

## Market Overview

U.S. equities posted their best quarterly performance since the final quarter of 2013. Stocks set a record high in late September as the market brushed off the escalating trade war, the undeterred Federal Reserve's rising interest rate policy, and contentious midterm election uncertainties.

The market rise has been fueled by America's low tax rate induced economic strength, corporate profit growth, and less regulation. Consumer spending accounts for more than two thirds of the U.S. economy. The overall wealth of the consumer is \$108 trillion, net of about \$15 trillion in debt. The consumer is doing well with rising wages, plentiful jobs, and a record household net worth and confidence. Food prices are stable, though we have seen a slight impact from the rising price of gasoline, as oil prices have surged over 60% since June of 2017. The economy grew at a 4.2% real annual rate in the second quarter and the most recent data pegs the unemployment rate at a 49 year low of 3.7% in September. After a long wait, capital spending is finally accelerating at a rate of about 8%. The pick-up in capital spending will extend the economic cycle which is currently the second longest expansion on record.

The Russell 2500 Value was up 2.7% for the quarter and up 10.2% for the year ended September 30th. After strong relative performance in the 2nd quarter, Small Cap stocks continued to lag Large Cap stocks as the S&P was up 7.7% for the 3rd quarter and 17.9% over the trailing 12 months. A handful of technology giants have continued to drive broader market returns in recent years.

## 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 ahead of the Russell 2500 Value<sup>®</sup> Index during the third quarter, though it trailed the index for the previous 12 month period. The Fund looks quite different from the index and occasionally we have seen periods where returns differ significantly. For instance, last year The Fund's performance nearly doubled that of the index, up 19.6% while the index was up 10.4%. The Fund's lower weighting in financials and information technology companies was a relative detractor to performance for the quarter and the trailing year.

Source: GAMCO Asset Management

The subadviser 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. The subadviser has 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 Fund is rich.

## Fund Highlights

### What helped performance during the quarter?

- Circor (3.87%\*) was up over 25% during the quarter as it announced strong earnings and the company is also poised to benefit from an increase in defense spending approved by Congress during the summer.
- Teladoc (1.76%\*), a leading telemedicine company, had another strong quarter driven by strong organic growth from increased subscription fees and risking overall revenues boosted by a series of acquisitions as it builds market share within this unique space.
- Pandora Media (0.19%\*) continued its robust performance during the third quarter, driven by strong second quarter results, plans to reduce customer acquisition costs and a takeover announcement by SIRIUS (0.0%\*) at the end of the quarter.

### What hurt performance during the quarter?

- Drivetrain original equipment manufacturer (OEM) supplier to automotive and truck markets, Dana (0.68%\*), faced headwinds on fears of lower industry demand and concerns on tariffs, and fell following an attempt of a transformative acquisition. In our opinion, the company is dramatically undervalued.
- ATM hardware maker, Diebold (0.64%\*), made an ill-timed acquisition, structured the deal poorly, and found itself in a precarious liquidity position which new management is addressing.
- Our lower exposure in information technology was a relative drag on performance during the quarter.

\* % of holdings as of 9/30/18. 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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