1290 DoubleLine Dynamic Allocation Fund

Market Overview

One can summarize the fourth quarter of 2017 much the same way as the rest of 2017: positive equity returns, low volatility, improving earnings and high valuations. In fact, December was the fourteenth month in a row the S&P 500® Index posted a positive total return. The S&P 500® returned 6.6% in the fourth quarter, to end the year up 21.8%.

Equity market volatility remained muted throughout the fourth quarter and December. As measured by the Chicago Board Options Exchange Volatility Index (VIX), volatility hit an all-time intra-day low of 8.6 in November and remained low through December. The VIX remained below 10 for 52 trading days in 2017.

The passage of the Tax Cuts and Jobs Act on December 20th added fuel to the equity rally. Most relevant for the U.S. equity markets, the bill lowered the top corporate tax rate from 35% to 21%. Only time will tell how much of this reduction will drop to the bottom line of earnings per share for publicly traded companies. Some of the reduction inevitably will be competed away (passed onto consumers, in other words) or seen in higher employee wages. But most estimates see the tax bill increasing run-rate S&P 500 earnings by a mid-to-high single digit percentage.

In the fixed income markets, the most notable development was the continued flattening of the yield curve, with the yield difference between the 2 and 10-year U.S. Treasury Notes falling from 0.84% to 0.52%. At the short end of the yield curve, rates on U.S. Treasury securities with maturities of three years and less marched steadily higher through the quarter, push by Federal Reserve rate hike in December and the prospect of two or three similar increases in 2018. Yields on corporate and high-yield bonds remained tight to Treasuries, as investors reached for yield.

As we enter 2018, the Fund is positioned conservatively, with the equity allocation below the baseline allocation and the fixed income duration shorter than the Bloomberg Barclays Aggregate. Equity fundamentals look strong, but valuations are stretched leading the manager to conclude there is more room for disappointment than positive surprise for equity investors. As 2017 came to a close, consensus estimates for earnings growth for the S&P 500 (according to FactSet) stood above 10%. Estimates for 2018 and 2019 stood at 11% and 10% earnings growth, respectively – impressive fundamental performance, if it were to come to pass. With a CAPE ratio (cyclically-adjusted price/earnings) and the forward P/E (price/earnings) ratio of the S&P 500 both at levels previously seen only in 1929 and 2000, it is hard to argue these estimates are not well discounted in the market.

On the policy front, the Federal Reserve (“Fed”) has three balls in the air at once: First, they are embarking on a policy of quantitative tightening by shrinking their balance sheet. The Fed is challenged to quantify the impact quantitative easing *had* on the economy, much less the impact reducing the balance sheet *will have* on the economy or capital markets. Second, the Fed is accelerating the pace of rate increases. Finally, all this is going on while a majority of the voting members of the Federal Open Market Committee will be new, including the Chairperson. The market’s collective high confidence in the Fed’s abilities (as evidenced by high levels of risk taking and low levels of volatility) raises the risk of unpleasant surprises.

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 fourth quarter of 2017, the Fund underperformed its benchmark: a blend of the S&P 500® Index (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 equity portion of the Fund relative to the S&P500. During the quarter, the S&P500 benchmark gained 6.6%, while the fixed income Bloomberg Barclays U.S. Aggregate index gained 0.4%.

Spotlight on Holdings

The fixed income portion of the Fund performed roughly the same as the Bloomberg Barclays Aggregate. With the exception of our government bond investments (which were down approximately 5/100th of a percent), all subsectors within the fixed income portfolio generated positive, albeit small total rates of return in the quarter. The best returns were found in bank loans, investment-grade (a level of credit rating for stocks regarded as carrying a minimal risk to investors) and high-yield corporate bonds.

Turning to the Fund's equity investments, the systematic portion of the portfolio based on the Shiller Barclays U.S. Sector Index was exposed to five sectors over the course the quarter, consumer discretionary, consumer staples, healthcare, industrials, and technology. All five of these sectors delivered positive returns while constituents of the Index, with consumer discretionary and technology making the greatest positive contribution.

In the active equity portion of the Fund, strong stock selection in consumer discretionary and consumer staples made the greatest contribution to relative returns. Real estate and utilities were two of the three worst returning sectors within the S&P 500, and our active decision to completely avoid those sectors added positively to relative returns. The five percent allocation to cash was a drag on relative returns as was the decision to overweight healthcare. Stock selection in financials, materials and industrials hurt relative returns.

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. Fixed income investments are subject to interest rate risk so that when interest rates rise, the prices of a fixed income security 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. In general, stocks and other equity security values fluctuate, and sometimes widely fluctuate, in response to changes in a company's financial conditions as well as general market, economic and political conditions and other factors. 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 **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.

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Past performance is no guarantee of future performance.

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