Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Market Opportunities Fund

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Dear Fellow Shareholders,

The Fund was launched just over a decade ago in order to capitalize upon the investment opportunity presented by the evolution of financial markets. Specifically, we believed we had identified various capital market related businesses that could improve market efficiency and transparency, with extremely scalable business models. A prime example is the financial exchanges, which with the development of technology had the potential to digitalize much of the trading activity. At the time, there were many incumbents that have strong vested interests in keeping markets opaque, slow and expensive to transact in. Now over a decade later, this resistance has been decimated and transaction speed has increased while fees have dropped and transparency improved. It was long thought that those in control of the markets (banks, exchanges, traders and governments) would never allow these walls to fall. But fall they have.

Capital markets have continued to evolve through a cycle of continuous disruption, and the Fund has frequently found many attractive businesses perpetuating this change. However, in more recent times we find that more of the disruptive companies are at increasing risk of being disrupted themselves! To that end, these businesses are currently believed to be so deeply entrenched and profitable that the market believes they can only grow; their valuations have soared to reflect these lofty expectations. These valuations, which may well be accepted as systemic risks, must be seriously considered. Specifically, investors must consider how to mitigate or benefit from the potential for further disruption.

The disruptive technology in question is all but certain to eventually be ubiquitous in our daily lives and has been embraced, adopted and extensively studied by all of the largest financial institutions in the world. Yet, a direct investment in this technology is somewhat elusive, and remains one of the most polarizing and hotly debated topics in global markets.

By now, many more people have heard of cryptocurrencies than even two months ago, if for no other reason than that Jamie Dimon, who as the CEO of JP Morgan Chase is one of the nation's premier bankers, recently commented briefly upon bitcoin at an investment conference. Bitcoin is the first mass adoption and, by far, the most popular and powerful cryptocurrency (defined by market value and network power). The most often repeated quotes from that interview were that bitcoin is "a fraud", and that if any JPMorgan trader were to transact in bitcoin, he would "fire them in a second".

Hardly publicized at all were the extensive comments about bitcoin and cryptocurrencies by Abigail Johnson, who as the CEO of Fidelity Investments is one of the nation's premier asset managers. At a conference in May, she revealed that Fidelity had set up its own cryptocurrency mining operation, was planning to make cryptocurrency custody and trading services available to clients on the Fidelity website, and that some Fidelity employees even use bitcoin to pay for lunch at their Boston headquarters cafeteria.

One must consider what would prompt the CEO of one of the world's largest and most respected financial institutions to even recognize Bitcoin, let alone speak of it with such vitriol. How does this reconcile with another leading global investment company publicly embracing the technology? We believe that Bitcoin, based on Blockchain technology, has the potential to tear down the same walls of opacity and fees that traders and banks enjoyed in stock exchanges, but now will impact ALL financial transactions.

So, what is cryptocurrency?

A proper discussion of cryptocurrency must begin with the blockchain technology that enables the entire system to operate, and consequently, potentially creates considerably more value than the utility of an alternative currency in the traditional sense.

A blockchain is the distributed, transparent ledger of all of a cryptocurrency's transaction history and ownership records. It was invented to solve the authentication problem of a currency issued without government intervention. It needed to be uniquely secure from the beginning. It is secure inasmuch as there is no central point of failure. The blockchain ledger is duplicated via each node of the network, so each has a complete and proper record. In order to be hacked, each node must be simultaneously penetrated in a narrow window of time between blocks. The mere location of all of the nodes is almost impossible to know. If someone could somehow identify all of those nodes, then before one could hack the system, one would need to decrypt the various encryption algorithms, solve an elliptical function before all of the perhaps hundreds of thousands of servers could do so, and simultaneously disguise the fact that one would be using the truly enormous amount of electric power required to perform this task.

