# Kinetics Mutual Funds
# First Quarter 2018 Commentaries

## The Medical Fund

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Dear Fellow Shareholders,

The Fund is intended to provide a broad exposure to the biopharmaceutical industry. At one end of the spectrum, the bulk of the assets of the Fund are invested in large-cap pharmaceutical and biotechnology companies; this is, in part, due to the initial sizing of these positions and, in part, due to the appreciation of these investments over time. These companies continue to innovate, while, at the same time, produce consistent cash flows. At the other end of the spectrum, we believe that emerging biotech companies have the potential to drive outsized Fund returns, either as the result of encouraging therapeutic results or through continued industry consolidation.

During the first quarter, one of the Fund's holdings, Bioverativ Inc., was acquired by another Fund holding, Sanofi. The all cash acquisition was announced on January 22, 2018, with Sanofi offering a 64% premium to Bioverativ's prior share closing price. The deal closed in March 2018, and is intended to strengthen Sanofi's presence in the hemophilia market.

On the other hand, Biogen (which spun off Bioverativ in the first quarter of 2017) experienced some setbacks during the quarter. The company withdrew marketing authorizations for one of its multiple sclerosis medications following reports of significant adverse events among patients using the drug. At the same time, full year 2017 results missed GAAP estimates and 2018 guidance was modest.

Over the fullness of time, we expect the large capitalization companies to provide stability to the Fund's return stream. These companies are generally well diversified, highly profitable and have the ability to fund research and development costs, in addition to generous dividends and share repurchase programs, all from operating cash flow. As a result, these companies generally offer current dividend yields in the range of 3% - 4%, well in excess of the S&P 500 Index or even the Barclays U.S. Aggregate Bond Index. While these companies have experienced lower growth rates compared to the broader market and economy over the past market cycle, the stability of cash flows and modest valuations may be highly favorable in a more discerning market environment.

Despite the muted recent growth, some of which can be ascribed to regulatory changes, these large companies generally have promising drug and therapy pipelines. Most notable is the CAR-T cell therapy Kymriah, an immunotherapy, at Novartis, which received a second FDA approval this year. Immunotherapy, targeting the use of the body's own immune system to repress various diseases, is an incredibly promising technology, although it is still in a nascent stage. While it has yet to be manifested in Novartis' earnings or stock price, the value is highlighted by Gilead Sciences' acquisition of Kite Pharmaceuticals in late 2017, for nearly $10 billion. All too often, these types of drugs/therapies are lost within the large ecosystem of diversified capitalization pharmaceutical companies. In comparison, highly focused smaller biotechnology companies that specialize in such lines are often priced far more aggressively, despite a far higher risk profile. As a result, we limit such smaller companies in the Fund to truly unique opportunities, at smaller initial positioning weights. The healthcare environment in the United States remains highly inefficient, and regulatory uncertainty weighs on valuations, while also likely curtailing capital spending, to an extent. However, the diversified business models that provide value-added products and services are indispensable to the country, both socially and economically. We believe that these businesses will ultimately be incentivized to innovate, while other companies that exploit payment systems and operating inefficiencies have less promising futures. In any event, we believe the portfolio is positioned to generate reasonable shareholder returns over the long-term, regardless of the broader economy or current market drivers.

Sincerely,

The Kinetics Investment Team

| Medical Fund<br>**Top 10 Holdings (%) as of March 31, 2018** | |
|---|---|
| Pfizer, Inc. | 7.9% |
| Bristol-Myers Squibb Company | 7.9% |
| Eli Lilly & Company | 7.6% |
| Alkermes plc | 6.9% |
| AbbVie Inc. | 6.7% |
| Johnson & Johnson | 6.3% |
| Novartis AG - ADR | 5.6% |
| Biogen Inc. | 5.4% |
| Sanofi - ADR | 5.3% |
| AstraZeneca plc - ADR | 4.8% |

**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.

Because the Medical Fund invests in a single industry, its shares do not represent a complete investment program. Medical and biotechnology stocks are subject to a rate of change in technology, obsolescence, and competition that is generally higher than that of other industries, and have experienced extreme price and volume fluctuations. International investing presents special risks, including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Because smaller companies often have narrower markets and limited financial resources, they present more risk than larger, more well-established companies.

The Medical 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 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.

*Distributor*: Kinetics Funds Distributor LLC is an affiliate of Kinetics Asset Management LLC, and is not an affiliate of Kinetics Mutual Funds, Inc.