1290 Diversified Bond Fund

Market Overview

Developed-Market Debt Strong economic data sent U.S. Treasury yields higher during the quarter despite an August rally triggered by the rout in emerging markets. Supported by robust consumer spending and business investment, the Federal Reserve (Fed) raised rates as expected in September. Europe faced reduced growth expectations, but inflation data showed some improvement, due in part to rising energy costs but also job creation and wage gains. Benchmark 10-year government yields were modestly higher with the exception of Italian and U.K. sovereigns. Italy's rising political risks culminated in a heavy selloff of BTPs (Italian treasury bonds) after the populist government surprised markets by approving a significant increase in the budget deficit as the quarter came to a close. Brexit and growing prospects for a no-deal withdrawal continued to weigh on U.K. gilts. The U.S. and Mexico agreed to a trade deal in August, and Canada signed on as the quarter closed. Despite a September rally in shorter-dated bonos as trade and emerging market risks subsided, Mexican yields were higher across the curve for the quarter. South Africa also saw short-dated bonds advance in September, but yields were modestly higher for the quarter due to earlier selloffs triggered by weak economic data and emerging market spillover effects.

Developed-Market Currencies The USD advanced for the second consecutive quarter against many currencies, helped by expectations for growth and rising interest rates. Against the U.S. Dollar (USD), the euro (down 0.5%) was impacted by Italian politics and slowing growth while Brexit continued to trouble the pound (down 1.2%). Interest rate differentials, a hawkish Fed, and trade uncertainty sent the Japanese yen (down 2.4%) lower. Trade and domestic politics also dragged on the Australian dollar (down 2.2%). The new North American Free Trade Agreement (NAFTA) trade deal helped the Mexican peso (up 5.8%) recoup losses sustained in the August selloff. A more favorable climate for emerging markets boosted the South African rand (down 2.9%) late in the quarter, but these gains were insufficient to reverse earlier losses.

Emerging Markets Currencies and Debt During a rocky quarter, emerging market assets and currencies regained some ground in September after an unsettling August rout that began with Turkey and Argentina. However, the quarter was also overshadowed by a sturdy USD, which weighed on commodity prices, and a softening in Chinese manufacturing, which may be attributed to the trade war. The Turkish lira (down 24.6%) was one of the worst performers despite September gains that came amid aggressive central bank intervention and hopes for an end to U.S. sanctions.

Longer-dated Brazilian government bonds had a strong quarter, but the short end of the curve finished flat and the real (down 4.3%) sustained losses that were exacerbated by uncertainty around the upcoming election. Countries with heavy USD-denominated debt exposure and large debt ownership by foreign investors, like Indonesia, were particularly exposed. Amid concerns over a growing trade deficit and Chinese slowdown, Indonesian assets and the rupiah (down 3.8%) sold off, and the central bank raised rates to bolster the currency. Benchmark Malaysian 10-year bonds held up during the quarter amid signs of economic improvement and stabilization, although the ringgit (down 2.4%) was not completely immune to trade risks and investor sentiment.

Credit and Securitized Markets Credit market performance generally was solid for the quarter, helped by strong corporate earnings, robust equity performance, and a recovery in oil prices. Both U.S. and European high yield corporate bonds outpaced investment grade for the period, and defaults remained low overall.

Source: Brandywine Global

Fund Overview

The 1290 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Under normal circumstances, the Fund invests at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of U.S. and foreign bonds or other debt securities of varying maturities and other instruments that provide investment exposure to such debt securities, including forwards or derivatives such as options, futures contracts or swap agreements.

Fund Highlights

What helped performance during the quarter?

- Exposure to US agency and non-agency mortgage-backed securities.
- Exposure to the Mexican Peso and South African Rand.
- Exposure to US corporate debt.

What hurt performance during the quarter?

- An overweight in US treasuries.
- Exposure to Mexican government bonds.

Source: Brandywine Global

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 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Performance may be affected by one or more of the following risks.

Investment Grade Securities Risk: Debt securities are generally considered to be investment grade if they are rated BBB or Higher. Securities rated in the lower investment grade rating categories (e.g., BBB or Baa) are considered investment grade securities, but are somewhat riskier than higher rated obligations because they are regarded as having only an adequate capacity to pay principal and interest, are considered to lack outstanding investment characteristics, and may possess certain speculative characteristics.

Credit Risk: The Fund is subject to the risk that the issuer or the guarantor of a fixed income security is unable or unwilling to make timely principal and/or interest payments.

Foreign Securities Risk: Investments in foreign securities involve risks not associated with investments in U.S. securities. Foreign 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. There are greater risks involved in investing in emerging market countries and/or their securities markets, and investments in these countries and/or markets are more susceptible to loss than investments in developed countries and/or markets.

Past performance is no guarantee of future performance.

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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