Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Multi-Disciplinary Income Fund

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Dear Fellow Shareholders,

Despite an eventful first six months of the year in global equity markets, fixed income markets have remained largely impervious to change. Investment yields are currently low on both an absolute and relative basis, while option markets undervalue the likelihood of increased future volatility. The only meaningful change in the macro backdrop to fixed income markets is the marginal increase in short-term interest rates, where government and agency credits with 6 – 24 months to maturity now offer yields above headline inflation. This is more akin to a raindrop than it is to an oasis in the desert for yield-starved investors, but it is satiating to some degree.

Short-term rates have risen along with the U.S. Federal Funds Rate as the Federal Reserve has the ability to exert strong influence over the shorter end of the curve; however, the longer end of the curve remains stubbornly low, marked by a consecutive record low reading of the 10 Year / 2 Year Treasury yield spread of 33 basis points at the end of June. This metric has been given an exceedingly large amount of media attention for an otherwise obscure data point, as an inversion (negative reading) of this metric is widely believed to be a strong indicator of a looming recession. However, the predictive value of this spread varies highly, and is sensitive to a variety of factors, but it is seldom a signal of imminent contraction. Rather, taken at face value, the indicator suggests low confidence in the ability of the Federal Reserve to sustainably raise interest rates. It also results in little marginal compensation for investors willing to accept greater duration risk; therefore, the Fund is positioned at approximately 3.3 years duration.

Floating-rate debt, including bank loans and other instruments linked to short-term funding rates such as Libor, continues to attract investor attention. Libor rates, to which these loans are benchmarked, have corresponded closely to Fed Funds rates, so investors are benefitting from the move in the short end of the curve, despite the longer maturity category, where fixed rates haven't moved commensurately. Bank loans are commonly used in highly leveraged entities, a favorite amongst leverage buyout companies and aggressively acquisitive businesses. These loans often have looser covenants and less liquidity compared to bonds but are in a senior position in the capital structure. An additional 50 basis points in funding costs relative to the beginning of the year isn't likely to strain balance sheets yet, but the goal of most investors in corporate bonds is to *avoid* restructuring, not merely to perform relatively well during restructuring.

The thought of restructuring, i.e., credit risk, is not currently of the utmost concern to most investors, and even less so in equity markets. Equity market risk is wholly different from credit risk in terms of analysis, but both involve an assessment of the likelihood of a permanent impairment of capital. High yield and equity investors must be willing to accept volatility as part of the asset class, but permanent impairments diminish actual wealth. We noted this in previous letters highlighting the mathematical paradox of writing options when premiums are inadequate to cover losses during a market correction. While the CBOE S&P 500 Volatility Index ("VIX") topped 35 in February, resulting in permanent losses to many option writing and volatility speculators, it ended June near 16. The difficulty with mechanically writing puts is the virtual certainty of periodic permanent impairments of capital (i.e., all of the premium and more is lost in a market decline). Subsequent option premiums must be materially higher in order to recover this lost principal, let alone to earn a desired yield. Given our views on equity markets today, we expect that any premiums earned will represent two steps forward, before three steps back. Over the long-term, this never wins.

There is always something interesting to do in capital markets, and we remain confident in our misunderstood fixed income portfolio, with full margin capacity available to monetize put premiums when the expected return is positive. Until then, the Fund will seek to continue moving forward without retracing too many steps.

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of June 30, 2018**	
Penske Automotive Group, Inc.	8.6%
Lamb Weston Holdings, Inc.	8.4%
Brookfield Residential Properties	7.9%
Ashland Inc.	7.2%
Icahn Enterprises	7.2%
PIMCO Dynamic Income Fund	6.7%
TRI Pointe Holdings, Inc.	4.8%
Lennar Corporation	4.6%
Stolt-Nielsen Limited	4.6%
The Howard Hughes Corporation	3.9%

Important Risk 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.

The Fund invests in options and other derivative instruments, which are specialized activities and entail greater than ordinary investment risks, including that they may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses. Additionally, the Fund may invest in debt securities. Investments in debt securities rated below investment grade (i.e., junk bonds) are subject to increased risks. International investing presents special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Non-investment grade debt securities (i.e., junk bonds) are subject to greater credit risk, price volatility and risk of loss than are investment grade securities. Further, options contain special risks, including the imperfect correlation between the value of the option and the value of the underlying asset.

The Kinetics Multi-Disciplinary Income Fund is classified as 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.

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.

The Barclays Capital U.S. Aggregate Bond Index measures the performance of the U.S. investment grade bond market.

The *CBOE Volatility Index® (VIX® Index®)* is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The CBOE S&P 500 PutWrite Index measures the performance of a hypothetical portfolio that sells S&P 500 Index put options against collateralized cash reserves held in a money market account.

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 management fees or expenses. You cannot invest directly in an index.

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