Fund Commentary

2Q19

1290 Convertible Securities Fund

Market Overview

Equity and credit markets both produced positive returns during the second quarter of 2019, but the path to those gains was hardly linear. Sandwiched between advances for the months of April and June was a relatively turbulent sell-off in May, during which investor concerns re-emerged regarding escalation of the U.S.-China trade dispute. Despite a backdrop of increasingly dovish global central bank commentary, investors have oscillated between periods of optimism that a U.S.-China trade deal could be quickly consummated and bouts of abject pessimism replete with recession fears. By the end of the second quarter, equities, as represented by the Russell 2000® Index and the S&P 500® Index, recorded what could be categorized as "cautiously muted" gains, especially as compared to the more euphoric returns from the first quarter. Credit, as measured by the ICE BofAML High Yield Index, appreciated as well, driven primarily by the prospect of interest rate cuts.

Convertibles, as measured by the ICE BofAML All U.S. Convertibles Index (the "Convertibles Index"), the Fund's benchmark, rallied 3.85% during the quarter driven by a 2.5% gain in the underlying equities. This outperformance of convertibles relative to the underlying equities is an anomaly and is likely attributable to the strength in credit (which more directly impacts the valuation of convertible securities) and the wide divergence amongst sector returns, which mathematically may lead to some noise when averages are calculated. From a sector perspective, media and financials were the strongest performers during the quarter, while energy and consumer staples were the laggards. More importantly, the technology and healthcare sectors, where the Fund tends to focus, were solidly positive during the quarter.

Consistent with our research, Growth convertibles outperformed Value convertibles during the quarter. A primary reason the Fund is weighted towards the technology and healthcare sectors is that they tend to be more prominently represented within the Growth segment of the convertibles universe. Both sectors outperformed the Convertibles Index during the second quarter and were the primary drivers of why Growth convertibles bested Value convertibles. Similarly, our research has shown that small-cap convertibles tend to underperform mid- and large-cap convertibles over time. This was again the case during the second quarter and continues to support our original thesis.

During the quarter, convertible new issuance totaled 29 issues raising $13.5 billion. On a year-to-date basis, there have been 53 new convertible issues raising $25.9 billion of proceeds. This is approximately consistent with last year's new issuance pace. While we are optimistic that convertible new issuance will remain strong, we acknowledge that the lower level of interest rates may make straight fixed income markets an incrementally cheaper, near-term alternative.

Fund Overview

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

Source: Palisade Capital Management

Positive momentum from the first quarter carried into the second quarter as the Fund's performance was buoyed by supportive equity, credit, volatility, and interest rate markets. Performance was not as strong as the prior quarter as an unexpected extension and then escalation of trade tensions with China made for a volatile trading environment. In particular, the Fund's overweight technology holdings, which were strong contributors in the first quarter, lagged in the second quarter due in part to trade tensions tempering the near-term earnings outlook. Offsetting this was another quarter of strong relative performance in healthcare, in which the Fund was overweight, and in energy and consumer discretionary, in which the Fund was underweight.

Heading into the back half of 2019, we remain cautiously constructive on the outlook for convertibles. The fundamental domestic backdrop remains positive with low inflation, low unemployment, stable credit markets, and an accommodative Federal Reserve which should be supportive for further market gains. Relative to most other major economies, the U.S. still appears to have the most solid fundamental economic outlook. As we have stated before though, unresolved macroeconomic issues such as China trade, Brexit, Iran trade sanctions, etc. remain wild cards which could potentially create excessive, though temporary, bouts of volatility. To try to mitigate potential downside risks in the near-term, we continue to bias the portfolio towards larger, more stable, and higher quality credit issuers which we believe will be better positioned to navigate an uncertain environment. In addition, Growth-oriented Technology and Healthcare names remain an area of focus for the portfolio as we continue to believe they remain the most fertile sectors for longer-term outperformance.

Fund Highlights

What helped performance during the quarter?

- The Fund benefitted from an underweight to energy, the worst performing sector in the Convertibles Index for the period. Good security selection within the group further added value.
- The Fund also outperformed in the consumer discretionary sector, led by an underweight to the weak automakers industry and strong results from Caesars Entertainment Corporation 5.0% (1.47%*) and Mercadolibre, Inc. 2.0% (0.00%*).
- An overweight and good security selection in the healthcare sector added value during the period, particularly within the pharmaceuticals industry where double-digit returns from our two Exact Sciences Corp. positions: 1.0% (0.00%*), and 0.375% (1.63%*), drove results.
- Elsewhere, an underweight to consumer staples, the second worst performing sector in the Convertibles Index for the period, and good security selection in the media sector bolstered by a lack of exposure to the underperforming World Wrestling Entertainment, Inc. 3.375% (0.00*), enhanced results.

What hurt performance during the quarter?

- The largest detractor to results for the quarter was unfavorable security selection in the technology sector. Notably, the Fund's positions in Pure Storage, Inc. 0.125% (0.98%*), Intel Corporation 3.25% (1.60%*), and Nutanix, Inc. 0.0% (0.70%*) all fell by double-digit percentages. An overweight to the outperforming technology sector, however, partially offset these results.
- The Fund's minimal cash exposure was a detractor during this solid market run.
- The Fund's position in Chart Industries, Inc. 1.0% (0.52%*), which was hit hard during the period, contributed to the underperformance in industrials, while a weak return from Rayonier Advanced Materials Inc 8% (0.00%*) held back results within the materials sector.
- Elsewhere, an overweight to the underperforming transportation sector also held back results.

* % of total market value of the Fund's portfolio holdings as of 6/30/19. 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. 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 less 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, which could result in a loss to the Fund. 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 BofAML 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.

ICE BofAML U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. It is capitalization-weighted.

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.

Individuals cannot invest directly in an index.

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