

Market Overview

Domestic equity investors were surprised on the upside in 2019 as the market reached new highs. In absolute terms, it was an excellent year with stocks, corporate bonds, gold and oil all up double digits. This contrasted sharply with 2018 when virtually every asset class declined as a result of a growth scare reminiscent of those in 2011 and 2015. Economic growth in the U.S. indeed slowed but remained above 2%. As it turns out, the 2010s will be the first decade in U.S. history without a recession and home to the longest bull market on record.

At year end, the market was buoyed by the resolution of many longstanding issues. Details emerged from the U.S.'s first-stage trade deal with China. "Phase one" called for China to purchase more products from American farmers and other exports, and in return the U.S. put the brakes on new tariffs and agreed to reduce some existing levies. In a rare bipartisan show of support, The United States-Mexico-Canada Agreement, a replacement for NAFTA, was passed by the House. The trade agreement was approved by the Senate Finance committee in early 2020, has been ratified by Mexico and is expected to be ratified by the U.S. and Canada in the near future. Boris Johnson's U.K. election victory set the stage to "get Brexit done" and will likely clear the way for the U.K. to leave the EU before January 31.

The Russell 2500 Value Index, the Fund's benchmark, was up 23.6% during 2019 and 7.1% during the 4th quarter, while the 1290 GAMCO Small/Mid Cap Value Fund was up 19.8% for the year and 7.4% for the quarter. Large Cap stocks continued to lead the way for the year, with the S&P 500 Index up 31.5% for 2019 and 9.1% for the 4th quarter. Despite some small air pockets, a handful of technology giants have continued to drive broader market returns in recent years. However, small cap and mid cap companies are expected to grow earnings at a higher rate in 2020, outpacing their large cap peers.

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 was slightly ahead of the Russell 2500 Value Index in the 4th quarter, though it trailed the benchmark for the full year. The Fund's lower financial and information technology sector weightings were the primary relative detractors during the 4th quarter, which were more than offset by its higher weighting in industrial companies and underlying security performance of the Fund during the 4th quarter. The Fund's lower weighting in financials and real estate were the largest relative detractors to performance for 2019, which were nearly offset by strength in the Fund's industrials holdings.

Source: GAMCO Asset Management

The subadvisor believes they are generally well-positioned for almost any economic environment. Their 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 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?

- Astec Industries (2.49%*), a company involved in different aspects of road building was up over 30% during the quarter. The company has a new CEO who has begun to dismantle a highly decentralized set of businesses, sell off non-core assets and focus on improving core profit. The stock also has a potential tailwind as an infrastructure driven company going into an election cycle.
- Virtual healthcare company Teladoc (1.58%*) was up over 20% during the quarter on a nearly 50% jump in visits, led by an increase in mental health visits.
- The Fund's overweighting in industrial companies, nearly three times the index weighting, provided the largest contribution to return by sector in a period that saw the US and China work towards an early stage trade deal.

What hurt performance during the quarter?

- Engineered industrial products company EnPro (2.58%*), was down during the quarter on weakness in its end markets, primarily trucking and European automotive. EnPro is considering exiting part or all of its segment serving the trucking industry, which we believe would surface some value and further focus its remaining sealing products and engineered products businesses.
- The Fund's underweighting in financial companies was the largest relative detractor from performance as a steepening of the yield curve benefitted financial stocks, which comprise nearly a quarter of the index.
- The Fund's lower weighting in information technology companies also detracted from relative performance during the quarter as technology stocks continued to be strong performers for the index and one of the most targeted sectors for takeover activity.

* % of total market value of the Fund's holdings as of 12/31/19. 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. Mid- and small-cap companies carry additional risks because the operating histories of these companies tend to be more limited, their earnings and revenues less predictable (and some companies may be experiencing significant losses), and their share prices more volatile than those of larger, more established companies all of 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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