Kinetics Mutual Funds
Second Quarter 2017 Commentaries

The Small Cap Opportunities Fund

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Dear Fellow Shareholders,

Our investment strategy places a primacy on purchase price, as opposed to focusing on less tangible variables that are more subject to conjecture. The broader markets have sustained modest to strong gains in the first half of the year, with leadership from faster growing companies. Optimism regarding these business models, and driving flows into the small cap index products, has inflated valuation multiples to an average of about 27x earnings for the S&P SmallCap 600® Growth Index[1]. Approximately 17% of this index is in information technology companies, and 15% is represented by the Health Care sector. Despite recent growth within these sectors, the valuation multiples fail to reconcile with the malaise of the broader economy. GDP growth is limited by the combination of high employment (the U.S. is widely considered to be at full employment) and modest (at best) productivity growth. The businesses leading the small cap growth index higher may be increasing their market share; however, the market itself is barely growing, and competition is sure to follow. Against this backdrop, it only seems reasonable that investors would demand a discounted valuation (relative to historic means); yet, most companies are trading at a considerable premium.

The S&P SmallCap 600® Value Index is not without risks, but at an average earnings multiple of approximately 20x[2], at first glance, it appears more attractive than the S&P Small 600 Growth Index. However, one must consider that about 18% of the Value index is allocated to financial and real estate companies—generally regional banks and smaller insurance companies. These businesses have been structurally under-earning for nearly a decade due to ultra-low interest rate policies, as lending based profits are anchored to interest rates and lending spreads. Similarly, insurance companies expect to earn an investment return on premiums received, loss reserves and other equity such that they can maintain profitability even when underwriting results deliver only a modest profit or loss. Due to the short-term nature of these investments, many insurers invest in short-term fixed income instruments that offer merely 0.50% - 1.50% at present. Optimism regarding the future of these businesses is effectively based on a view of interest rates rising. We believe this contingency is highly unlikely given the structurally low GDP growth at present and as expected in the future.

In summary, an active decision to invest in either of these indexes is effectively an investment anchored in the belief that U.S. GDP growth will accelerate, that healthy inflation will follow, and that interest rates will normalize. We choose to allocate to investments that do not require such factors in order to be successful. We aim to achieve attractive results by investing in unique businesses that are trading at valuations conducive to their realizing high rates of return. There is a surprising abundance of such companies available for purchase, although most investors will never hear of these companies or have the opportunity to invest in them, as they are found outside of the major indexes.

One such example is Live Nation Entertainment, Inc. ("Live Nation"). Live Nation is well recognized by consumers, as the company is the largest concert promotion and ticketing company in the United

[1] As of June 30, 2017, using the iShares S&P Small Cap 600 Growth ETF as a proxy for the Index

[2] As of June 30, 2017, using the iShares S&P Small Cap 600 Value ETF as a proxy for the Index

States, generating nearly $8.4 billion in revenue in 2016. However, the company is remarkably unknown in the investment community; this may be due, in part, to the impact of indexation. Live Nation is approximately 34% held by parent company Liberty Media Corporation, resulting in a relative low free float, and therefore, poor representation in the major indexes. Investors who didn't own or only marginally owned the stock have missed out on approximately 26% annualized returns over the five years ending June 30, 2017.

Live Nation is also a company that requires financial analysis beyond a superficial review in order for one to appreciate its value. In 2016, the company generated a net loss of approximately $50 million – an oddity for an $8 billion company. However, the company is only marginally profitable on a GAAP basis due to significant depreciation and amortization expenses related to the concert promotion and ticketing businesses. Adjusting for these and other temporary, non-operating and non-cash items reveals that the company generated approximately $645 million in adjusted operating income in 2016. At year-end, this equated to approximately a 10% yield relative to the enterprise value of the company – an attractive multiple for a company that has grown operating income at nearly 25% annually over the past five years. While this is admittedly amongst the crudest measures of cash flow, and there are considerable reinvestment requirements, it highlights the core cash generation of the business.

While there are media industry peer companies that trade at comparable cash flow yields, many of these companies are facing secular declines (i.e., cable television networks). However, Live Nation is embracing a strong secular trend toward live entertainment and music festivals. This is rooted partially in consumer preference, as millennial consumers show an inclination to spend on "experiences." However, the larger driver has been the economics of the music industry, where a la carte music downloads have marginalized recorded music sales, and artists now focus on live performances and merchandise.

This brief review of the Live Nation business highlights the investment opportunity through the lens of adjusted financial analysis (quantitative) and a qualitative assessment of the business model. This type of analysis is becoming less common due to indexation and due to "active" managers seeking to mimic the index. We are happy to seek the exploitation of the resulting pricing inefficiencies for the benefit of our shareholders

Small Cap Opportunities Fund **Top 10 Holdings (%) as of June 30, 2017**	
Texas Pacific Land Trust	21.8%
Icahn Enterprises LP	10.2%
Dream Unlimited Corp. - Class A	7.6%
The Howard Hughes Corporation	7.5%
Tropicana Entertainment Inc.	6.7%
The Wendy's Company	5.0%
Onex Corporation	4.5%
Live Nation Entertainment, Inc.	3.7%
Associated Capital Group, Inc. - Class A	3.4%
Rubis SCA	3.3%

Important Disclosures

You should consider the investment objectives, risks, charges and expenses of the Small Cap Opportunities 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 Small Cap Opportunities 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.

International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Because smaller companies often have narrower markets and limited financial resources, they present more risk than larger, more well-established companies. Further, options contain special risks including the imperfect correlation between the value of the option and the value of the underlying asset.

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.

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.

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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