Kinetics Mutual Funds
Second Quarter 2018 Commentaries

The Internet Fund

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Dear Fellow Shareholders,

The market continues to express great confidence in the sustained growth, and in many cases yet to be realized, in the profitability of higher growth companies. This can be quantified by the prolonged outperformance of the S&P 500 Growth Index relative to the broader market, measuring over 400bps through the first half of the year. This index, as represented by the iShares S&P 500 Growth ETF ("IVW"), which holds over $20 billion of assets, is effectively an information technology sector fund, with over 40% of its assets in the information technology sector, as well as seven of its top ten holdings in such sector. Furthermore, Amazon is categorized as a consumer discretionary company, despite the fact that its sole profitability results from the Amazon Web Services division and the software element of its "core" retail business. If the company were reclassified as technology, surely to the chagrin of index providers and risk managers, tech would amount to nearly 50% of IVW as of this writing.

High growth and technology investing have become virtually one and the same, beginning with the technology/internet boom of the late 1990s, and again, with the enterprise data/high bandwidth revolution that is still developing today. A new dynamic in this era of tech growth has been the application of technology to financial markets in the form of high frequency trading, momentum, and algorithmic investment strategies. These new pools of capital, combined with the continual growth of indexed assets, adds a growing layer of valuation-insensitive pricing variables. This is not necessarily a cause for concern in and of itself, but it must be considered as each new record high in technology stocks is reached.

The difficulty with technology investing is that many of its component companies are very stimulating and are widely recognized both inside and outside of the financial industry. Such emotional reactions to companies often contribute to valuations that are well in excess of reasonable fair values during periods of exuberance. Concurrently, there are also incumbent technology companies with cash flows and profits that the newer companies lack; these fail to invoke the visceral reactions of the potentially revolutionary companies that promise to change society. There is commonly a stark, quantifiable valuation divide between these two groups of companies. We generally seek to populate our portfolio with companies from two categories within the technology universe: early business models that have yet to achieve a proper recognition from the marketplace, and later stage businesses with high cash generation that the market views overly pessimistically. In both categories, we focus on a valuation discount relative to our assessment of intrinsic value.

Beginning with the former, early technologies without appropriate market appreciation, we firmly believe that financial services is the most vulnerable industry in the next stage of technological disruption. There are multitudes of specific businesses within financial services that fall into this category, but the most wide-reaching and obvious is payments. Thus, we arrive at PayPal Holdings ("PayPal"), an approximately $100 billion company that is expected to generate $3 billion in free cash flow this year. Few of the technology leaders today can cite a 3% free cash flow yield, on the heels of revenue growth forecast to be nearly 18% for the year. Variability of forecasts aside, PayPal provides low cost convenience for customers in the processing of their payment transactions. A significant variable in the Amazon customer value proposition is the ease and security of payments through a single, secure portal. PayPal has a network that can create this attribute across any participating vendor platform. Additionally, the company has various credit provisions and peer payment services to supplement its income, and expand its network. Comparatively, the largest credit card processors (Visa and MasterCard) exhibit lower growth and higher market saturation, but trade at similar free cash flow multiples to PayPal, and amount to a market capitalization over 5x larger. While PayPal will not displace credit card processors, as their products interface, the potential for these businesses is vastly different. Consequently, the larger processors are mainstays of growth indexes and active manager portfolios, while PayPal largely remains on the fringes of allocations.

Investing in later stage, mature technology companies can often be a deceivingly risky endeavor, as management is tasked with maintaining market share and profitability in the face of increasing competition. A case study is the experience of IBM, as esteemed value investors were lured by the low earnings multiples that were once considered "recurring." Later stage technology companies must exhibit unique competitive positions which preserve cash flow. The second leg of the analysis is management's ability to reallocate their capital, as cash flow often exceeds the ability to reinvest in the core business. We believe that Sirius XM Holdings fits this criteria, and own the business at a discount through Liberty Media shares. The music industry continues to evolve as a result of the digitalization of music distribution, and remains highly competitive. There are a variety of digital distribution platforms, mostly of marginal profitability due to internet streaming royalty rates. However, Sirius is considered a terrestrial broadcaster, by virtue of its satellites, and exhibits far higher profitability. Further, the company has curated its proprietary content and is pre-installed in over 70% of new automobiles sold in the United States, and is approaching 50% in used vehicle sales. The company currently trades for approximately a 5% free cash flow yield, and has dedicated considerable cash flow to share repurchases. A variable that is not in the current financial figures is the satellite transmission bandwidth, which can be repurposed over the next several years, and the value of the pre-installed, two-way satellite feed into automobiles. We believe that this is a latent asset that is sure to be monetized as connected vehicle technologies are improved. Sirius XM is vastly underweighted in the indexation world due to the high inside ownership of Liberty Media and John Malone. To the extent that its cash flow exceeds its organic reinvestment opportunities, we are not aware of any better management team for the stewarding of this liquidity.

Internet Fund
Top 10 Holdings (%) as of June 30, 2018

The Bitcoin Investment Trust	12.3%
Texas Pacific Land Trust	7.5%
Liberty Media Corp.-Liberty SiriusXM - Class C	3.8%
PayPal Holdings, Inc.	3.8%
The Madison Square Garden Company - Class A	3.7%
CACI International, Inc. - Class A	3.6%
Copart, Inc.	3.0%
Alphabet, Inc. - Class A	2.6%
Alphabet, Inc. - Class C	2.6%
OTC Markets Group Inc. - Class A	2.4%

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.

Because the Fund invests in a single industry, its shares do not represent a complete investment program. Internet 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.

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.

Please refer to the Fund's prospectus for a complete list of risks and fees.

The Internet 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 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® Information Technology Index comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

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

The S&P 500 Growth Index represents the growth companies of the S&P 500 Index, as identified by three factors: three year earnings per share growth rate, three year sales per share growth rate, and momentum (12-month change in price). Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index.

The iShares S&P 500 Growth ETF ("IVW") seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit growth characteristics. iShares is property of Blackrock.

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