



The Water Infrastructure Fund



Kinetics Mutual Funds, Inc.
We Do *Our* Research

- ▶ Advisor Class A (KWIAIX)
- ▶ Advisor Class C (KWICX)
- ▶ No Load Class (KWINX)
- ▶ Institutional Class (KWIX)

▶ Portfolio Management Team
Team Managed
Peter Doyle,
Chief Investment Strategist

as of 12/31/09
Portfolio Strategy

The Water Infrastructure Fund seeks to achieve its investment objective by investing all of its investable assets in the Portfolio. Under normal circumstances, the Portfolio invests at least 80% of its net assets plus any borrowings for investment purposes in common stocks, convertible securities, fixed-income securities such as bonds and debentures, and warrants, derivatives, and other equity securities having the characteristics of common stocks (such as American Depository Receipts ("ADRs") and International Depository Receipts ("IDRs")), of U.S. and foreign companies engaged in water infrastructure and natural resources with a specific water theme and related activities. For purposes of this 80% policy, a company will be considered in the water infrastructure or natural resource industry if at least 50% of its revenues come from water-related activities or activities related to natural resources. The Portfolio may also write and sell options on securities in which it invests for hedging purposes and/or direct investment.

▶ Advisor Class A

Inception Date 6/29/07
CUSIP # 494613714

Max Sales Charge 5.75%
Front-end
12b-1 Fee 0.25%
♦Gross Expense Ratio **2.61%**
✦Net Expense Ratio **1.89%**

▶ Advisor Class C

Inception Date 6/29/07
CUSIP # 494613698

12b-1 Fee 0.75%
♦Gross Expense Ratio **3.11%**
✦Net Expense Ratio **2.39%**

▶ No Load Class

♦Gross Expense Ratio **2.36%**
✦Net Expense Ratio **1.64%**

▶ Institutional Class

♦Gross Expense Ratio **2.31%**
✦Net Expense Ratio **1.44%**

♦Gross expense ratios listed for No Load Class, Advisor Class A, Advisor Class C and Institutional Class are stated as of 12/31/09 and referenced in the 12/31/09 respective annual report.

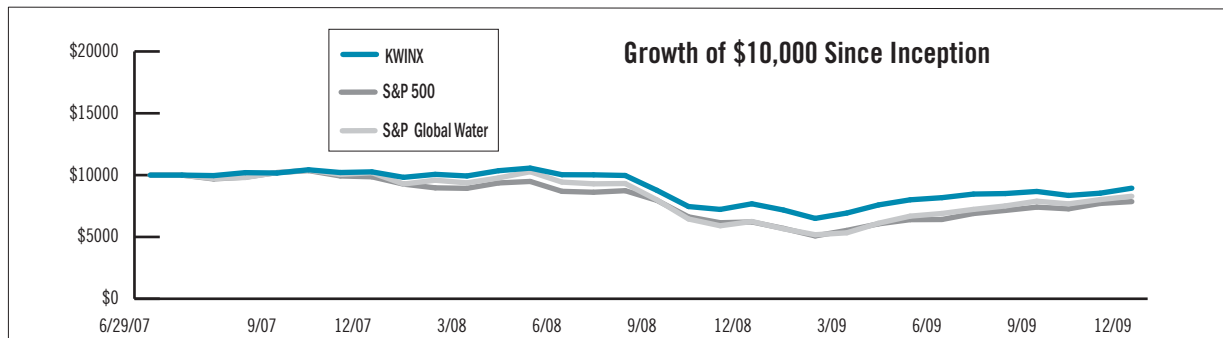
*Net expense ratios listed for No Load Class, Advisor Class A, Advisor Class C and Institutional Class are stated as of 12/31/09 and may include a voluntary expense waiver from the Investment Adviser which may be terminated at any time, the application of directed brokerage credits, and/or the application of other waivers.

▶ Fund Facts

▶ Total Net Assets \$22.9 million
▶ Minimum Purchase \$2,500
▶ Minimum Subsequent \$100

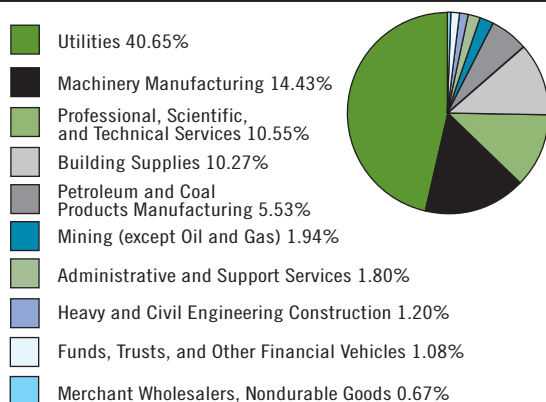
▶ Portfolio Statistics

▶ Holdings In Portfolios: 68



This chart illustrates the performance of a hypothetical \$10,000 investment made in No Load Class shares on commencement of operations (6/29/07). It assumes reinvestment of capital gains and dividends. This chart is not intended to imply any future performance.

