1290 Diversified Bond Fund

Market Overview

Developed-Market Sovereign Debt

Developed market bond yields backed up during the fourth quarter as upbeat economic data emerged. Perceived progress on a U.S.-China trade deal as well as an upward revision to third-quarter gross domestic product (GDP) growth pushed longer-dated Treasury yields higher. Core and peripheral European bond yields rose as European Central Bank stimulus began to register in the regional economy, including nascent inflationary pressure. Although the Bank of Japan (BoJ) neglected to ease policy, news of a fiscal package from Prime Minister Shinzo Abe helped lift Japanese Government Bond yields. Gilt yields rose due to the combination of U.K. election results, room for Bank of England easing, and a modest improvement to economic data.

Developed-Market Currencies

Although U.S. economic growth surpassed expectations, signs of tentatively improving global growth curbed U.S. dollar appreciation in the fourth quarter, allowing many other currencies to gain during the period. In general, cautious optimism regarding global growth and trade flows drove currency markets for the period. The euro (up 3.0%) rallied as signs of an economic recovery began to crystallize, including the potential net benefit of dissipating U.S.-China trade tensions. After challenged growth in the second quarter, the British pound (up 7.9%) significantly rallied after economic data improved while the election results mandated the prime minister to deliver Brexit. As macro uncertainties abated and the Asia-Pacific growth outlook improved, the related bounce in retail spending and overall consumer confidence drove both the Australian dollar (up 4.1%) and New Zealand dollar (up 7.7%). After prolonged anticipation, the Riksbank finally raised its policy, although the country's inflation and growth outlook remain mixed. Nevertheless, the Swedish krona (up 5.2%) rallied, as did the Norwegian krone (up 3.5%), which continued to benefit from the country's higher rate environment, solid growth, and strong commodities markets.

Emerging Markets Currencies and Debt

The prospect of the USMCA trade deal passing in U.S. Congress, along with a rate cut from the Banco de México helped the Mexican peso (up 4.5%) reach a nearly six-month high. Mexican Bonos also rallied as the inflation backdrop softened. A combination of firmer crude oil prices and deescalating U.S.-China trade tensions benefited trade- and commodity-dependent currencies like the Colombian peso (up 6.1%). While a seven-month high in copper prices boded well for the Chilean economy, the peso (down 3.1%) weakened due to ongoing civil protests and the pressure government concessions would have on the country's fiscal position. Similar to Latin America, most Southeast Asian economies and financial markets benefitted from the prospects of a U.S.-China trade compromise. The South Korean won (up 3.5%) responded to trade optimism and a central bank rate cut. Bank Indonesia also cut rates to keep pace with the G3 rate environment, though the bonds rallied despite central bank easing; relative economic stability, sage policymaking, and a stable inflationary backdrop provided support for the rupiah (up 2.4%). The Malaysian ringgit (up 2.4%) also rallied on the improved outlook for global trade. Eastern European currencies also participated in trade related euphoria, though they received additional tailwinds from a better regional growth outlook.

Source: Brandywine Global

Market Overview (cont)

Credit and Securitized Markets

Risk assets benefitted from the return of investor optimism, as global equity markets rallied while credit spreads compressed, particularly as developed market bond yields rose. Global corporate credit posted solid gains in local-currency terms, though most segments underperformed emerging market sovereigns for the quarter.

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 fourth quarter of 2019, the Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index, the Fund's benchmark.

Fund Highlights

What helped performance during the quarter?

- Bund futures were additive to performance
- Emerging Market Sovereigns added to performance
- Corporate Investment Grade, High Yield and Mortgage-Backed Securities also added to performance

What hurt performance during the quarter?

- U.S. Treasury Cash Bond Futures detracted from performance

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. Fixed income investments are subject to credit risk and interest rate risk. The fund is subject to the risk that the issuer of a fixed income security or the counterparty to a transaction is unable or unwilling to make timely interest or principal payments, or otherwise honor its obligations, which may cause the Fund's holding to lose value. In addition, changes in interest rates may affect the yield, liquidity and value of investments in income producing or debt securities. When interest rates rise, the value of the Fund's debt securities generally decline. Conversely, when interest rates decline the value of the Fund's debt securities generally rises. To the extent the Fund invests in foreign securities, 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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