1290 DoubleLine Dynamic Allocation Fund

Market Overview

A few main themes dominated headlines at the close of the second quarter: changes to Federal Reserve (Fed) monetary policy, the direction of U.S. Treasury rates, and persistent low volatility across several asset classes. For the most part, however, the first half of the year was a continuation of the latter half of 2016 as more credit sensitive sectors such as convertible bonds, high yield (HY) and emerging market (EM) debt continued to outperform. Although sectors such as mortgage-backed securities (MBS) and U.S. Treasuries (UST) were the laggards, they too maintained a positive total return.

As anticipated, the Fed was all the talk during the second quarter after another successful rate hike during June brought the benchmark target to between 1.00% and 1.25%. After two successful hikes through the first half of the year, it appears that the Fed has finally been able to meet their own expectations after years of disappointing the market. According to Bloomberg's World Interest Rate Probability (WIRP) function, the implied probability of another hike by year-end is just over 50%. We believe the true probability is accurately reflected in the futures market as it will be difficult for the Fed to hike once more by year-end. Aside from subpar Gross Domestic Product (GDP) which came in at 1.4% during the first quarter, the Fed will have to fight falling inflation, which appears to have peaked for the year barring any exogenous shocks to the base effects. Headline Consumer Price Index (CPI) fell to 1.9% year-over-year (YoY) during May after reaching a high of 2.7% in February 2017. Core CPI fell to 1.7% YoY after reaching a high of 2.3% in January 2017. Flat-to-weaker energy prices will likely keep a lid on any higher inflation expectations through the second half of the year.

The UST curve continued to flatten for most of the second quarter as it has for most of the year. The benchmark 2s10s spread began the year at 125 basis points (1 basis point = 1/100 of 1%) (bps) but later fell as low as 79 bps ahead of the Fed's rate hike. Meanwhile, the 2-year UST ended the quarter at 1.38%, an 8-year high, validating the notion that short-term interest rates have been in a secular rising interest rate environment for the better part of five years. Most notably, price action on the 10-year UST is worth keeping an eye on through the second half of the year as the 10-year yield broke out to the upside during the last week of June to end the month at 2.30%. The move coincided with a jump in global developed sovereign yields as stronger growth and talk of less accommodative policy in Europe led to a 21 bps spike in 10-year German Bund yield and a 23 bps spike in 10-year U.K. Gilt yields during the last week of June. The 10-year German Bund and 10-year U.K. Gilt ended the quarter at 0.47% and 1.26%, respectively. The subadviser believes it is clear that pressure remains to the upside for yields as we move into the second half of the year.

Lastly, the subadviser continues to keep an eye on the lack of volatility across risk assets as the quiet summer months could give investors a false sense of calm. The CBOE Volatility Index (VIX), which measures the volatility across the S&P 500, fell to all-time lows during June and ended the month near levels not seen since 2007. While the subdviser does not forecast a recession in the immediate future, further delays and disappointments in economic policy, rising bond yields and subpar growth are all events that could lead to investor uncertainty. Although Fed Chair Janet Yellen does not expect "another financial crisis in our lifetime," the subadviser believes any market dislocations and mispricings can be opportunities over the long term.

Source for all figures above: DoubleLine Capital

Fund Overview

The 1290 DoubleLine Dynamic Allocation Fund pursues its investment objective by investing, under normal circumstances, in a diversified range of securities, and other financial instruments, including derivatives, which provide investment exposure to equity and fixed income investments. In the second quarter of 2017, the Fund underperformed its benchmark: a blend of the S&P500® (60%) and the Bloomberg Barclays U.S. Aggregate Bond Index (40%). This underperformance was due to the Fund being underweight equities relative to the 60% benchmark weight for the entire quarter and to the underperformance of the active equity sleeve. During the quarter, the S&P 500 benchmark gained 3.1%, while the fixed income Bloomberg Barclays U.S. Aggregate index gained 1.4%

Spotlight on Holdings

What helped performance during the quarter?

Fixed Income holdings

- Every fixed income sector in which the Fund invested delivered positive returns.

Active equity holdings

- Technology sector was the sleeve's greatest positive contributor to relative returns, due to strong stock selection.
- Heathcare, due to both an overweight position in the sector and favorable security selection.
- Materials and financials also contributed positively to relative returns due to stock selection.

Passive equity holdings

- The best performing sector exposure was healthcare, followed in order by industrials, technology and consumer discretionary. Consumer Staples delivered a negative return while a constituent of the Index.

What hurt performance during the quarter?

- Active equity sleeve trailing the S&P 500
- Stock selection in the staples, energy, and industrials sectors caused those three sectors to be the active equity sleeve's most significant drags on returns relative to the S&P500.
- Within the passive sleeve of the Fund consumer staples delivered a negative return while a constituent of the Index.

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 DoubleLine Dynamic Allocation Fund seeks to achieve total return from long-term capital appreciation and income. The Fund's allocations may change at any time. Performance may be affected by one or more of the following risks. Bond investments are subject to interest rate risk so that when interest rates rise, the prices of bonds can decrease and the investor can lose principal value. Equity securities may be bought on stock exchanges or in the over-the-counter market. Equity securities generally include common stock, preferred stock, warrants, securities convertible into common stock, securities of other investment companies and securities of real estate investment trusts. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors.

The Fund's Index is a blend of 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index. The **S&P 500 Index** is an unmanaged index which contains 500 of the largest U.S. industrial, transportation, utility and financial companies deemed by Standard and Poor's to be representative of the larger capitalization portion of the U.S. stock market. **The Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index considered representative of the U.S. investment-grade fixed-rate bond market. Includes government and credit securities, agency mortgage pass through securities, asset-backed securities, and commercial-backed mortgage securities. Individuals cannot invest directly in an index.

The **Consumer Price Indexes (CPI)** program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The **CBOE Volatility Index®** (**VIX**® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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. Diversification does not eliminate the risk of experiencing investment losses.

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