Top 10 Sector Allocation***



Historic Total Return (No Load Class)

Data as of December 31, 2009

	Total Returns	S&P 500 Index	S&P Global Water
2009	16.46%	26.46%	32.67%
2008	-25.17%	-37.00%	-38.69%
2007	-	5.49%	14.54%

Top 10 Equity Holdings†

	Symbol	% of Total Net Assets
URS Corp.	URS	5.8%
Ameron International Corp.	AMN	5.5%
Geberit AG	GEBN VX	4.7%
Lindsay Corporation	LNN	4.0%
Armtec Infrastructure Income Fund	ARF-U CN	3.2%
Veolia Environnement - ADR	VE	2.8%
Northwest Pipe Company	NWPX	2.7%
Guangdong Investment Limited	270 HK	2.6%
Tetra Tech, Inc.	TTEK	2.4%
Itron, Inc.	ITRI	2.4%

Equity holdings are subject to change, and may not be indicative of actual market position due to the use of call and put options.

†As of 12/31/09, holdings are expressed as a percentage of total net investments and may vary over time.

Quarterly Total Return (No Load Class)

Data as of December 31, 2009

	Total Returns	S&P 500 Index	S&P Global Water††
Three Month**	3.05%	6.04%	5.06%
One Year *	16.46%	26.46%	32.67%
Three Year*	-	-5.63%	-2.33%
Three Year **	-	-15.95%	-6.83%
Five Year*	-	0.42%	9.12%
Five Year**	-	2.11%	54.68%
Since Inception*^	-4.35%	-9.17%	-7.20%
Since Inception**^	-10.56%	-21.42%	-17.09%

*Annualized ** Non-Annualized/Cumulative

^The Water Infrastructure Fund No Load Class inception date is 6/29/07. Performance data quoted represents past performance and does not guarantee future results. Figures include changes in principal value, reinvested dividends and capital gains distributions. 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 current fund 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.

††One year, 3 year, 5 year, since inception, and historical total returns (where applicable) are with dividends reinvested.

†††The Top 10 Sectors displayed represent a percentage of the net assets and excludes cash equivalents and other assets in excess of liabilities.



The Water Infrastructure Fund



Kinetics Mutual Funds, Inc.

as of 12/31/09

Market Commentary

For the fourth quarter 2009, the Kinetics Water Infrastructure Fund (No Load Class) produced returns of 3.05%, compared to 6.04% for the S&P 500 Index and 5.06% for the S&P Global Water Index. Year-to-date, the Fund appreciated by 16.46% as of December 31, 2009, compared to returns of 26.46% for the S&P 500 Index and 32.67% for the S&P Global Water Index. Water stocks, when evaluating the three main sectors - water treatment, water industrials & services and water utilities - varied in their returns during 2009 with utilities lagging in performance. As such, we increased our portfolio holdings in utilities during the year to obtain what we believe will be favorable valuations relative to the rest of the water sector. Water utilities may not grow very fast, but we feel they are remarkably consistent—delivering solid but not spectacular returns every year. This enables these stocks to deliver impressive compounded returns over time. While U.S. water utilities only returned approximately 5.0% as a group in 2009, valuation sensitivity and appropriate weighting allowed us to establish positions and add to existing positions at multi-year low prices. Investing in water is not as simple and straightforward as investing in other commodity groups, but this is likely to change in short order. As a value fund, water utilities continue to be our favorite sub-sector and our "Anchor" stocks, defined as cheap, high quality companies with solid dividends that have a lower beta relative to the broader market, prospects for continued earnings growth, and the possibility for valuation multiple expansions based on increased cost for water treatment and delivery. The recent upward trend is providing a clear snapshot that a rebound in 2010 is clearly occurring. With that in mind, we anticipate that pipe manufacturers, pump companies, meter manufacturers and integrated water treatment solution providers will benefit from 1.) Stimulus money earmarked for water projects that is finally freeing up in 2010 coupled with 2.) Annual maintenance and upgrades that were postponed during the last 15 months, but which are now underway. In the context of what many professional investors are calling the "new normal" - diminished growth, deleveraging, and increased government involvement that will reduce profits, - we believe that water utilities could experience significant investor interest in 2010 and beyond. Our rationale can be summed by the recent words of Bill Gross, PIMCO's bond guru, who said "Why not just buy utilities if that's what the future American capitalistic model is likely to resemble?" In a low growth environment, it seems that a company's stock should yield more than its less risky debt, and many utilities, especially water utilities bought at the proper valuation metrics, provide just that opportunity.

