

## Market Overview

During the second quarter of 2108, equity and credit markets rebounded from first quarter losses to record solid gains. Equities performed better than credit as investors continued to believe that the positive impact of fiscal stimulus and deregulation should outweigh any temporary disruption from tariff “negotiations”, with the bulk of the benefit accruing to equity holders. Stock buybacks funded by lower corporate tax rates and repatriation also lent support for equities. With the second quarter’s positive performance, credit, as represented by the ICE BAML High Yield Master II Index, achieved a positive year-to-date return. Credit investors’ first quarter concerns regarding the pace of Federal Reserve interest rate hikes have seemingly abated.

Convertibles, as measured by the ICE BofA/Merrill Lynch All U.S. Convertibles Index (the “Convertibles Index”) also participated in the positive market sentiment, rising 3.77% during the quarter. Every sector in the Convertibles Index recorded a positive return except for financials. Convertibles performance was primarily driven by positive underlying equity returns, offset by some valuation weakening as seasoned convertible issues were sold to make room for strong new issuance volume.

## Fund Overview

The 1290 Convertible Securities Fund pursues its investment objective by investing at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of convertible securities.

The Fund trailed the broader convertibles market as sector positioning was a headwind to performance. Energy, which the Fund was underweight, posted the strongest performance of any sector as crude oil prices rose by double-digits. Overweight positioning in industrials and technology were also a drag as these sectors were underperformers for the period. Partially offsetting these factors, healthcare posted solid gains after rebounding from a relatively soft first quarter.

New issuance during the quarter was strong, more than doubling over the prior year period, with technology and Healthcare companies accounting for nearly two-thirds of total issuance. The combination of steady equity gains and historically low interest rates continue to provide a positive backdrop for convertible issuance. The sub-advisor believes issuance will remain healthy and help increase the opportunity set for the Fund.

Macroeconomic concerns such as interest rates and trade policy continue to inject uncertainty into the market and can at times override market fundamentals. Over time, the subadvisor believes fundamentals will win out and mitigate the effect of short-term fluctuations. They continue to believe that the economy is on a healthy trajectory and that remaining overweight in growth-oriented sectors such as technology and healthcare will best position the Fund to produce above average longer-term results.

Source: Palisade Capital Management

## Fund Highlights

### What helped performance during the quarter?

- The Fund benefited from an overweight to the outperforming healthcare sector. The Fund's holdings in healthcare performed broadly in-line with the index return, led by double-digit returns from two issues of Molina Healthcare (1.42%\*), and a solid return from Becton Dickinson & Co. (2.77%\*), one of Fund's largest positions.
- An underweight to the underperforming utilities sector.
- A strong relative return in the telecommunications services sector also added value, led by Frontier Communications Corporation 11.125% (0.0%\*).
- Elsewhere, an underweight to the underperforming Real Estate Investment Trusts (REITs) industry within financials and no exposure to the weak chemical industry within materials, further enhanced results.

### What hurt performance during the quarter?

- Outweighing the positive results was an underweight to the energy sector, the best performing sector in the Convertibles Index for the period. The Fund's holdings in the sector could not keep pace with the index's strong performance, held back by a lack of exposure to Transocean, Inc. 0.5% (0.0%\*), which posted a strong double-digit return.
- Underperformance in the industrials sector was attributable to an overweight to the relatively weak building and construction industry and a disappointing return from Belden Inc (0.65%\*).
- The Fund was also hampered by shortfalls in the media and consumer discretionary sectors, where lack of exposures to World Wrestling Entertainment, Inc. 3.375% (0.0%\*), which nearly posted a triple-digit return and a double-digit returning Wayfair, Inc. 0.375% (0.0%\*), held back results.
- Other detractors during the period included a modest underperformance in the technology sector, held back by a double-digit drop from Novellus Systems, Inc. 2.625% (2.07%\*).

\* % of total market value of the Fund's portfolio holdings as of 6/30/18. Subject to change.  
Current and future Fund holdings are subject to risk.

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](http://www.1290funds.com). Read the prospectus carefully before you invest.

1290 Convertible Securities Fund seeks to achieve a high level of total return. Performance may be affected by one or more of the following risks. The value of convertible securities fluctuates in relation to changes in interest rates and the credit quality of the issuer and, in addition, fluctuates in relation to the underlying common stock. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument, which may be different than the current market price of the security. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into underlying common stock or sell it to a third party. Convertible securities are subject to equity risk, interest rate risk and credit risk and are often lower quality securities. Lower quality may lead to greater volatility in the price of a security and may negatively affect a security's liquidity. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer-specific risks that apply to the underlying common stock.

**Past performance is no guarantee of future performance.**

The **ICE BofA/ML U.S. High Yield Master II Index (HOAO)** tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

**ICE BofA Merrill Lynch All U.S. Convertibles Index** (the "Index") consists of U.S. dollar denominated investment grade and non-investment grade convertible securities sold into the U.S. market and publicly traded in the United States. The Index constituents are market value weighted based on the convertible securities prices and outstanding shares, and the underlying index is rebalanced daily. Individuals cannot invest directly in an index.

The Fund may not be successful in implementing its investment strategy or may not employ a successful investment strategy, and there can be no assurance that the Fund will grow to or maintain an economically viable size, which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Until the Fund is fully capitalized it may not be pursuing its investment objective or executing its principal investment strategies.

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