

Market Overview

Following a first quarter rally, the two overriding dynamics for U.S. stocks this quarter have remained the U.S. Federal Reserve's (Fed) policy on interest rates, and the administration's position on trade. The Fed began normalizing rates at the end of 2015, resulting in 9 rate hikes in 3 years, from 0 to 2 ½% and last quarter telegraphed its intention to be patient and flexible. June ended with the best gain in stocks for that month since 1955 to close an outstanding quarter and the best first half gain since 1997. Financial markets are now discounting a positive outcome of the trade talks between President Trump and Chinese President Xi Jinping at the G20 summit in Japan which began at quarter end.

The Russell 2000 Index and the smaller cap companies it's comprised of were up 2.10% for the second quarter of 2019, up 16.98% for the first half and down 3.31% for the year ended June 30th, while the S&P 500 Index was up 4.30% during the quarter, 18.54% during the first half and 10.42% for the trailing year. Smaller companies have lower exposure to global revenues compared to larger companies which is an advantage in an environment with rising trade war rhetoric. However, smaller companies have not bounced back as much as their larger counterparts so far this year. By comparison, the Russell 2500 Value (the "Index"), the Fund's benchmark, was up 1.89% for the second quarter and 15.26% for the first half. Smaller cap companies continue to have other notable advantages including more upside from the corporate tax cut and they are also likely beneficiaries of continued strength in deal activity.

Fund Overview

The 1290 GAMCO Small/Mid Cap Value Fund pursues its investment objective, to seek to maximize capital appreciation, 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 investor would pay for the 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 slightly trailed Index during the second quarter, while it kept pace with the Index for the first half. The Fund's lower financial industry weighting and the company specific underperformance of several communication services holdings contributed to its slight underperformance for the quarter.

The subadvisor believes the Fund is 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 subadvisor relies 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 and seek to identify one or more catalysts that could close that valuation gap, such as industry consolidation, financial engineering (e.g., spin-offs), changes in management and changes in regulation.

Source: GAMCO Asset Management

Fund Highlights

What helped performance during the quarter?

- One of the Fund's core long-term holdings, CIRCOR Intl. (3.8%*), maker of mission-critical pumps and valves for industrial, energy and aerospace and defense end markets, received a hostile bid from Crane (0.0%*) during the quarter, boosting its stock by 40% upon the announcement. The company's differentiated portfolio has resulted in strong pricing power, which combined with its capital-light approach translates into robust free cash flow, making it a very attractive takeover target for Crane.
- Legg Mason (1.1%*) was up nearly 40% during the quarter on speculation that Nelson Peltz's Trian had been in discussions with the company to find ways to boost shareholder returns, which would be Trian's second activist stint with the company. The company received SEC approval for its long awaited actively managed ETF model, ActiveShares®, which it is licensing to a broad group of asset management companies. It also benefits from improving AUM dynamics and flows.
- Herc Holdings (2.2%*) continues to improve its baseline profitability as it refreshes its fleet with equipment that drives higher dollar utilization and ultimately will help improve margins and cash flow at the company. The equipment rental industry continues to see opportunities to grow market share as the economic benefits of renting continue to resonate.

What hurt performance during the quarter?

- Sealing products company, EnPro (2.5%*), was down slightly during the quarter, largely as a function of short cycle industrial weakness. We continue to like the value and quality in EnPro's business despite changing macro trends and believe that if the market does not recognize the intrinsic value of the company in the medium term, a split and sale of the business is likely.
- E.W. Scripps (0.7%*) shares were down during the quarter on lower than expected earnings results including slightly lower advertising revenues than peers. The company's recent acquisitions of Cordillera and Tribune's assets will expand its reach to 30% of U.S. households. We are confident in management's ability to de-lever following these acquisitions in a strong U.S. advertising environment.
- Grupo Televisa (0.5%*) was down during the quarter as the company signaled that 2nd quarter advertising had weakened. Grupo Televisa is the dominant cable company in Mexico, which owns a stake in Univision and is currently trading at an extremely low multiple of earnings.

* % of holdings as of 6/30/19. 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, the value of stocks and other securities fluctuate, and sometimes widely fluctuate, in response to changes in a company's financial condition 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 which can negatively affect their value. Foreign markets, particularly emerging markets, may be less liquid, more volatile and subject to less government supervision and regulation than U.S. 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 involving foreign securities.

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 2000® Index is an unmanaged index which measures the performance of approximately 2000 of the smallest companies in the Russell 3000® Index, which represents approximately 10% of the total market capitalization of the Russell 3000® Index. It is market-capitalization weighted.

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)

(AXA000818) (exp. 12/31/19)