a set of circumstances, returns will be fair or worse relative to risk. In our assessment, the opportunity presented by the S&P 500 is often limited, but, increasingly, the world views investing as synonymous with tracking the Index. Differentiated returns can only be achieved by seeking true opportunity, actively seeking, is a set of circumstances that makes it possible to earn outsized returns without increasing the risk profile. This is the focus of The Market Opportunities Fund, specifically, as it pertains to the capital formation process.

The dearth of opportunity in the market is, in no small part, related to coordinated central bank policies worldwide, originally aimed at spurring global growth via interest rate suppression mechanisms. Although it may not have been the intention of these policies at the outset, there is now a mutual global need for currency debasement via inflation, which requires the continuation of suppressed interest rates. The current global debt burden cannot be serviced should interest rates rise even slightly, yet a structurally low growth rate prevails in spite of the sustained low interest rates. In turn, the market has valued assets under the premise of perpetually low interest rates, yet with revenue and earnings growth projected at above post-recovery averages. Historically, one might consider these assumptions mutually exclusive, as higher growth would result in investors demanding higher interest rates. However, by most accounts, central banks are now more influential in establishing rate levels than are market forces.

If one accepts the premise that central bank policy will continue to keep rates suppressed while facilitating higher future growth, a broad market exposure might be acceptable. However, even in the event that this comes to pass, future returns across all asset classes will be categorically lower. The Bloomberg Barclays U.S. Aggregate Bond Index currently yields approximately 2.5%. As such, it would be wholly unreasonable to expect a return of 4.3%, as reflected in trailing 10-year returns. Similarly, the 7.5% annual return for the S&P 500 over the past 10 years is an unrealistic expectation going forward. The Index traded at approximately 17x trailing GAAP earnings at the end of the first quarter of 2007, and the 10 year U.S. Treasury yielded 4.65%. The current trailing earnings multiple is approximately 24x, and the 10 year U.S. Treasury yields 2.39%. In short, valuations are significantly higher and interest rates lower than the preconditions for a 7.5% annualized ten year return since 2007. Expectations should be set accordingly.

In truth, broader market conditions seldom influence our investment decisions, but they certainly impact the quantity of investments that we deem appropriate for purchase. We continue to find attractive investments in underfollowed, misunderstood and/ or simply disliked areas of the market. To supplement these core positions, we are holding high cash balances. While purchasing power may not be maintained in cash in a benign environment, where targeted inflation levels are achieved, the carrying cost is palatable given the value that we place on having liquidity when opportunities present themselves. We attempt to offset this carrying cost through modest allocations to assets that we believe will act as stores of value, in both inflationary and deflationary environments, perhaps even under the continuation of the status quo. In various scenarios, these allocations have the potential to be highly accretive to portfolio returns despite a nominal cost allocation.

Market Opportunities Fund
Top 10 Holdings (%) as of March 31, 2017

Texas Pacific Land Trust	19.7%
Icahn Enterprises LP	6.7%
The Howard Hughes Corporation	6.2%
Onex Corporation	6.0%
Tropicana Entertainment Inc.	5.8%
OTC Markets Group Inc. - Class A	4.3%
Dream Unlimited Corp. - Class A	3.3%
Associated Capital Group, Inc. - Class A	2.8%
Partners Value Investments LP	2.3%
Urbana Corporation - Class A	1.9%

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.

As a non-diversified Fund, the value of its shares may fluctuate more than shares invested in a broader range of companies. 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.

In addition, investing in foreign securities involves more risk than just U.S. investments, including the risk of currency fluctuations, political and economic instability and differences in financial reporting standards. There may also be heightened risks investing in non-investment grade debt securities and the use of options. There are also risks associated with investing in small and medium sized companies. Non-investment grade debt securities, i.e., junk bonds, are subject to greater credit risk, price volatility and risk of loss than investment grade securities. Options contain special risks including the imperfect correlation between the value of the option and the value of the underlying asset.

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