Fund Commentary

03/11/20

1290 GAMCO Small/Mid Cap Value Fund Special Update

Market Overview

Having spent most of the last twelve months seemingly immune to bad news, global markets have been sickened by the novel Coronavirus (Covid-19). Few historical analogs exist to gauge the impact of a pandemic. Unlike an actor in a trade war, the virus does not negotiate. Other outbreaks such as SARS and MERS have been more limited in scope while economic shocks such as 9/11 and Hurricane Katrina have been more discrete in timing.

Ultimately, our framework for understanding how macroeconomic events impact individual securities remains the same: how does this series of events impact earnings near term and how will it impact the trajectory of earnings long term? The latter is commonly encompassed by an earnings multiple. To help put the recent volatility into context relative to the long-term value of a business, if a company were to miss out on a full year of earnings, that would equate to a roughly 5% impact on its market capitalization since so much of a company's valuation is dependent on its long-term earnings. While earnings this year will surely be lower, we don't see anything to suggest that they should be capitalized at a lower rate.

Earnings estimates are in flux and the path of future growth is more fragile. If the disease is contained by early Spring, companies may be able to provide broad guidance regarding their outlooks on first quarter earnings calls. An expanding crisis would obviously leave more of 2020 and even 2021 in doubt. In any case, we doubt many companies or analysts will possess great conviction in their forecasts, especially given the uncertainties of a Covid-19 re-emergence prior to a vaccine (mid-2021 at best), recent price war in oil and the US election. All else being equal, that should weigh on multiples. However, all else is never equal and a sub 1.0% 10-year Treasury yield should support multiples and burnish the appeal of US equities.

Like the virus, volatility is likely to remain with us. Volatility can lead to opportunity in areas where we can utilize our accumulated compounded knowledge of industries to buy/harvest companies where Mr. Market has become too pessimistic/optimistic relative to long-term fundamentals. Some companies will be disproportionately hurt by recent developments (travel, live entertainment) while some will be helped (select staples and healthcare companies), but both need to be viewed through the lens of valuation.

It is too early to tell whether current events lead to a shift in market leadership from growth/momentum to value. We began to see a deterioration in venture funding in late 2019, but that has been belied by the continued strong performance of certain technology darlings. Ultimately we think a retrenchment of the markets will chasten some momentum investors while an economic downturn will underscore the importance of investing in companies with sustainable cash generation and adaptable managements.

Source: GAMCO Asset Management

Performance Commentary (as of 3/11/20)

The Fund slightly trailed the Russell 2500 Value index so far this year through March 11, 2020, as it was down 26.6% compared to 25.5% for the index. The Fund's higher exposure to industrial and communication services companies were the primary relative detractors during the period, which were partially offset by its lower weighting in financial and energy companies.

What helped performance during the period?

- Virtual healthcare company Teladoc (3.6%*) was up over 60% since the end of the year as it stands to benefit from a sharp increase in visits in the context of this environment.
- We remain focused on companies trading at a discount to their intrinsic value with a catalyst in place to surface that value regardless of the macro economic environment. Since the end of the year Legg Mason (1.3%*) was up more than 35% as Franklin Resources agreed to buy the company for $4.5 billion in cash, Volkswagen's truck unit Traton made a $2.9 billion cash offer to buy Navistar (0.9%*) as we long expected, and even in recent days Gray Television, Apollo and media mogul Byron Allen have made competing bids for Fund holding Tegna (0.6%*) TV station group.
- Several consumer staples companies, which often have consistent recurring cash flow and strong brands that can command premium pricing, have held on to positive performance so far this year. This includes companies with exposure to pet products and services like J. M. Smucker (1.6%*), which has a #1 market position in dog snacks and #2 in cat food and premium dog food.
- The Fund's underweighting in financial companies has been the largest relative contributor to performance so far this year as interest rates have plunged in the recent period. The Fund's much lower weighting in energy (1%) boosted performance, particularly this week. Our investment philosophy leads us away from commodity-driven businesses, which results in a low absolute and relative exposure to energy as well as financial holdings to an extent, given their reliance on interest rates.

What hurt performance during the period?

- The Fund's higher weighting in industrial companies was the strongest detractor to performance over the period as the market weighed the impact of Coronavirus on global supply chain disruptions and on cyclical businesses more heavily.
- The Fund's larger allocation to the communication services sector, which includes several companies focused on live entertainment, also hurt performance during the period. Madison Square Garden (0.7%*) is an example of a company focused on live entertainment and impacted by recent circumstances. While the company has postponed the separation of its sports and entertainment businesses likely until later in the spring, it has a strong balance sheet with $1 billion in net cash to weather the storm and a very compelling long-term valuation of its sports teams regardless of short-term disruptions in live events.
- The Fund's higher allocation to smaller capitalization companies (nearly twice the index weighting), hurt performance during this period as the broader market uncertainty had an outsized impact on smaller companies.

