Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Alternative Income Fund

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Dear Fellow Shareholders,

The Alternative Income Fund's (the "Fund") strategy seeks to provide an efficient source of income alongside traditional longer-term fixed income and broader yield-oriented strategies while, at the same time, beneficially diversifying risk exposures. Some of the strategy's intended benefits include:

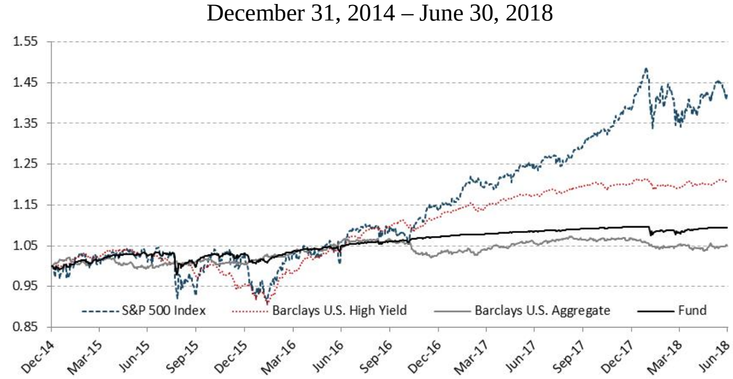
a. *A reasonable rate of return; that is, income in excess of short-to-intermediate-term bonds.*
b. *Long-term volatility levels more consistent with bond markets than with equity markets.*
c. *Avoidance of duration, convexity[1], and reinvestment risks inherent in traditional long-term bonds.*
d. *Minimal or negative correlation with traditional bond portfolios.*
e. *Liquidity, transparency, and cost effectiveness, each of which has proven to be particularly important in a low-return world.*

The Fund intends to generate returns from a conservative, short duration bond portfolio, and from the time decay of out-of-the-money put option premiums. To this end, the Fund implements a two-part investment strategy focused on generating current income and gains in excess of traditional short duration, investment grade, fixed income indexes, yet, with similar volatility.

Part 1: A base strategy invests primarily in a diversified portfolio of short-term, investment grade bonds. Bond exposures seek to emphasize liquidity, diversification, and lower interest rate or duration risk (1-3 years).

Part 2: An equity put writing option strategy seeks to supplement bond portfolio income via the collection of option premiums. Option exposures are allocated broadly across quality companies and/or exchange-traded funds ("ETFs") offering similar exposures.

Cumulative Returns
December 31, 2014 – June 30, 2018



Source: Bloomberg LP

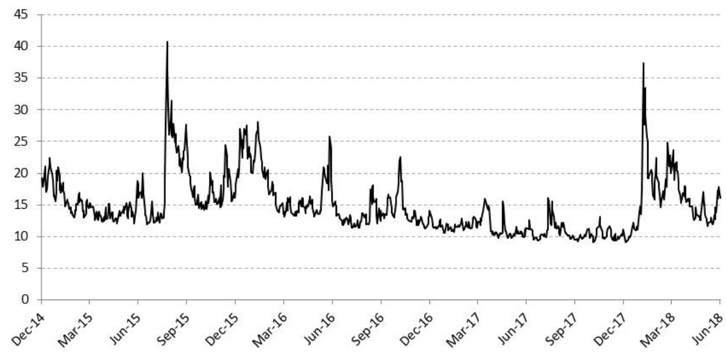
The Alternative Income Fund No Load Class inception date is 6/29/07. Figures include changes in principal value, reinvested dividends and capital gain distributions. Performance data quoted represents past performance and does not guarantee future results. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. Call 1-800-930-3828 or visit us at www.kineticsfunds.com for the most recent month-end performance data. Current performance may be lower or higher than the performance data quoted. Performance data does not reflect the deduction of sales load or fee which, if reflected, would reduce the performance quoted.

[1] Convexity is a measure of the rate of change of duration as interest rates change.

U.S. equity market volatility declined by 19% during the second quarter of 2018 (i.e., VIX at 16.09 as of 6/29/18, compared to VIX at 19.97 as of 3/29/18). The net result for the S&P 500 Index ("S&P 500") was a second quarter gain of 3.43%, compared to a first quarter loss of -0.76%. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index ("U.S. Agg."), realized a second quarter loss of -0.16%, compared to a first quarter loss of -1.46%. The Bloomberg Barclays U.S. High Yield Index ("High Yield") recorded a second quarter gain of 1.03%, compared to a first quarter loss of -0.86%. And the Bloomberg Barclays 1-3 Year Credit Index ("1-3 Year Credit") realized a second quarter gain of 0.42%, compared to a first quarter loss of -0.31%.

S&P 500 Index options implied volatility, defined as the CBOE S&P 500 Implied Volatility Index ("VIX"), averaged approximately 15 during the second quarter, compared to an average of approximately 17 during the first quarter and an average of approximately 10 during the fourth quarter of 2017. The collection of higher option premiums serves to protect against losses in the event of market declines and provides yield during periods of flat or rising markets. Much like an insurance business, the Fund will underwrite equity risk in exchange for a deductible, i.e., out-of-the-money options, and cash premiums, i.e., option premiums.

