

## Market Overview

Equity and credit markets once again rewarded investors with solid gains in the third quarter of 2018. Similar to the second quarter, equities outperformed credit, but unlike the second quarter, the larger capitalization S&P 500® Index bested the smaller capitalization Russell 2000® Index. To date, investors have focused on the persistent strength of the U.S. economy and not on the potential negative impacts of rising interest rates and China tariffs. Even credit investors were optimistic as the ICE BAML High Yield Master II Index recorded its best gains since the first quarter of 2017.

Convertibles, as measured by the ICE BofA/Merrill Lynch All US Convertibles Index (the “Convertibles Index”) also rallied, rising 3.93% during the quarter. We are sometimes asked whether convertibles are more closely correlated with the S&P 500 (with its larger capitalization companies and greater international exposure), or to the Russell 2000 (a more diversified set of smaller capitalization companies with a more domestic focus). The results of the past two quarters clearly show that “it’s complicated.” During the third quarter, both the S&P 500 and the Convertibles Index outpaced the Russell 2000, indicating perhaps that convertibles are more closely tied to the S&P 500. However, in the second quarter, the reverse was true as the Russell 2000 and the Convertibles Index beat the S&P 500. The real answer is that while convertibles are obviously correlated with equity indices, the asset class’s performance is much better explained by sector and issuer level performance.

## 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 convertible market during the quarter of 2018. While the overall technology sector performed in-line with the broader market, several Fund holdings lagged. Notably, semiconductor names faced headwinds from trade policy uncertainty, emerging market volatility, and concerns that the industry was at a cyclical peak. While we acknowledge a near-term overhang weighing on sentiment, we do believe that broader economic fundamentals remain sound and that the industry has multiple long-lived growth drivers that will provide strong sustainable growth over the longer term.

New issuance continued to be robust and was dominated by technology issues which accounted for approximately half of the capital raised in the third quarter. As we’ve indicated before, we believe the combination of continued equity gains and historically attractive interest rates continue to provide a positive backdrop for convertible issuance and investing. Overall, we remain constructive on our outlook for the economy and continue to attempt to position the portfolio to capitalize on growth-oriented opportunities.

Source: Palisade Capital Management

## Fund Highlights

### What helped performance during the quarter?

- The Fund's largest source of outperformance was derived from the financials sector, where the Fund was well served by an underweight exposure to the Real Estate Investment Trust (REITs) industry.
- Strong security selection in the industrials sector was a positive contributor to performance. Two issues stood out as Chart Industries 1.0% (0.90%\*) and Belden Inc. 6.75% (0.71%\*) both rose double digits in the quarter.
- The Fund benefited from an underweight to the underperforming automakers industry within the consumer discretionary sector. Good security selection within this sector further enhanced results, bolstered by a double-digit return from Live Nation Entertainment, Inc. 2.5% (0.36%\*).
- Elsewhere, our overweight to Molina Healthcare, Inc. 1.125% (1.11%\*) contributed to returns within the healthcare sector as the convertible rose nearly +60% in the third quarter.

### What hurt performance during the quarter?

- Overall the Fund underperformed its benchmark in the third quarter primarily due to security selection in the technology sector. In particular, overweight exposure to the poorly performing Novellus Systems, Inc. 2.625% (1.77%\*) and underweight exposure to the strongly performing Square, Inc. 0.375% (0.0%\*) held back results.
- A lack of exposure to the strongly performing telecommunications sector was also a detractor to results for the period.
- Our underperformance in media was attributable to lack of exposure to World Wrestling Entertainment, Inc. 3.375% (0.0%\*) which followed up a very strong second quarter with a +31% increase in the third quarter.

\* % of total market value of the Fund's portfolio holdings as of 9/30/18. 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.**

**ICE BofA/ML 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.

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

**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.

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AXA Equitable Life Insurance Company (NY, NY)

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