In one sense, it is nothing other than an electronic or digital form of money. As far as that goes, it is little different than buying U.S. Treasury Bills at www.treasurydirect.gov. There, you can invest as little as $10 at a time, all, as the website says, "online in a secure environment." You get no physical certificate or statement; your ownership is a digital notation on a digital database on a U.S. Treasury computer.

So, the historical uniqueness and disruptive power of bitcoin is not due strictly to its being digital. It incorporates a few additional factors.

* First, bitcoin is not fiat or government issued currency. That is not unique either. Before the U.S. central banking system, banks issued their own currency, and there were hundreds of them. A holder of a banknote from one bank of uncertain creditworthiness might not have been able to get it redeemed by another bank or in another state. It was a pretty horrible system.

* Second, the supply of bitcoin is fixed and non-inflatable. This is defined by its software code, which is its monetary policy: only 21 million units will ever be issued. That is unique. That makes it humankind's first non-dilutable currency. We believe this is an enormously valuable attribute, and we will explain why shortly.

It is worth noting that there is no bitcoin company. There is merely a protocol, an algorithm that is agreed upon by all who use it. All that is necessary for an object to be money is common agreement. For instance, for a number of decades in some of the American colonies in the 1600s, tobacco leaves were the safest and most reliable currency. So much so, that they could be exchanged for gold and used to pay taxes. Ultimately, though, the supply increased – because all you had to do was grow more – which debased the currency, and tobacco leaves had to be abandoned in favor of something superior.

* Third, bitcoin can neither be counterfeited nor confiscated, a universal challenge of physical money. Another reason bank-issued notes of the past were often not accepted was that their authenticity could not be proven. Bitcoin cannot be counterfeited, because each owner possesses a unique cryptographic password, like that of a Swiss bank account. Which is also why it can't be confiscated. This level of security frees the holder from bank safekeeping. It is borderless and can be transferred anywhere, instantaneously and in any amount.

The potential of a publicly distributed ledger (Blockchain) has many application well beyond the scope of a currency, although this isn't currently well understand by the unanointed. The fees of bank custodian, credit card and digital record keeping companies are all potentially at risk, at the very least, of being greatly reduced, if not eliminated in some instances. This is likely what Jamie Dimon and Abigail Johnson recognize, albeit, with very different reactions to this reality.

Incidentally, the desire for a form of money not hostage to government dilution or confiscation is hardly new, and has been the subject of previous scholarly work. Bitcoin appears now only because advances in technology have finally made it feasible. In this sense, it is a very old idea, the desire for which is 5,000 years old, whose time has, perhaps, finally come. Though the risks associated with an investment in bitcoin are significant, we believe that a small investment, which the Fund made via the Bitcoin Investment Trust ("GBTC"), is prudent. Though the Fund's weight in GBTC is now significant, it began as a very small position that has since appreciated.

Market Opportunities Fund **Top 10 Holdings (%) as of September 30, 2017**	
Texas Pacific Land Trust	22.7%
The Bitcoin Investment Trust	8.7%
The Howard Hughes Corporation	4.9%
Icahn Enterprises LP	4.9%
OTC Markets Group Inc. - Class A	4.8%
Onex Corporation	4.5%
Dream Unlimited Corp. - Class A	3.0%
Associated Capital Group, Inc. - Class A	2.2%
Partners Value Investments LP	2.2%
Visa, Inc. - Class A	1.8%

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 www.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.

As a non-diversified Fund, the value of its shares may fluctuate more than shares invested in a broader range of companies. 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.

In addition, investing in foreign securities involves more risk than just U.S. investments, including the risk of currency fluctuations, political and economic instability and differences in financial reporting standards. There may also be heightened risks investing in non-investment grade debt securities and the use of options. There are also risks associated with investing in small and medium sized companies. Non-investment grade debt securities, i.e., junk bonds, are subject to greater credit risk, price volatility and risk of loss than investment grade securities. 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.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its investment objective by investing all of its investable assets in a corresponding portfolio series of Kinetics Portfolios Trust.

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.

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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