Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Market Opportunities Fund

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Dear Fellow Shareholders,

There is a pervasive narrative that is driving the broader equity market higher, largely manifested in information technology and associated companies, that justifies current valuation excesses predicated on the assumption that these emergent businesses are changing the dynamics of the industries in which they operate. The most marked examples are media and retail companies being disintermediated by digital distribution. It was recently believed that these companies were immune to competitive forces due to physical locations, distribution systems, and scale. While the ultimate balance of power in these industries is yet to be determined, the financial services sector appears to be amongst the most entrenched, yet it is vulnerable to technological disintermediation.

Information technology companies now comprise over 25% of the S&P 500 Index; while this sector exceeded 1/3 of the index in 2000, the current level is an aberration for any sector in the modern era (financial services reached nearly 23% in 2006, compared to approximately 14% currently). However, as technology, communications, and computing has become ubiquitous, information technology has become a material component of virtually all companies. The primary shift that this has created is the democratization of information. Hence, businesses that rely on information asymmetries and physical networks to compete may lose competitiveness, or at least profitability. Arguably, Industrial, Energy, Utility, Real Estate, and Materials companies are less sensitive to this dynamic, while telecommunications and consumer discretionary industries are already experiencing the effects of information proliferation. The remaining two sectors are Health Care and Financial Services.

While there is a substantial informational aspect in many health care companies, the sub-industries of medical insurance, pharmaceutical, biotechnology, and medical device companies hold far greater asset portfolios and provide complex services beyond those that technology can accomplish alone. This leaves financial services companies. At the very core of industry, these companies simply provide capital and facilitate commerce, acting as intermediaries between lenders and borrowers. Banks currently earn the majority of their earnings through net interest margins, or simply, the difference between interest payments on deposits and returns on commercial lending. This is a solid business if well managed, but the banks' marginal profitability beyond this balance sheet lending is eroding. Brokerage commissions and asset management fees have been reduced dramatically, yet fees on alternative investments and commissions on fixed income and derivatives have a lot more room to decline. Investment banking and advisory services are challenged by direct listings, private market funding, and lower cost forms of capital access. As a result, financial companies are seeking to grow in areas that were once of far lower interest: stock lending, custody/prime brokerage, asset management/private banking, and retail banking.

We see various vulnerabilities across the entire spectrum of financial services companies, and the market opportunity lies in both determining the businesses most at risk (and avoiding those investments), as well as identifying sustaining businesses in the capital markets industry. Of course, we also seek to find the companies that are likely to disintermediate the entrenched institutions, but we generally require enduring profitability for investment, which many lack. The advantaged business models and the corresponding companies that populate the Fund are not exclusively in the financial services sector, but the opportunities and dynamics have many similarities across industries. Thus, a simple sector analysis of the Fund is wholly inadequate in capturing its strategy. Furthermore, traditional sector/market allocations often embrace the very elements of businesses that we are seeking to minimize. The static thinking that was pervasive in various displaced businesses is nowhere more apparent than in asset management today. Dynamic thinking is amongst the most important aspects of investing, and is a focus of this Fund.

Market Opportunities Fund **Top 10 Holdings (%) as of June 30, 2018**	
Texas Pacific Land Trust	29.7%
The Bitcoin Investment Trust	5.8%
Icahn Enterprises LP	3.4%
Dream Unlimited Corp. - Class A	2.4%
Associated Capital Group, Inc. - Class A	1.5%
Onex Corporation	1.5%
The Howard Hughes Corporation	1.5%
Partners Value Investments LP	1.4%
Visa, Inc. - Class A	1.2%
CME Group, Inc.	1.1%

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 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.

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.

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. 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.

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