Kinetics Mutual Funds
Second Quarter 2017 Commentaries

The Market Opportunities Fund

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Dear Fellow Shareholders,

The capital market activity focus of the Fund has historically resulted in an outsized allocation to the financial services sector. We have long argued that the broadly defined Global Industry Classification Standard (GICS) of 10 broad sectors can be a misleading measure of diversification, or lack thereof, for an investment portfolio, particularly for the very diverse set of businesses within the financial services sector. MSCI Inc. ("MSCI"), the company responsible for maintaining the standard, as well as making adjustments to the framework, added an 11th sector in August of 2016, carving the Real Estate sector out of the broader Financial Services sector.

MSCI estimates that the global real estate investment universe is currently approximately $7.4 trillion, with the largest contribution from the United States, at an estimated value of $2.73 trillion. Of course, the figure for all of real estate is far larger; the universe measured by MSCI includes only professionally managed real estate properties structured for investment purposes. Specifically, owner occupied, government and otherwise non-professionally managed portfolios are not included. Although the U.S. real estate universe represents only approximately 10% of the aggregate market capitalization of publicly traded U.S. stocks (defined as the Russell 3000 Index), real estate is rapidly becoming a larger part of broader asset allocation mixes. McKinsey & Company estimates that institutional portfolios are now targeting exposures of 9%-10% in real estate as part of a broad mix of stocks and bonds.

The appeal of real estate can be summarized by four main factors: i.) predictable cash flows, ii.) inflation beneficiary, iii.) suitable for leverage, and iv.) tax efficiency. These characteristics simply cannot be found in traditional equity and debt markets at present—at least not at what we believe are reasonable valuations. As a result, most of the liquid, publicly traded real estate market (namely, Real Estate Investment Trusts, or "REITs") are now trading at fairly extended valuations, offering modest yields based on current economics. However, as indexes and yield focused investors have migrated to REITs, there is a subset of publicly traded real estate that we believe offers highly attractive potential investment returns based on current economics. In general, these companies are not yet structured as REITs, hence, fall outside the universe of most systematic/conventional investors.

The purpose of a REIT is to permit the tax-free pass- through of real estate income to investors, where the individual holders pay income tax, as opposed to the corporation. This is far more efficient than payment by a corporation, which is taxed at the corporate level, and where a dividend distribution to shareholders is then generally taxed again. The only requirement, beyond having qualifying real estate assets and income, is that 90% of taxable income be distributed to shareholders annually. Therein lies the reason why some real estate companies have yet to elect to convert to a REIT: development stage companies that require the reinvestment of earnings until the properties are mature or "stabilized," cannot operate efficiently if they must distribute 90% of taxable income. A consequence of this decision leads many such companies to trade at marked discounts to REIT companies. We seek to identify companies that trade at a substantial discount, so as to make the long-term returns attractive, yet with the possibility of converting to a REIT in the future.

Howard Hughes Corporation ("Howard Hughes") is a long-term holding in the Fund that was spun off from a large mall-focused REIT in 2010. The portfolio was comprised of a combination of entitled raw land, development properties and a small number of operating properties. The company required many years of investment and development to reach a state of robust recurring cash flow generation; yet, investors with foresight could earn returns well in excess of the current market rates.

Nearly seven years removed from the spin-off, the company is now set to generate over $300 million of net operating income as developed properties stabilize. The portfolio is a mix of extremely high quality retail, office, hospitality and multi-family properties that enjoy dominant market positions in highly desirable markets, such as Manhattan, New York and Honolulu, Hawaii. Even in less glamorous locations, including Woodlands, Texas; Columbia, Maryland; and Summerlin, Nevada, the company owns most of the property and land in these strong niche communities. Due to the strength of the markets and nature of their properties, we believe that the company should trade at a meaningful premium to the broader commercial real estate market. In any event, if we use the capitalization rate approach for valuing real estate, using the prevailing average rate of 6%[1], plus net asset value estimates for undeveloped property, we arrive at a valuation that is approximately 60% higher than the current share price. Thus, should the company eventually trade at a market multiple, the return would be 60%, plus a recurring 6% net operating income yield going forward – an attractive proposition in this market. It would not surprise us if Howard Hughes explored converting to a REIT structure in the next 24-36 months, as development properties open and tax loss assets are extinguished.

Howard Hughes represents a capital market investment, with a risk/return profile that is simply unavailable in conventional asset classes currently. We expect market participants to appreciate the assets over time, perhaps expedited by a REIT conversion, but also to recognize the increasing demand for institutional ownership of real estate in diversified portfolios. The institutional appetite for real estate is unlikely to abate, barring a dramatic rise in interest rates or a repeated real estate financial calamity, and Howard Hughes has amongst the last large scale portfolios of assets available for purchase at uninflated values.

Market Opportunities Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	18.7%
Tropicana Entertainment Inc.	7.0%
The Howard Hughes Corporation	5.8%
Icahn Enterprises LP	5.7%
The Bitcoin Investment Trust	5.4%
Onex Corporation	5.4%
OTC Markets Group Inc. - Class A	4.6%
Dream Unlimited Corp. - Class A	3.3%
Associated Capital Group, Inc. - Class A	2.4%
Partners Value Investments LP	2.3%

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

[1] The capitalization rate refers to the trailing net operating income divided by rate; inverted the rate arrives at a net operating income yield

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.

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