Water investing is not a direct investment based on some arbitrary value per gallon of water, but a strategic investment in the many sub-sectors that are involved in its extraction, treatment, regulation, metering, conveyance and resource management on both the domestic and global stage. Many investors look at water in varying capacities: commodity, natural resource, alternative, and utility are just a few of the boxes that water is placed into by the investment community. Although water is continually referred to as the next oil, our approach has always been that the consistent growth of the global water business would provide investors exposure to a solid growth commodity that remains a necessity in everyday life.

One area of the global water sector that we believe will become high profile is the water energy nexus. Most investors have failed to realize that large amounts of water are needed to produce energy at power plants, and significant energy is used to treat and transport water to consumers. More now than ever, the American West is realizing the binary nature of energy production and water delivery. Moving water from source to sink takes a significant amount of power. And power plants, especially nuclear and hydroelectric sites, require water to cool and create energy. Thermoelectric cooling, hydropower, minerals extraction and mining, fuel production in the form of non-fossil and biofuels, and emission controls all require significant amounts of water for processing. Water collection, processing, distribution, and end-use require power for pumping, transporting, treatment and desalination of water. For desalination, the more salt in the water, the more energy is required to remove it due to the need to extract the salt ion through the breaking of the ionic bond. The drive for low-carbon energy alternatives in the form of solar power plants is further compromising already limited water resources in the Southwest United States. Solar power plants use a system of mirrors to heat water into vapor. While we are constantly evaluating how the water sector will evolve based on regional issues, country specific availability, and industry specific uses of water, and we will continue searching for mispriced or misunderstood investment opportunities.

In summary, we believe the Fund accomplished its stated goals in 2009, to invest with a value approach, thereby minimizing volatility while emphasizing risk management. We will continue to use cash as a hedge when we feel the market valuations are fully or over-priced. We believe the economic underpinnings of today's markets are less than stable while valuation multiples have expanded in certain sub-sectors beyond what would be our normal investment comfort level. However, we remain confident in our ability to identify good companies at reasonable valuations. Looking at 2010, we will remain optimistic but cautious as a host of unresolved issues brought on by the structural hangover of governmental intervention will likely be longer and more painful than we anticipate. With a market that could possibly remain flat, the active selection of water equities may be in a position to outperform water benchmarks in 2010.

We thank you for your confidence and believe you will be rewarded for it.

Brennan Investment Partners, LLC
Sub-Adviser to the Kinetics Water Infrastructure Portfolio

The above commentary was prepared exclusively by Brennan Investment Partners, LLC ("BIP"), the sub-advisor to Kinetics Water Infrastructure Fund. As a result, neither Kinetics Asset Management, Inc. nor any of its affiliates can guarantee the accuracy or completeness of any statements in this commentary. Accordingly, the views expressed are solely those of BIP and do not necessarily reflect the views or opinions of Kinetics, or its affiliates and should not be construed as an investment recommendation.

You should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. For a free copy of the fund's 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.

These opinions are not intended to be a forecast of future events, or a guarantee of future results, or investment advice. The views expressed herein may change at any time subsequent to the date of issue hereof.

Past performance does not guarantee future results. You will be charged a redemption fee equal to 2.00% of the net amount of the redemption if you redeem or exchange your shares 30 days or less after you purchase them. As a non-diversified fund, 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 reporting standards. There may also be heightened risks investing in non-investment grade debt securities and the use of options. There are also risks associated with investing in small and medium sized companies. Non-investment grade debt securities, i.e., junk bonds, are subject to greater credit risk, price volatility and risk of loss than investment grade securities. Options contain special risks including the imperfect correlation between the value of the option and the value of the underlying asset. Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its investment objective by investing all of its investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. The Standard & Poor's Global Water Index (S&P Global Water) and the Standard & Poor's 500 Index (S&P 500) each represent an unmanaged, broad-based basket of stocks. They are typically used as a proxy for overall market performance. The S&P 500 Index returns assume that dividends are reinvested. An investor cannot invest directly in an index.

Investment Products Offered:

- Are Not FDIC Insured
- May Lose Value
- Are Not Bank Guaranteed