Kinetics Mutual Funds, Inc.
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Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Paradigm Fund

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Dear Fellow Shareholders,

Disciplined, value oriented investing can be a lonely and mentally exhausting endeavor, as there are often prolonged periods of performance that are below that of broader markets. However, many of the most successful and wealthiest investors in history follow similar fundamentals based, value investment philosophies. The merits of the approach are beyond reproach, but few have the ability to adhere to the core principals, particularly during trying periods of performance.

Despite the many nuances and varying forms of value investing, the core principals require a valuation and business quality discipline that serves as a buffer to losses in the event of mistakes, and an enhancement to gains when effective. Crucial to the long-term success of this strategy is the compounding of returns achieved as a function of the preservation of principal. This is critical and readily apparent in returns during and immediately following market declines. This dynamic is usually the least visible in returns generated in the late stages of market advances, but no less critical. Today, over nine years removed from the last significant market decline (2009), the benefits of value investing may appear to be lacking, particularly compared to the broader U.S. equity market.

Distilled down to its core tenet, value investing places a far higher importance on risk assessment than do most strategies. As an example, growth oriented strategies focus on addressable markets and customer growth, while de-emphasizing balance sheet strength and cash flow. This strategy may perform quite well during expansionary cycles, but offers little protection when such cycles inevitably end. The modern investment landscape has no shortage of risk controls – internal teams, consultants, and regulators tasked with minimizing said "risk." However, most of these individuals view risk within an academic framework, which is at odds with practical applications and the mindset of a value investor. These highly trained, intelligent and capable individuals review discrete parameters such as diversification, standard deviation, and leverage in an attempt to quantify an unquantifiable variable: risk. Consider an entrepreneur of significant wealth; many such individuals run the companies that populate this Fund. We are unaware of any of these individuals discussing market price variability (standard deviation) or diversifying investments away from their enterprises. Yet, the investment community presumes to know better than these masters of industry, and teaches/practices the antithesis of their actions.

Investment managers, eager to participate in this investment ecosystem, tailor portfolios to fit the parameters ascribed by allocators. This is an important distinction—most managers do not fall into a certain category as a product of their investment process, but rather, fashion their investment process based on allocators' demands. This is the tail wagging the dog. Furthermore, once in a "style box" of sorts, these managers now disregard broader market index returns for those of specific style/size indexes and peer managers. The institutionalization of investing has thus created institutionalized performance assessment, to the detriment of shareholders.

In the past we have compared our performance to value based indexes, simply to provide context to our returns and to keep our investors well informed. However, we never have, nor do we currently believe that any value index is remotely representative of the Fund. The institutionalized definition of “value” is wholly incomplete, even misleading, but highly scalable for index funds. In any event, the current magnitude of value underperformance relative to growth is nearing the largest ever experienced, both in terms of magnitude and duration. While we are careful to note that traditional definitions of value and growth have changed, as have the dynamics of these performance statistics, the data is quite telling in terms of market sentiment and regard for risk.

We believe that our holistic approach to value investing and risk assessment has driven the Fund’s strong trailing returns on an absolute basis and relative to the broader market (much more so relative to value indexes). However, once adjusted for growth, normalized cash flows and/ or net asset values, we believe that the portfolio companies are categorically superior values to those of the broader market and value indexes. We believe that this, and our large cash balance, to be very beneficial once risk factors are given greater consideration in asset prices. Until that time, we expect to reduce current exposures to a greater extent than the addition of new exposures.

Paradigm Fund **Top 10 Holdings (%) as of June 30, 2018**	
Texas Pacific Land Trust	36.1%
The Howard Hughes Corporation	8.8%
Icahn Enterprises LP	4.8%
Brookfield Asset Management Inc. - Class A	3.5%
Live Nation Entertainment, Inc.	2.5%
Liberty Media Corp.-Liberty SiriusXM - Class C	2.2%
Cboe Global Markets, Inc.	2.1%
Markel Corporation	1.9%
Franco-Nevada Corporation	1.8%
Onex Corporation	1.7%

<u>Important Risk Disclosures</u>

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.

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. The value of bitcoins is determined by the supply of and demand for bitcoins in the global market for the trading of bitcoins, which consists of transactions on electronic bitcoin exchanges ("Bitcoin Exchanges"). Pricing on Bitcoin Exchanges and other venues can be volatile and can adversely affect the value of the bitcoin. Currently, there is relatively small use of bitcoins in the retail and commercial marketplace in comparison to the relatively large use of bitcoins by speculators, thus contributing to price volatility that could adversely affect a portfolio's direct or indirect investments in bitcoin. Bitcoin transactions are irrevocable, and stolen or incorrectly transferred bitcoins may be irretrievable. As a result, any incorrectly executed bitcoin transactions could adversely affect the value of a portfolio's direct or indirect investment in bitcoin. Only investors who can appreciate the risks associated with an investment should invest in cryptocurrencies or products that offer cryptocurrency exposure. As with all investments, investors should consult with their investment, legal and tax professionals before investing, as you may lose money.

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

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.

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.

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.

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