Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Global Fund

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Dear Fellow Shareholders,

The Global Fund, in accordance with all of the Kinetics Mutual Funds, aims to earn outsized investment returns as a function of selecting mispriced securities. The global mandate provides the Fund with a broader array of securities from which to select, which should be used to the advantage of the active investor. However, index (passive) approaches fail to embrace this opportunity – all of the top ten positions of the MSCI All Country World Index are U.S. companies, which amount to nearly 10% of the index. Thus, an investment in this global index has nearly identical exposure to that of a domestic capitalization based index. Furthermore, the MSCI EAFE Index, which excludes the United States, has a similar concentration in its top positions, albeit, in global financial, energy and health care companies – all but one of which is European.

Funds have continued to flow into products tracking these indexes, sending share prices higher (even when not warranted based on fundamentals). We have chosen to find our investments outside of this dynamic, for better or worse, although we'd argue better. It's not an easy task to find global stocks devoid of indexation and bank policy inflation, but we keep coming back to the current "super-cycle" in global shipping. These companies receive virtually none of the global investment flows, and often a negligible amount, even in their home markets.

The dry bulk shipping industry is probably the most depressed component of the world economy. The best way to measure it is by perusing the Baltic Dry Index (BDI), which is calculated by the Baltic Exchange. BDI is not a measure of stocks; rather, it obtains shipping rates from a variety of brokerage agencies and compiles an aggregate index based on these prices. On May 20, 2008, the Index reached a record of $11,793. On June 30, 2009, after the crash, it closed at $3,757, for a total loss of 68.1% during the 2008-2009 crisis. In early 2016, the index dropped below $300, although it has now held levels above $1,000 for several months. The total declines remain over 90% from the peak.

BDI is a volatile index. This volatility, which is a reflection of shipping market rates, is rooted in the price variability of the cargo–commodities. Prices in this market can swing wildly and unpredictably, which, in turn, impacts to a great extent the demand for consumption. A dry bulk shipper is beholden to this price volatility, as vessel charters do not generally allow for long term commitments (i.e., over 10 years, as can be the case in

Bulk Carriers in Deadweight Tons ('000s)

1980	181,880	1999	274,690
1981	184,501	2000	274,445
1982	193,217	2001	280,323
1983	204,631	2002	294,780
1984	212,915	2003	296,140
1985	218,518	2004	308,935
1986	227,551	2005	325,666
1987	226,967	2006	349,721
1988	223,659	2007	367,542
1989	222,432	2008	391,127
1990	223,619	2009	418,356
1991	230,028	2010	456,623
1992	236,143	2011	547,192
1993	234,697	2012	624,022
1994	236,843	2013	686,635
1995	250,142	2014	730,296
1996	261,169	2015	762,322
1997	271,702	2016	779,289
1998	280,055	2017	796,581

Source: United Nations Conference on Trade and Development (UNCTAD), http://unctadstat.unctad.org other shipping categories). As a result, given the direct exposure to short term market rates, this is truly a business marked by feast or famine.

Another cause of the Index crash is an excess of dry bulk ships. The only remedy is a decline in the number of vessels, because there is no possibility of increasing freight traffic to a level that could absorb the capacity. In order to understand why that statement is true, it is useful to glance at the dry bulk carrier tonnage statistics, as shown in the accompanying table. These figures are compiled by the United Nations Conference on Trade and Development (UNCTD).

In 1980, there were 181 million tons of vessels. In 1990, that number was 223 million tons and, as late as the year 2000, it was 274 million tons. From the year 2000 to the year 2008, that figure went from 274 million tons to 391 million tons, which is a considerable increase. As large as that increase was, it was insignificant in relation to what came afterward. From 2008 to 2017, the deadweight tonnage increased from 391 million tons to 796 million tons.

So despite the fact that freight rates cratered in late 2007 and mid-2008, and have only modestly recovered since, the supply of bulk carrier tonnage grew 8% (annualized) from late 2008 to mid-2017. There is no other example of an industry losing so much value while gaining supply at an even greater rate.

The reason for the huge increase is that once the ships are ordered, they will be delivered. Even if the original customers do not accept delivery, the ships will be sold to someone else; they are going to be in the market. The reason for the orders was that in 2007 and 2008, the various industry participants were wildly optimistic about the prospects for world trade in general and the emerging market trade in particular. It is also worth noting that it is unbelievably expensive to mothball a cargo vessel. It is actually less expensive to have it ply the oceans and earn some revenue—even at a loss—rather than mothball such vessels.

What we believe is clear, though, is that the shipping industry is not going to go away, given its importance to global trade. When the industry emerges from its current cycle, the strongest players will be more dominant, having acquired competitors and streamlined their business. Though we do not expect the now 10-year depression to improve much for the next few years, we believe that certain companies operating in this space, including A.P. Moeller-Maersk A/S, Siem Industries Inc., and Clarkson plc, have positioned themselves well for the present and future, and will likely emerge stronger than ever. To the extent that we are increasingly uncomfortable with the current economic cycle, the shipping industry has proven that it can decouple from broader markets and balance itself based upon internal factors. Investors with ample broader market exposure should welcome such "diversification."

Global Fund **Top 10 Holdings (%) as of September 30, 2017**	
The Bitcoin Investment Trust	10.7%
Texas Pacific Land Trust	10.%
Bollore SA	4.1%
Siem Industries Inc.	3.1%
Fairfax Financial Holdings Limited	2.8%
Icahn Enterprises LP	2.6%
Brookfield Asset Management Inc. - Class A	2.2%
Dream Unlimited Corp. - Class A	1.8%
Clarke Inc.	1.8%
Onex Corporation	1.7%

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.

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.

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.

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 Global Fund is 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.

The S&P 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. S&P 500 returns assume that dividends are reinvested. The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. Index returns do not include the effect of management fees or expenses. You cannot invest directly in an index. 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.

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