Kinetics Mutual Funds
Third Quarter 2017 Commentaries

The Paradigm Fund

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Dear Fellow Shareholders,

The markets sustained their relentless advance in September, bringing year-to-date returns for nearly all equity indexes well above even the most intrepid forecasts at the beginning of the year. To be sure, the consensus has subsequently shifted and rationalized the advance, and in most cases, analysts are now forecasting further gains for years to come. But like consensus economic forecasts, market strategists have never accurately envisaged a market decline until it was all but a forgone conclusion. This is not to say that there will not be additional upside before the next market decline, but one should consider rational expectations for upside from this point in time.

The dramatic asset gains have been realized in an incredibly uniform pattern this year, as the S&P 500 Index and the MSCI All Country World Index have both experienced positive performance in every month of the year – in fact, neither has had a losing month since October of 2016, and as of the end of September, both appear poised to mark 12 consecutive months of gains. This has lulled many institutions, businesses and individual investors into taking on more risk exposure, whether they are aware of this recent history or not. Realized volatility has been remarkably low, and some investors believe that returns follow a normal distribution, and therefore, believe that returns have been achieved with little risk. An objective qualitative analysis is likely to contradict this belief, but such is how markets are made.

This reminds us not to take too much satisfaction in recent performance, which has been very pleasant on an absolute and relative basis over the past two years. At a recent investor dinner, a large fund manager boasted of strong returns for the year, to which someone nearby muttered: “well you had better be!” Perhaps the manager had achieved the results with a highly defensive portfolio, conservative exposures and highly idiosyncratic securities. But ex post facto analysis seldom considers the means; only the end.

Active managers mimicking indexes and attempting to provide uncorrelated returns in large liquid markets can cite sector allocations, country exposures and rebalancing. We view this as a zero sum game. Acutely aware of our own skepticism of ever optimistic economists and markets strategists, we also require a healthy degree of skepticism regarding our own holdings. The top ten positions in the Fund have risen by an average of approximately 15% in the first three quarters of this year (weighted average), and while some portion of that performance has been driven by multiple expansion, we believe most has been driven by fundamental improvements in the companies. Value investors often face this dilemma, as multiple expansion is often part of the investment thesis in arguing that a security is undervalued. The largest two positions in the Fund have categorically improved their future prospects, justifying all or most of the annual gains. In the second quarter of 2017, Texas Pacific Land Trust experienced an oil and gas royalty revenue increase of 88% and an increase in easement revenue of 72% compared to the second quarter of 2016. Easement growth included a nascent water business growing at 200% that we believe represents a quantifiable addition to net asset value estimates, and of which most investors were previously unaware. The potential value accretion of this business is well in excess of the market appreciation of the shares; thus, our investment conviction has waxed.

Howard Hughes Corporation continues to make progress on important development projects this year, despite fears of damage to Houston assets related to severe weather. The company disclosed that their Houston assets were not materially impacted by the storm and were fully operational not long after the storm passed. More recently, the company reported a landmark deal to bring a professional baseball team and stadium to their community in Las Vegas, Nevada and a major tenant signing in Pier 17, part of their Manhattan Seaport community. The Las Vegas deal has positive implications for the Pier, as the naming rights for the stadium imply considerable value for sponsorship in New York. We believe that both projects now have more tangible value drivers for investors, as the projects near completion and cash flow is converted. These factors, we believe, indicate an upside well in excess of the modest, low single digit stock gain for the year.

Associated Capital Group and Liberty Broadband Corp. (“Liberty Broadband”) represent more traditional “stub value” discount investments which have been narrowed thus far in 2017, but remain considerable. In the former, the company continues to trade at a considerable discount to tangible book value. This discount has narrowed as a temporary accounting item affecting GAAP book value has been reduced, and the company has announced strategic initiatives to reduce its exposure to its affiliated company. Liberty Broadband continues to trade at a sizable discount compared to its investment in Charter Communications (“Charter”), but the shares have risen commensurately with Charter’s net asset value this year. Charter is a cable and internet provider in many of the largest Metropolitan Statistical Areas in the country. The company (and peers) have traded at low multiples of future free cash flow, as investors fear the continued loss of cable subscribers. However, many cable subscribers now receive internet service at a discount as part of a “bundle” of cable and phone service. Investors that shift to internet streaming video services will not only have to pay more for internet a la carte, but this will be a far higher margin business for the cable companies (no network affiliate fees). Thus, we believe the long-term value of Charter’s terrestrial infrastructure and network will be very valuable and remains unduly discounted based on current expectations. We believe that owning the Charter shares via Liberty Broadband, which is trading below the value of the stake, only improves, the prospective return.

We are pleased with the strong recent results, but remain guarded as the rising tide of markets and compression of risk premiums cannot be ignored. Our future return expectations remain relatively static compared to the beginning of the year; fundamental improvements bested stock returns for many top positions, offsetting much of the multiple expansion in other holdings. In the meantime, we would welcome a more discerning investment landscape.

Paradigm Fund **Top 10 Holdings (%) as of September 30, 2017**	
Texas Pacific Land Trust	29.5%
The Howard Hughes Corporation	10.0%
Icahn Enterprises LP	4.7%
Brookfield Asset Management Inc. - Class A	4.6%
Live Nation Entertainment, Inc.	3.6%
Liberty Media Corp.-Liberty SiriusXM - Class C	3.1%
CBOE Holdings Inc.	2.7%
Liberty Broadband Corporation - Series C	2.4%
Onex Corporation	2.4%
Franco-Nevada Corporation	2.3%

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.

The Paradigm 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.

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. Please refer to the Fund’s prospectus for a complete list of risks and fees.

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. You cannot invest directly in an index.

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

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