Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Alternative Income Fund

Click Here for Standardized Performance

Dear Fellow Shareholders,

The Alternative Income Fund's (the "Fund") strategy seeks to provide an efficient source of income alongside traditional longer-term fixed income and broader yield-oriented strategies while, at the same time, beneficially diversifying risk exposures. Some of the strategy's intended benefits include:

a. *A reasonable rate of return; that is, income in excess of short-to-intermediate-term bonds.*
b. *Long-term volatility levels more consistent with bond markets than with equity markets.*
c. *Avoidance of duration, convexity[1], and reinvestment risks inherent in traditional long-term bonds.*
d. *Minimal or negative correlation with traditional bond portfolios.*
e. *Liquidity, transparency, and cost effectiveness, each of which has proven to be particularly important in a low-return world.*

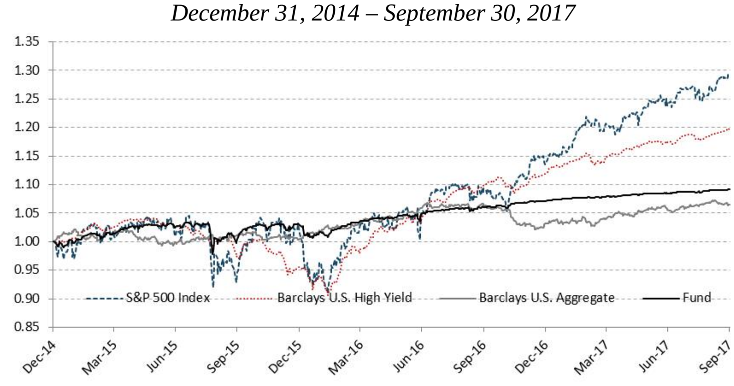
The Fund intends to generate returns from a conservative, short duration bond portfolio, and from the time decay of out-of-the-money put option premiums. To this end, the Fund implements a two-part investment strategy focused on generating current income and gains in excess of traditional short duration, investment grade, fixed income indexes, yet, with similar volatility.

Part 1: A base strategy invests primarily in a diversified portfolio of short-term, investment grade bonds. Bond exposures seek to emphasize liquidity, diversification, and lower interest rate or duration risk (1-3 years).

Part 2: An equity put writing option strategy seeks to supplement bond portfolio income via the collection of option premiums. Option exposures are allocated broadly across quality companies and/or exchange-traded funds ("ETFs") offering similar exposures.

The 3rd Quarter

Cumulative Returns
December 31, 2014 – September 30, 2017



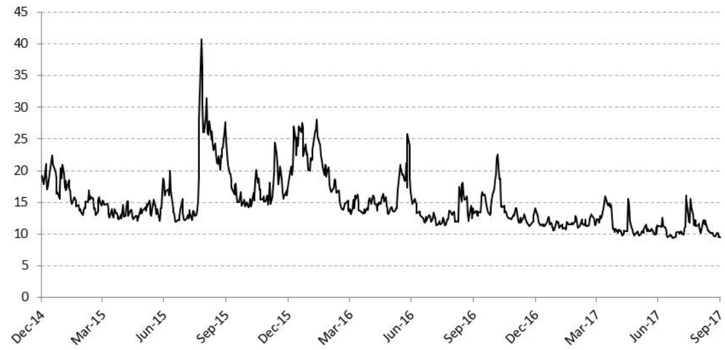
Source: Bloomberg LP

U.S. equity market volatility remained relatively subdued through the third quarter of 2017. The net result for the S&P 500 Index ("S&P 500") was a third quarter gain of 4.48%, compared to a second quarter gain of 3.09%. Investment grade bonds, as measured by the Barclays U.S. Aggregate Bond Index ("U.S. Agg."), realized a third quarter gain of 0.85%, compared to a second quarter gain of 1.45%. The Barclays U.S. High Yield Index ("High Yield") recorded a third quarter gain of 1.98%, compared to a second quarter gain of 2.17%. And the Barclays 1-3 Year Credit Index realized a third quarter gain of 0.53%, compared to a second quarter gain of 0.54%.

[1] Convexity is a measure of the rate of change of duration as interest rates change.

S&P 500 Index options implied volatility, defined as the CBOE S&P 500 Implied Volatility Index ("VIX"), increased briefly during the third quarter but has generally remained rather subdued. The collection of higher option premiums serves to protect against losses in the event of market declines and provides yield during periods of flat or rising markets. Much like an insurance business, the Fund will underwrite equity risk in exchange for a deductible, i.e., out-of-the-money options, and cash premiums, i.e., option premiums.

