Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Spin-Off and Corporate Restructuring Fund

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Dear Fellow Shareholders,

Equity returns are a function of profit growth coupled with the capitalization of profits, in addition to any shareholder distributions. Various market commentators and investors enthusiastically cite the corporate profit growth achievements for this year, which, impressive as they are, have been materially aided by federal tax code amendments. Pragmatists recognize the objectively strong growth figures within the context of the capitalization of these profits or valuations. Valuation can be calculated via many methodologies, but standard capitalization rates for cash flow and earnings are objectively above long-term historical trends. This situation should urge caution, but the consensus focuses simply on growth rates, without great concern for valuation.

Various studies conclude that long-term equity returns (such as the oft mentioned 10% long-term heuristic) are most sensitive to purchase price valuation. A nuance to this analysis, which eludes empirical analysis, is human behavior. Human behavior tends to overvalue companies when fundamentals and earnings are at a peak, while undervaluing companies when these figures trough. The combination of low valuation and depressed earnings underwrites excellent long-term returns as valuations expand and profitability grows. The inverse is true for inflated earnings and high valuation, but there is great conjecture as to when the fundamental strength will moderate, and markets will top.

While this logic largely holds true for the broader economy, hence, the aggregate business performance, there are specific companies in the current market that are believed to have secular growth that defies business cycles and valuations that discount tremendous future profitability at normalized multiples. This may very well be a valid thesis for certain companies, but the dilemma arises in what skill an individual or firm has in assessing this probability. An investment formed as such is thus concomitant with speculation.

This dynamic is pertinent to spin-off and restructuring investing in the sense that investment sentiments hold that high growth speculation is generously rewarded; hence, there is little or no appeal in seeking idiosyncratic, uncorrelated investments that require far greater work. We believe that this dynamic, coupled with the fact that indexation is creating greater concentration in larger and larger companies, has created a valuation opportunity in spin-off investments. While the valuation provides greater visibility into returns and risk, we also believe that many of these investments have far greater asset and cash flow predictability, further limiting speculative elements.

At the current stage of the market and business cycle, we generally maintain our exposure to the asset class via legacy spin-off companies and future potential spin-offs. Legacy spin-off companies continue to offer a value proposition—despite the fact that many are well known and profitable, the institutional investor ecosystem has yet to adapt to these businesses. A prime example and a Fund position is PayPal Holdings ("PayPal"), a rare portfolio holding that is ubiquitous and well known by our shareholders. The company was spun-off from its parent eBay Inc. in late 2015, as it had grown well beyond providing merchant payment services on the site. The potential of the company lies in a secure online portal for ecommerce payments between customers and merchants, effectively creating an interface similar to that of Amazon shopping, but applied across third party sites. The convenience, ease, security and cost advantage to both consumers and merchants is considerable, but has yet to be embraced appropriately. In any event, the company still has a tremendous addressable market in spite of growing revenue at nearly 20% annually for the past five years—this compares to Visa and Mastercard at 11% and 12%, respectively. However, PayPal trades at approximately 30x estimated free cash flow for the year—nearly identical to Mastercard and only slightly higher than Visa. The incumbent credit card processing companies generally benefit from PayPal business, but they could be marginalized through direct bank account payments and deposits within PayPal, reducing the need to pay the credit card network fees. Regardless, the growth adjusted valuation premium for the incumbents highlights the valuation dynamics of legacy spin-offs.

As for potential or future spin-offs, we see an advantageous business cycle backdrop for these companies, as many traditional business models struggle to keep pace with technology and broader market growth. Historically, management has used late cycle periods to engage in shareholder oriented activity in the form of dividends, share repurchases and spin-offs. This is typically found in businesses that have various lines of business that are complementary, but not strategically or operationally required to be in the same organization. As an example, many oil and gas companies have exploited late cycle valuation divides between core exploration and production activity and transportation (midstream) assets. This has resulted in a variety of companies separating their energy transportation assets in partnerships, which has increased the valuations and freed capital. While the benefits of partnerships are less obvious under the lower prevailing corporate tax rate, the valuation discrepancy remains. Texas Pacific Land Trust earns revenue from oil and gas royalties, as well as land based revenue from surface easements and water provision. A basic analysis of the aggregate valuation of these three business lines suggests a valuation well in excess of market prices. While it may require more time for these businesses to further mature, the underlying profitability is likely to drive strong returns until the point at which a spin-off might occur.

To be sure, allocating capital effectively has gotten much harder recently, despite the deluge of rhetoric regarding the economic and market strength. We choose to participate in the opportunities at hand, and benefit from a unique dynamic within the market, as opposed to accepting the broader market risk.

Spin-Off and Corporate Restructuring Fund
Top 10 Holdings (%) as of June 30, 2018

Texas Pacific Land Trust	30.2%
The Howard Hughes Corporation	7.2%
DREAM Unlimited Corp.	6.1%
Associated Capital Group, Inc. - Class A	5.2%
Cable One, Inc.	4.8%
PayPal Holdings, Inc.	4.3%
Civeo Corp.	3.8%
Graham Holdings Co.	3.6%
CSW Industrials, Inc.	3.3%
Icahn Enterprises LP	3.3%

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 Spin-off and Corporate Restructuring Fund (the "Fund") recently underwent a proxy where shareholders voted to approve Kinetics Asset Management LLC ("Kinetics") as investment adviser to the Fund, effective December 8, 2017. Previously, Horizon Asset Management LLC, an affiliate of Kinetics, was the Fund's sub-adviser. The portfolio managers of the fund prior to the restructuring are the same portfolio managers that manage the fund post-restructuring. As such, the Fund's investment objective and investment strategy have not changed.

The 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 companies. 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 report standards. There may also be heightened risks investing in spin-off companies. Such companies are generally newly formed and may not have a track record upon which to evaluate management's experience or historical balance sheet information upon which to evaluate its financial strength. There are also risks associated with investing in small and medium sized companies whose share values may fluctuate more than larger companies. You should consult the Fund's prospectus for a complete list of risks associated with your investment.

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 *S&P 500® Index* represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. S&P 500 returns assume that dividends are reinvested.

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.

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