Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Small Cap Opportunities Fund

Click Here for Performance

Dear Fellow Shareholders,

The investment team at Horizon Kinetics has been fairly outspoken in our belief that semantic investing, specifically via ETFs, has perpetuated an otherwise already robustly valued stock market. Semantic investors find utility in historical data showing the relative annual performance of asset classes, market capitalization ranges, or geographic or market sector exposures looking back historically. There is an illusion that valuable information can be gleaned from the study of the repetition and relationship between asset class returns. It seems reasonable to interpret historical data as indicative of the fact that a diversified portfolio offers less variation, and may be more appropriate for most investors. But this should not be confused with less "risk," as the correlations are also undeniable.

An additional interesting takeaway from the study of historical data is that small capitalization stocks appear to be decreasingly correlated with larger and more liquid asset classes. This comes as no surprise to us: consider that small capitalization stocks (generally described as market capitalizations below $2 billion) account for less than 4% of investable market capitalization in the United States, based on representation in the Dow Jones U.S. Total Stock Market Index. Furthermore, most indexes attempt to overly diversify across 1,000s of securities in order to distribute risk, but also increase investability (scale). We view this as an opportunity, particularly for active management in small cap – as there simply isn't the capacity for mass index investments.

It should be noted, as merely an observation, that the last years in which Large Cap Growth and International stocks led the asset class charts, while Small Cap and Large Cap Value stocks trailed, were 1998, 1999 and 2007. At quarter end, 2017 appears poised for a very similar setup.

The positions in the Fund continue to grow their respective net asset values and earnings power. We believe that most of the companies have achieved this with minimal sensitivity to the broader business cycle, and should continue to grow based on idiosyncratic factors. The broader small capitalization markets have been very volatile, yet are moving higher, hence, limiting a broader opportunity. We continue to find appealing opportunities outside of the indexation sphere and capitalize upon misinformation and mispricing opportunities, an example of which occurred this quarter in our long-time position Howard Hughes Corporation.

The Howard Hughes Corp. ("Howard Hughes"), as it exists today, was conceived in 2010 as a spinoff from General Growth Properties. The transaction was part of General Growth Properties' bankruptcy reorganization precipitated by the Credit Crisis of 2008. We have owned shares of Howard Hughes since that time, and, though not overly concerned about short-term stock price movements, have watched with interest as its market capitalization has fluctuated, often with no obvious relationship to the fundamentals of the business.

Although the company has been publicly traded for seven years, it might still be characterized as misunderstood. This is because, even though it has been very successful in developing and improving the economic value of its portfolio of real estate, it shows very little in terms of net earnings. As is frequently the case for companies that lack visibility in terms of conventional financial results, investors may react to news without placing it in context. Most recently, the shares fell in the period leading up to and following Hurricane Harvey's landfall in the Houston area, while the S&P 500 Index and the Vanguard REIT ETF rose.

Why? Based on questions we received from clients, it appears that many assumed that the extensive Howard Hughes master planned community operations in the Houston area, namely Woodlands and Bridgeland, would be negatively impacted by the storm. A reasonable concern; after all, the Houston assets are among the firm's most valuable. As it turns out, the company issued a press release several days after the storm reporting only minor damage, that all of their assets were fully operational, and announcing its involvement in disaster recovery efforts in the area. Of course, the long-term value of these assets is inextricably linked to the health of the Houston area economy, which will take some time to recover, but it does not appear that the growth of the area will be halted indefinitely, although it will certainly be more sluggish during the rebuilding effort.

But the broader issue is this: the Houston properties comprise only one of several of the company's major assets. These are geographically diversified across the United States, and even if one removed the Houston assets entirely, one could easily justify the company's current market value. The main asset bases, and our assessment of their fair value, can be found in the accompanying table.

Asset	Fair value estimate
South Street Seaport, Manhattan, NY	$ 2.5-3.0 billion
Houston Assets, Houston, TX	$ 4.25 billion
Summerlin, Las Vegas, NV	$ 2.5 billion
Columbia, MD	$ 570 million
Ward Village, Honolulu, HI	$ 2.5 billion
Other properties	$ 480 million
Recent Market Cap for HHC	***$ 5.3 billion***

Source: Company reports, Horizon Kinetics Research

Of course, it is incumbent on investors to monitor news affecting their holdings, but it is crucial that a new bit of information be evaluated within the context of the investment thesis. Will this news have a long-term impact on the value of the company? In the case of Howard Hughes, the share price quickly recovered following the storm, though it remains below highs achieved when oil prices were higher. The latter reaction is, perhaps, another example of what is termed availability bias, making decisions on the basis of information that is more recently recalled (i.e., available) or memorable.

Small Cap Opportunities Fund
Top 10 Holdings (%) as of September 30, 2017

Texas Pacific Land Trust	27.3%
Icahn Enterprises LP	10.0%
Dream Unlimited Corp. - Class A	7.1%
The Howard Hughes Corporation	6.7%
The Wendy's Company	4.7%
Civeo Corporation	4.5%
Live Nation Entertainment, Inc.	4.3%
Onex Corporation	4.0%
Rubis SCA	3.4%
Associated Capital Group, Inc. - Class A	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 fund holds investments that provide exposure to bitcoin. Bitcoin represents a relatively new asset class and its value can be volatile. There are number of unique characteristics associated with bitcoin, thus contributing to price volatility which could adversely affect the fund's investments. Additionally, certain of the bitcoin products in which the fund invests may trade at a premium or discount to net asset value. Therefore, it is possible that the bitcoin instruments held by the fund fluctuate more or less than the value of bitcoin itself. As always, investors should carefully read the fund's prospectus risks for a complete list of applicable risks.

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.

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