Quarterly Performance as of 12/31/2019

Total Returns

Fund	1 month	3 month	YTD	1 yr	3 yr	5 yr	SI[1]
Class A (NAV)	3.26%	7.26%	19.53%	19.53%	6.80%	7.04%	7.38%
Class A with sales charges (MOP)[2]	-2.44%	1.36%	12.92%	12.92%	4.80%	5.84%	6.21%
Class I (NAV)	3.26%	7.35%	19.82%	19.82%	7.07%	7.31%	7.65%
Class R (NAV)	3.26%	7.21%	19.34%	19.34%	6.57%	6.79%	7.13%
Russell 2500 Value Index[3]	3.02%	7.07%	23.56%	23.56%	6.12%	7.18%	7.12%

Expense Ratios as of 03/01/2019

Fund	Gross Expense Ratio	Net Expense Ratio[4]
Class A Shares	1.80%	1.25%
Class I Shares	1.52%	1.00%
Class R Shares	2.06%	1.50%

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance data may be higher or lower than actual data quoted. For the most current month-end performance data please call (888) 310-0416.

One cannot invest directly in an index.

Returns for periods of less than one year are not annualized.

[1]Fund inception date of November 12, 2014.

[2]Maximum Offering Price (MOP) for Class A shares includes the Fund's maximum sales charge of 5.50%. Performance shown at NAV does not include these sales charges and would have been lower had it been taken into account.

[3]Russell 2500 Value: An unmanaged index which contains those Russell 2500 securities (the bottom 500 securities in the Russell 1000 Index and all 2,000 securities in the Russell 2000 Index) with a less-than-average growth orientation.

[4]Pursuant to a contract, 1290 Asset Managers® has agreed to make payments or waive its management, administrative and other fees to limit the expenses of the Fund through April 30, 2020 (unless the Board of Trustees consents to an earlier revision or termination of this arrangement) ("Expense Limitation Arrangement") so that the annual operating expenses (including Acquired Fund Fees and Expenses) of the Fund (exclusive of taxes, interest, brokerage commissions, capitalized expenses (other than offering costs), 12b-1 fees, and extraordinary expenses not incurred in the ordinary course of the Fund's business) do not exceed an annual rate of average daily net assets of 1.00% for Class A shares, Class T shares, Class I shares, and Class R shares of the Fund. The Expense Limitation Arrangement may be terminated by 1290 Asset Managers ® at any time after April 30, 2020.

*Holding information as of 3/11/2020 and subject to change

An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-310-0416 or download the file from www.1290funds.com. Read the prospectus carefully before you invest.

1290 GAMCO Small/Mid Cap Value Fund seeks to maximize capital appreciation. In general, the value of stocks and other securities fluctuate, and sometimes widely fluctuate, in response to changes in a company's financial condition as well as general market, economic and political conditions and other factors. Mid- and small-cap companies carry additional risks because the operating histories of these companies tend to be more limited, their earnings and revenues less predictable (and some companies may be experiencing significant losses), and their share prices more volatile than those of larger, more established companies all of which can negatively affect their value. Foreign markets, particularly emerging markets, may be less liquid, more volatile and subject to less government supervision and regulation than U.S. markets. Security values also may be negatively affected by changes in the exchange rates between the U.S. dollar and foreign currencies. Differences between U.S. and foreign legal, political and economic systems, regulatory regimes and market practices also may impact security values and it may take more time to clear and settle trades involving foreign securities.

Past performance is no guarantee of future performance.

The S&P 500® Index is an unmanaged weighted index of common stocks of 500 of the largest U.S. companies, deemed by Standard & Poor's to be representative of the larger capitalization portion of the United States stock market.

Russell 2000® Index is an unmanaged index which measures the performance of approximately 2000 of the smallest companies in the Russell 3000® Index, which represents approximately 10% of the total market capitalization of the Russell 3000® Index. It is market-capitalization weighted.

Russell 2500™ Value Index, the Fund's benchmark, is an unmanaged index which contains those Russell 2500 securities (the bottom 500 securities in the Russell 1000® Index and all 2,000 securities in the Russell 2000® Index) with a less-than-average growth orientation.

Individuals cannot invest directly in an index.

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