1290 Diversified Bond Fund

Market Overview

Developed-Market Sovereign Debt

Although the Federal Reserve (Fed) refrained from cutting rates at its June meeting, its new dovish shift sent U.S. equity markets to record highs and caused a widespread bond market rally. Treasury yields finished lower across the curve, with the 10-year yield dipping below 2 percent in June. The U.S. economy appeared to remain on sound footing, evidenced by a healthy increase in May retail spending. However, trade tensions, slowing capital expenditure, weak job growth, and persistently low inflation give the Fed ammunition to begin easing; market expectations for a rate cut this year increased overwhelmingly in June. The Bank of England also echoed the sentiment on growing challenges to global growth while Mario Draghi of the European Central Bank (ECB) surprised markets and sent government bond yields lower when he suggested there was room to expand the bank's stimulus. Benchmark 10-year yields on French Treasury Bonds (OATs) fell into negative territory while German bunds hit a new all-time low. Italian government bonds also rallied on news that the EU would ease its disciplinary process against Rome's budget, and Italian government security (BTP) yields hit their lowest level in nearly a year. On the trade front, Mexico managed to circumvent the U.S. tariff threat at the final hour, which drove bonos and the peso. Despite growing U.S. inventories, oil prices rose significantly amid escalating Mideast tensions.

Developed-Market Currencies

As the Fed turned dovish, most major currencies gained against the softer U.S. dollar (USD). The euro (up 1.8% against the USD) rose following Draghi's comments on possible additional stimulus, earning cries from U.S. President Trump of currency manipulation. British pound sterling (up 0.5%), despite growing no-deal Brexit risks, also posted modest gains. The Swedish krona (up 2.2%) held on to its recent strength in advance of the Riksbank's next policy meeting and on speculation that the central bank would refrain from any dovish rhetoric. The Norwegian krone (up 2.6%) gained strongly after its central bank, citing faster than expected growth and tight labor conditions, raised the key policy rate and indicated further rate hikes were likely. The Polish zloty (up 2.7%), tracking European developments, also finished higher. Trade factored into the Mexican peso's (up 2.4%) strong performance as well, with the currency rallying after Mexico narrowly avoided new U.S. tariffs and subsequently ratified the United States Mexico Canada (USMCA) trade deal.

Emerging Markets Currencies and Debt

While risk-on sentiment may not have returned in full force, emerging bond markets generally rallied on growing signs that the Fed and other major central banks were preparing to lower rates and optimism that U.S.-China trade negotiations would resume. Strong commodities prices and the Mexican trade resolution further supported Latin American markets and currencies, with the Chilean peso (up 4.6%) and Colombian peso (up 5.2%) both posting strong advances. The Brazilian real (up 1.9%) saw more muted gains as the country faced below-expectations growth and declining business and government investment. Indonesia reported an unexpected trade surplus while its central bank, looking to spur borrowing and growth, cut the reserve requirement ratio; the rupiah (up 1.0%) advanced for the month.

Credit and Securitized Markets

The broad rally across markets also extended to corporate credit in June, with most segments recovering or nearly recouping May's previous losses. As central banks turned dovish and developed market sovereign yields fell, some into negative territory, the resulting search for yield produced solid gains in both U.S. and European credit markets and across quality segments.

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.

The flexibility of the guidelines allowed the portfolio managers to nimbly position the Fund to take advantage of tactical opportunities, and reallocate when risk on/risk off sentiment presented itself.

For the second quarter of 2019, the Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index, the Fund's benchmark. The majority of the return for the second quarter of 2019 can be attributed to U.S. Treasury duration and emerging markets exposure.

Fund Highlights

What helped performance during the quarter?

- U.S. Government bonds and bond futures were additive to performance
- Select emerging markets added to performance including: Mexico and South Africa
- Italian Sovereigns added to performance
- Non-USD currency positioning in select emerging markets, specifically in the Brazilian Real, Mexican Peso and South African Rand, added to performance
- Selectively maneuvering the duration of the Fund via U.S. Treasuries

What hurt performance during the quarter?

- While mortgage-backed securities (MBS) added to contribution, selection of non-agency MBS underperformed the index agency MBS positions, and overall mortgage allocation was underweight to the benchmark
- Underweight to the index in corporate investment grade.

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 (or other obligor, such as a party providing insurance or other credit enhancement) of a fixed income security, or the counterparty to a derivatives contract, repurchase agreement, loan of portfolio securities or other transaction, is unable or unwilling to make timely principal and/or interest payments, or otherwise honor its obligations, which may cause the Fund's holding to lose value.

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. 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. 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.

Bloomberg Barclays U.S. Aggregate Bond Index covers the U.S. dollar denominated investment-grade, fixed-rate, taxable bond market of securities. The index includes bonds from the Treasury, government-related and corporate securities, agency fixed rate and hybrid adjustable mortgage pass through securities, asset-backed securities and commercial mortgage-backed securities. 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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