

## Market Overview

During the second quarter of 2018, markets recouped first quarter losses to finish the first half of the year modestly higher. Economic indicators, including the lowest unemployment rate since 2000, remain favorable. The U.S. Federal Reserve's program of interest rate normalization is on track after two hikes this year. While the market appears to be taking strong trade rhetoric from the Trump administration in stride, this global game of chicken could get out of control with significant consequences for consumer prices and employment. The mere threat of a trade war may have already had a deleterious impact on planned investment. Attacks on free trade by a U.S. president aren't novel but the current tone is more strident than in the past; coming from the country that authored the systems governing post-WWII commerce, these attacks could have negative, albeit indeterminable, consequences for the market's confidence in the free market.

The Russell 2500 Value Index was up 5.8% for the quarter and up 11.5% for the year ended June 30th. After lagging the returns of their large cap counterparts recently, small- and mid-cap stocks performed better during the second quarter as the S&P was up 3.4% for the quarter. However, Larger-cap stocks continued to beat small- and mid-cap ones over the trailing year as the S&P was up 14.4% over the last 12 months.

During the quarter, smaller cap stocks continued to rally on tax cuts and regulatory reform. Smaller, domestically focused companies are also less exposed to the fallout from a potential trade war and a rising dollar than their larger, international peers.

## 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 subadviser's philosophy and process focuses on fundamental company research and individual stock selection.

The Fund's performance was slightly below that of the Russell 2500 Value Index (the Fund's Index) during the second quarter, though the Fund's trailing twelve month performance slightly outpaced that of the index. To provide context, the Fund is very different from the index and performance will often be lumpy. For instance, last year the Fund's performance nearly doubled that of the index. The Fund's lower weighting in energy and financials companies was a relative detractor to performance for the quarter.

Source: GAMCO Asset Management

The subadvisor believes they are generally well-positioned for almost any economic environment. The Fund's holdings tend to be domestically focused with strong franchises and often pricing power. They have never been top-down allocators, trying to chase every trend. Rather, they rely on fundamental bottom-up research informed by our 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 Fund is rich.

## Fund Highlights

### What helped performance during the quarter?

- Several media companies, including Grupo Televisa (0.94%\*) and E.W. Scripps (0.78%\*) were up during the quarter, as the Department of Justice's approval of AT&T's acquisition of Time Warner spurred positive sentiment for consolidation in the sector.
- Madison Square Garden (1.06%\*) announced that its board will consider the separation of its sports and entertainment segments. The separation would unlock significant value for two businesses with very different investment needs.
- Pandora Media (0.19%\*), a pioneer in the subscription music industry, was up over 50% during the quarter as its premium ad-free service gained traction and boosted expectations for future earnings.

### What hurt performance during the quarter?

- Equipment rental company, Herc Holdings (1.60%\*), was down during the quarter on concerns that increasing trade and tariff issues could have an inflationary effect on the machinery the company purchases, potentially increasing vehicle depreciation and crimping margins.
- Companies who supply parts to the auto industry, including Dana (0.48%\*), faced headwinds as trade war posturing escalated during the quarter, which could impact expected industry demand.
- Despite the strong performance of several energy related companies in the Fund, including Weatherford International (0.25%\*) which was up more than 35% during the quarter, the Fund's lower weighting in energy was a drag on performance for the period as the price of crude oil rose over 15% during the quarter.

\* % of holdings as of 6/30/18. 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](http://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 markets, particularly emerging markets, may be less liquid, more volatile and subject to less government supervision than domestic 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.

**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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