CBOE S&P 500 Volatility Index ("VIX")
December 31, 2014 – September 30, 2017



Source: Bloomberg LP

The Fund continued to perform as designed by experiencing significantly less volatility than U.S. equity market indexes and providing a return profile that was differentiated from that of U.S. bond market indexes. After a second quarter gain of 0.53%, the Fund realized a third quarter gain of 0.62%.

Fund Positioning

During the third quarter, we continued our policy of actively covering higher delta options, i.e., equity sensitive option positions. The Fund's overall option exposure was 48%, compared to 43% at the previous quarter end and 64% at the end of 2016. While the reduction in the Fund's aggregate notional exposure has continued to help mitigate the additional risks associated with short-term index options, the reduced exposure has limited the Fund's participation during this year's market advance. Over time, we believe the higher return potential of index options will result in a higher total return, with only a modest increase in the Fund's total return volatility.

Despite the recent positive returns in short-term U.S. investment grade credit, we have allowed the Fund's U.S. corporate bond exposure to mature and have replaced it with cash and short-term U.S. Treasuries. In general, we believe we are not being adequately compensated for assuming credit risk at current levels and are satisfied with slowly increasing the Fund's collateral portfolio yield as the Federal Reserve moves to normalize rates. Over time, we expect portfolio duration to remain between approximately 0.75 and 1.25 years.

Market Note

Investors with capital that requires liquidity and minimal price variability, i.e., individuals approaching retirement, governments with short-term financial obligations, companies with excess liquidity, pensions with uncertain short and intermediate benefit requirements, et al. are all facing a very real and enduring predicament regarding how to allocate capital and earn positive real yields. This is not an exhaustive list but, in itself, a considerable portion of the investable assets globally. The U.S. One Year Treasury Bill yielded 1.29% at quarter end, while the ICE 1-3 Year Bond Index yielded 1.24% (due to older vintage notes in the index with lower stated yields). This compares to a September CPI (consumer price index) inflation reading of 2.2% annual growth and a Federal Reserve median inflation projection of 1.9% for 2018. Either way, savers, businesses and governments with accumulated short-term capital are effectively being taxed in the form of negative real returns on short-term capital.

The Fund seeks to enhance the yields offered on short duration government and investment grade debt through a variety of option income strategies. In order to match the risk profile of the option strategy with that of the fixed income portfolio, we generally engage in selling short-term, out-of-the-money options, which, while offering lower premiums, require greater moves in the market to incur any losses. Keeping the options limited to out-of-the-money options and to expiries within one month enables the Fund to add considerable income relative to the underlying securities held as collateral—that is, when the pricing environment is favorable to writing options. However, when the market is pricing in very low implied volatility in the form of inexpensive options, the Fund's yield enhancement objective must be moderated through a reduction in the notional exposure of the option portfolio. The manner in which this is done relies upon assessing the incremental income earned from option positioning relative to a likelihood of loss in excess of the premium earned.

The Fund's returns have exceeded both inflation and short-term credit rates on a one-year and year-to-date basis by selectively allocating our option exposure and increasing fixed income positioning slightly as short-term rates have risen (although the yield curve continues to flatten relative to longer term rates). The low level of implied volatility combined with the high level of equity valuations suggests that our more selective use of option collateral is warranted (i.e., aggregate notional exposure of only 48%). One is simply not being compensated sufficiently for the risk associated with underwriting the S&P 500 at the current level. For example, a put expiring in approximately one month that is approximately 3% out-of-the-money currently generates 30 basis points of income, or only 360 basis points per annum. In the event of a market decline of greater than 6%, this income would be lost. In the event such an outcome occurred earlier in the investment cycle, the option loss could very well detract from the collateral portfolio and diminish the return further.

We have determined that the risk-adjusted yields currently available are generally not attractive enough to warrant a more aggressive use of option collateral. We expect to continue to allocate to short-term fixed income securities as shorter term rates rise, keeping duration short, while awaiting greater opportunities to increase exposure in the option portfolio. The better opportunity for options will be immediately following a correction, which is precisely the time at which we intend to increase the Fund's exposure.

The Morningstar® Dividend Yield Focus Index is designed to track high-yielding, qualified dividend paying, U.S.-based securities screened for companies with superior quality and financial health. The index is a subset of the Morningstar US Market Index, a broad market index representing 97% of U.S. equity market capitalization. The Morningstar Dividend Yield Focus Index represents the top 75 high yielding stocks that meet the screening requirements.

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.

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