CBOE S&P 500 Volatility Index ("VIX")
December 31, 2014 – June 30, 2018



Source: Bloomberg LP

The Fund continued to perform as designed by experiencing significantly less volatility than U.S. equity market indexes and providing a return profile that was differentiated from that of U.S. bond market indexes. After a first quarter loss of -1.01%, the Fund realized a second quarter gain of 0.95%.

Fund Positioning

During the second quarter, we continued our policy of actively covering higher delta options, i.e., equity sensitive option positions. The Fund's overall option exposure was 31%, compared to 40% at the end of the first quarter. The reduction in the Fund's aggregate notional exposure has continued to help mitigate the additional risks associated with short-term index options; however, the reduced exposure has limited the Fund's participation during the recent market advance. Over time, we believe the higher return potential of index options will result in a higher total return, with only a modest increase in the Fund's total return volatility.

We have allowed the Fund's U.S. corporate bond exposure to mature and have replaced it with cash and short-term U.S. Treasuries. In general, we believe we are not being adequately compensated for assuming credit risk at current levels and are satisfied with slowly increasing the Fund's collateral portfolio yield as the Federal Reserve moves to normalize rates. Over time, we expect portfolio duration to remain between approximately 0.75 and 1.25 years.

Market Note

The primary objective of fixed income investing is to protect principal, while the secondary objective is to earn a positive yield on that principal. Benchmark-oriented analysis would indicate that the U.S. Agg. has violated the first objective this year, returning a modestly negative net return through June. This "paper loss" relates to the fact that interest rates have risen, reducing the present value of coupon payments, resulting in a decline in bond prices. Although the bonds still have a positive expected return through maturity, despite a lower market price, the market prices of the underlying bonds are generally above par. Of course, the principal is expected to erode over time as maturity approaches, as bonds are retired at par.

Index analysis would similarly indicate that the U.S. Agg. has materially outperformed shorter term credit (i.e., the Bloomberg Barclays 1-3 Year Credit Index) over the past five years; yet, for much of this period, longer-term rates were declining, while shorter term rates only gradually moved higher. The last time that short-term credit outperformed materially was during 2013, when longer rates unexpectedly rose nearly 130 basis points, and the U.S. Agg. declined 2%, while the short-term index delivered a 1.45% return. Recently, the spread between 10-Year and 2-Year U.S. Government debt has compressed to the lowest level in over a decade. We believe that this makes shorter-term credit far more attractive, and longer-term paper far more vulnerable to further "paper losses" should the spread return to prior levels.

As it pertains to the Fund, short-term credit and opportunistic index option writing is facilitating an annualized expected return slightly above inflation through the first half of the year. This is the result of current yields greater than 2% on short-term credit, coupled with put premiums being earned on a small proportion of the overall collateral of the Fund. Critically, puts are only written with short expirations and opportunistically, depending on prevailing capital market conditions, namely, VIX levels and credit spreads. A review of the historical performance of the Fund over the past five calendar years demonstrates positive relative performance over both benchmarks when short-term credit outperforms longer-term credit (i.e., rates rise), and returns in between the short and long term benchmarks in periods of longer-term credit outperformance (i.e, rates decline). We believe that the strategy captures elements of both ends of the curve throughout a full cycle, providing an attractive risk-adjusted return.

Inevitably, there will be periods of modest declines in short-term credit markets when rates rise, although this principal will likely be recaptured far more quickly than longer-term issues. We are very conscious of correlated risks between credit and the options premium portfolio, as rapidly rising rates are only likely to occur (in the near future) in the event that inflation becomes a concern to the Federal Reserve and Federal Funds rates increase more rapidly than indicated. Under this scenario, there is a distinct risk of a marked equity market decline, as rate hiking cycles have preceded each of the past nine modern recessions in the United States. Federal Funds rates remain at a 2% peak target range, which is well below levels considered to be restrictive to investment when compared to current GDP growth. However, with the current amount of leverage in the system and equity risk exposure, we aren't confident that the historical relationship will hold in this cycle. We intend to mitigate this risk through prudence in terms of credit quality, duration and put exposure.

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.

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. The Fund may rely on SEC orders that permit it to invest greater than 5% of its total assets in the securities of other investment companies, some of which may be ETFs. As a shareholder in an ETF, the Fund will bear its pro rata portion of an ETF's expenses, including advisory fees, in addition to its own expenses. The Fund may invest in debt securities. Investments in debt securities rated below investment grade (i.e., junk bonds) are subject to increased risks.

The Alternative Income 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. You should consult the Fund's prospectus for a complete list of risks associated with your investment.

The Alternative Income Fund No Load Class inception date is 6/29/07. Performance prior to 1/1/13 reflects the Fund's prior investment objective and restrictions and may not be indicative of the Fund's prospective results.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its 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 *S&P 500® Index* represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. An investor cannot invest directly in an index.

The *CBOE S&P 500 Volatility Index* is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The *Barclays 1-3 US Credit Bond Index* is composed of investment grade United States credit securities with a maturity between one and three years. The *Bloomberg Barclays US Corporate High Yield Bond Index* measures the USD-denominated, high yield, fixed-rate corporate bond market. The *Bloomberg Barclays US Aggregate Bond Index* is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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