

Market Overview

Small and Mid Cap stocks continued to trail returns of their large cap counterparts for the fourth quarter and the full year as a narrow subset of large technology companies continued to lead the way. This year saw the third highest concentration in market movers (after 1999 and 2004) in over two decades. The five stocks of the FAANG – Facebook, Apple, Amazon, Netflix and Google (now Alphabet) (none owned by the Fund) – comprised an average S&P 500® Index weighting of 10% and drove nearly five points (25%) of performance for the broader market.

Meanwhile, the smaller and mid-sized companies that stand to benefit the most from the tax bill passed just before the Christmas recess were largely overlooked by comparison. Smaller companies tend to be full cash tax payers and generally have lower cash reserves, and thus are more highly levered to the lowering of the corporate tax rate to 21%. The tax bill gives clarity to corporate leaders on asset values and confidence to pursue strategic acquisitions to grow their businesses over the long-term. Small and mid-sized companies will benefit from continuing momentum in deal activity as larger companies use acquisitions as a more efficient way to boost their revenues in a relatively slower growth environment.

Fund Overview

The 1290 GAMCO Small/Mid Cap Value Fund pursues its investment objective by investing at least 80% of its net assets, plus borrowings for investment purposes, in securities of small and mid-capitalization companies. The Fund buys businesses believed to be selling at a discount to their Private Market Value (the price an informed industrialist would pay for the entire company), with a catalyst in place that could potentially surface values. The subadvisor's philosophy and process focuses on fundamental company research and individual stock selection. The Fund's holdings are significantly different than its benchmark index, the Russell 2500™ Value Index, and often performance will not closely track benchmark.

The Fund's performance was slightly below that of the Russell 2500 Value Index™ during the fourth quarter, though the Fund nearly doubled the performance of the index for the full year. The Fund's lower weighting in energy and utilities contributed to its slight underperformance for the quarter.

The manager believes they are generally well-positioned for almost any economic environment. The Fund's holdings tend to be focused with strong franchises and often pricing power. The managers have never been top-down allocators, trying to chase every trend. Rather, they rely on fundamental bottom-up research informed by their view of the shifting political and economic tides. They purchase and hold securities trading at discounts to their Private Market Values appropriate for their level of risk and seek to identify one or more catalysts that could close that valuation gap. Industry consolidation, financial engineering (e.g. spin-offs), changes in management and changes in regulation are just a few catalysts in which the portfolio is rich.

Spotlight on Holdings

What helped performance during the quarter?

- Synder's Lance (0.68%*), the owner of Cape Cod potato chips and Snyder's Pretzels was up almost 30% during the quarter as Campbell Soup agreed to acquire the company for \$50 a share. The deal provides Campbell with more exposure to the coveted high margin snacking business.
- Ingles Markets (1.17%*), a leading supermarket chain in the southeast, was up over 30% on lower than expected operating expenses and the impact of hurricanes. We expect the increased consolidation in supermarkets seen over the last several years to continue and view Ingles as an attractive target.
- Despite the Amazon effect, retailers including Lands End (0.53%*) and Macy's (0.13%*) had strong performance during the 4th quarter following better than expected results for the previous quarter and robust expectations for holiday sales.

What hurt performance during the quarter?

- Edgewell Personal Care (0.60%*) was off during the quarter as the industry environment and the company's core Wet Shaving and Feminine Care categories remain challenged. As a pure play personal care company with leading brands, we view Edgewell as a likely acquisition target for a multinational competitor with strong international infrastructure.
- Weatherford Intl. (0.85%*) was down slightly during the quarter on improving, though still negative quarterly results. The company initiated an aggressive transformation program targeting a \$1 billion improvement in operating profit over the next two years.
- The Fund's underweighting in energy was a slight relative detractor as the price of oil rose during the quarter.

* % of holdings as of 12/31/17. Subject to change.
Current and future Fund holdings are subject to risk.

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 GAMCO Small/Mid Cap Value Fund seeks to maximize capital appreciation. 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. The Fund's investments in mid- and small-cap companies may involve greater risks than investments in larger, more established issuers because they generally are more vulnerable than larger companies to adverse business or economic developments. Foreign investing involves special risks such as currency fluctuations and political uncertainty.

Past performance is no guarantee of future performance.

The **S&P 500® Index** is an unmanaged weighted index of common stocks of 500 of the largest U.S. companies, deemed by Standard & Poor's to be representative of the larger capitalization portion of the United States stock market.

Russell 2500 Value Index™, the Fund's benchmark, is an unmanaged index which contains those Russell 2500 securities (the bottom 500 securities in the Russell 1000 Index and all 2,000 securities in the Russell 2000 Index) with a less-than-average growth orientation. Individuals cannot invest directly in an index.

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AXA Equitable Life Insurance Company (NY, NY)

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