Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Multi-Disciplinary Income Fund

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Dear Fellow Shareholders,

The investment team espouses an opportunistic approach to investing. This is not to suggest that we advocate high turnover strategies or attempt to exploit short-term aberrations in market prices; to the contrary, we await attractive opportunities to allocate capital for the long-term, when we believe that the conditions represent an attractive risk-adjusted prospective return. In equity markets, this assessment is highly subjective at times, but has ultimately been reconciled with objective cash flows and asset values historically. However, until that reconciliation occurs, investors can speculate as to the appropriate growth rate estimates, discount rates and valuations to potential investments. Fixed income market analysis offers less latitude for speculation regarding returns: a bond's long-term return is limited by the yield to maturity of the bond. Of course, intermediate returns may exceed long-term potential, as they recently have, when bonds trade in excess of par value, but upon maturity this is certain to be reconciled, much like equity prices often revert to fundamental value.

Valuation multiples and expected returns are beyond the scope of this Fund and letter, but suffice it to say that there are highly divergent views on the topic. Fixed income, on the other hand categorically offers low long-term prospective returns, in absolute terms, relative to inflation and relative to "risk free" rates. Let's consider the primary fixed income benchmarks, the Bloomberg Barclays U.S. Aggregate Index ("AGG") and the iBoxx U.S. High Yield Index ("HYG"). These indexes offered yields to maturity of 2.24% and 4.74% respectively as of the end of September, relative to a stated Consumer Price Index annual growth rate of 2.2%. Thus, the aggregate investment grade index offers, effectively, a zero real rate of return, while high yield offers a real return of 2.54% if there are zero defaults (which there are certain to be over time). The annualized ten-year returns for these indexes were 4.27% and 6.43%, respectively, for the period ended September 30, 2017. Future returns simply cannot reach those levels, given the current portfolio holdings. The historical returns were facilitated by the U.S. 10 Year Treasury yield declining from 4.59% in September 2007 to 2.31% in September of this year.

There are many factors that have led to the current conditions in fixed income markets, but low absolute yields on government debt is a critical factor. The yield on a 1-year U.S. Treasury Bill was 1.3% at month end, compared to inflation of 2.2%, for a real yield of *negative* 0.90%. Unattractive as this may appear, similar yields in other developed markets are as follows; United Kingdom: -2.60%, Germany: -2.52%, Japan: -0.85%, Australia: -0.03%. Investors that require positive real returns are left with the equally unappealing options of i.) extending duration, ii.) accepting lower credit quality, and/or iii.) venturing into high risk asset classes. There are considerable drawbacks to each approach: extending duration can result in a loss of purchasing power and market to market losses should rates rise, while the latter two options do not guarantee higher returns, only higher risk.

The Fund continues to have differentiated positioning in this challenging investment environment primarily by allocating to fixed income securities that we believe offer attractive absolute returns through maturity. We achieve this by investing in securities that are primarily outside of the investment universe of most allocators due to structural factors including market size, geographic domicile and/or credit rating. The former two variables are fairly simple, as large institutional investors eschew smaller bond offerings, particularly those not in a major geographic market. The Fund recently purchased debt in a small offering ($175mm) from Stolt-Nielsen Limited, a leading

Norwegian shipping company in tanker, tank container and port terminal businesses. The notes are senior secured and offer a 6.375% coupon through 2022. The size, industry and location of the company all preclude the notes from being well bid from many investors, providing the Fund with an opportunity to earn nearly a 7% yield to maturity.

The Stolt-Nielsen bonds are also interesting because the shipping industry is currently in a decade long contraction—specifically the tanker business. However, tanker containers and terminals remain very strong businesses and the excess capacity in the broader tanker and shipping markets appears to be working through the market. In any event, the company currently has an asset/debt ratio of approximately 1.96x and the equity trades at approximately 0.56x book value, which has been written down repeatedly throughout the shipping market decline. Credit rating agencies, investment bankers and conventional investors only consider cash flow when analyzing debt securities. However, many offerings are highly nuanced and require additional insight into the balance sheet. Stolt-Nielsen, and various other notes held in the Fund, have very high asset coverage relative to debt, in addition to committed and well capitalized owner-operators or parent companies that support the equity.

The objective of prudent investors during periods of speculative markets should be to earn reasonable real rates of return and maintain purchasing power awaiting superior opportunities. The temptation to attempt to profit from a market decline is alluring, but it often very costly to maintain, and timing is always uncertain. However, we remain prudent in our option income portfolio, recognizing that implied volatility levels after eleven consecutive monthly gains for the S&P 500 Index are unlikely to be representative of actual potential volatility.

Multi-Disciplinary Income Fund
Top 10 Fixed Income Holdings (%) as of September 30, 2017

Lamb Weston Holdings, Inc.	7.3%
Penske Automotive Group, Inc.	7.15
Brookfield Residential Properties	6.4%
Ashland Inc.	6.1%
Icahn Enterprises	6.0%
PIMCO Dynamic Income Fund	5.2%
Lennar Corporation	4.0%
TRI Pointe Holdings, Inc.	3.9%
Stolt-Nielsen Ltd	3.8%
Howard Hughes Corp.	2.5%

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.

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. Additionally, the Fund may invest in debt securities. Investments in debt securities rated below investment grade (i.e., junk bonds) are subject to increased risks. International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Non-investment grade debt securities (i.e., junk bonds) are subject to greater credit risk, price volatility and risk of loss than are investment grade securities. Further, options contain special risks, including the imperfect correlation between the value of the option and the value of the underlying asset.

The Kinetics Multi-Disciplinary Income Fund is classified as a diversified fund. Diversification does not ensure a profit or protect against loss in a declining market. You should consult the Fund's prospectus for a complete list of risks associated with your investment.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Funds pursue their investment objectives by investing all of their investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. 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. The CBOE Volatility Index® (VIX® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The S&P 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. You 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. Index returns assume that dividends are reinvested and do not include 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.

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