Kinetics Mutual Funds
First Quarter 2018 Commentaries

The Multi-Disciplinary Income Fund

Click Here for Standardized Performance

Dear Fellow Shareholders,

The first quarter was an illuminating quarter for fixed income and options investors, as both asset classes broke out of long-term trends, resulting in losses across many fixed income and option strategies. The market action was driven by 10 Year U.S. Treasury yields climbing from 2.41% to 2.74% over the quarter, while the CBOE Volatility Index ("VIX") rose from 9.77 to end at 19.97, but not before reaching 37.32 in early February. As a result, the Barclays Aggregate Bond Index, Markit iBoxx USD Liquid High Yield Index and Bloomberg Barclays U.S. Treasury: 20+ Year Total Return Index all experienced declines for the quarter, along with equities (as measured by the S&P 500 Index). Results for volatility strategies were calamitous, including a popular exchange traded note declining 95% and delisting from the exchange. Even conservative volatility strategies weren't spared, as the CBOE S&P 500 PutWrite Index declined 2.6%, over 3x the decline of the S&P 500 Index.

The takeaways from the quarter are plentiful, but we'd like to highlight the fact that despite conventional wisdom, equity and fixed income can in fact decline in tandem, and similarly, a formulaic approach to writing put options exposes investors to heightened risk when volatility levels are depressed. The free lunch that investors are looking for unfortunately does not exist. Every investment corresponds to risks associated with the investment, and investors' best risk control, in our opinion, is to require adequate compensation for these risks. Suffice it to say, buying investment grade and government bonds at yields below the rate of inflation, and writing put options with the VIX at 9, do not offer much compensation for the associated risks.

We believe that there is higher risk relative to reward in long duration fixed income securities, due to interest rate sensitivity, as higher rates have the potential to materially impair the market values of such securities, even if the credit quality is very high. This is particularly true of longer-dated U.S. government bonds that offer nominal yield spreads relative to inflation rates. Additionally, as the Federal Reserve begins to taper (i.e., sell down) over $4 trillion of government bonds and mortgage securities, while continuing deficit spending and raising interest rates, there are risks well beyond traditional duration considerations. Equity markets are likely equally at risk of a correction for the same reasons, and while options premiums are currently higher than they were at the beginning of the year, they remain historically low; their use is likely to result only in smaller losses, rather than income, at this point.

As a result, the remaining income oriented investments are far more constrained. The portfolio is positioned towards higher yielding bonds, with an average yield to maturity of approximately 5%, and generally less than four years to maturity. In success mode, this exposure will result in a net yield spread of 3% over inflation, with limited interest rate risk, and solid credits, in our opinion. This yield is slightly lower than that of prevailing high yield indexes, as we require lower duration and higher credit quality than is evident in many indexes. This exposure is supplemented by a variety of closed-end vehicles managed by respected managers that offer current yields of 8%-10%. The underlying exposures of these funds are unique to those in the fixed income portfolio, and we believe are limited by virtue of position sizing. We generally purchase these funds when they are traded at a discount to net asset value, which, along with modest leverage, results in above market yields.

In summary, we believe that the option premium and fixed income gains of the past decade, coinciding with declining risk-free interest rates and equity market multiple expansion, must be evaluated against the very different environment today. We still believe that the Fund can earn strong spreads compared to inflation and risk-free rates, but are reluctant to supplement this with options premia at current levels. We look forward to the possibility of high put premiums and bond yield spreads in the future.

Multi-Disciplinary Income Fund **Top 10 Fixed Income Holdings (%) as of March 31, 2018**	
Penske Automotive Group, Inc.	7.7%
Lamb Weston Holdings, Inc.	7.6%
Brookfield Residential Properties	7.0%
Ashland Inc.	6.5%
Icahn Enterprises	6.4%
PIMCO Dynamic Income Fund	5.7%
TRI Pointe Holdings, Inc.	4.3%
Lennar Corporation	4.2%
Stolt-Nielsen Limited	4.1%
The Howard Hughes Corporation	3.5%

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 *Markit iBoxx USD Liquid High Yield Index* consists of liquid USD high yield bonds selected to provide a balanced representation of the broad USD high yield corporate bond universe.

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.

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