1290 GAMCO Small/Mid Cap Value Fund

Fund commentary 2Q20

Market overview

U.S. equities took a roller coaster ride on economic recovery hopes which were at times offset with second wave virus fears during June. However, ultimately U.S. equities ended the second quarter of 2020 with the best return for the market since the fourth quarter of 1998. Stocks moved slightly higher during June as investors remained optimistic over the benefits of a reopening economy. However, a growing number of COVID-19 hotspots in several U.S. states has threatened the momentum of a recovering economy and created concern over the potential resurgence in recovering states. Information technology stocks continued their success from previous months and consumer discretionary companies benefited from encouraging data from auto suppliers and homebuilders.

Tensions continued to rise between the United States & China and uncertainty exists between key Chinese diplomats and US officials over their trade-agreement commitments. Investor attention is increasingly turning to the upcoming U.S. presidential election between President Trump and the presumptive Democratic nominee, Joe Biden.

COVID has triggered a peculiar recession, one largely caused or worsened by – and that may ultimately be resolved by – government intervention. Officially dated to February 2020, the current recession has been swift, with April unemployment of 14.7% quickly exceeding the Great Recession peak of 10.6% in January 2010. After declining 5% in Q1 of 2020, expectations are for a ~35% decline in Q2 gross domestic product (GDP), the sharpest fall off on record. This recession may turn out, however, to be shorter than the eighteen-month average duration, with the shape of the recovery influenced by the trajectory of the virus. Economic indicators have already evidenced a rebound, but that could stall with local breakouts of COVID. Corporate earnings in 2020 will be poor but largely irrelevant as we look forward to easier comparisons in 2021.

The U.S. Federal Reserve (Fed) signaled their commitment to use all of the tools at their disposal to support an economic recovery. Both Congress and the White House expressed their intentions for another round of stimulus funding. The potential for expanded unemployment benefits, tax cuts or industry-specific stimulus could provide direct aid to households and help jumpstart the economy.

Although smaller cap companies as measured by the Russell 2000® Index were up more than larger cap companies in the S&P 500® Index during the second quarter, they continue to lag behind their larger cap counterparts for the year ended in June as well as the trailing 3- and 5-year periods. Moreover, value focused companies have continued to trail within the broader small cap category. Historically value, which includes a disproportionate number of cyclically sensitive firms, and smaller cap companies have led performance early in the economic cycle. These stocks may have jumped the gun in early June, but in many cases remain at bargain valuations that could provide significant upside as clarity on the shape of recovery increases. We believe the sharp market decline in March underscores the importance of investing in companies with sustainable cash generation and adaptable managements favored by our fundamental value focused approach.

Source: GAMCO Asset Management

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 outperformed the Russell 2500TM Value Index (the "Index") for the second quarter of 2020, the Fund's benchmark. The Fund's higher exposure to industrial and consumer staples companies were the primary contributors during the period, while the Fund's lower exposure to financial and energy companies detracted from relative performance during the quarter.

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?

- Industrial companies rebounded sharply during the second quarter following a difficult month of March for the sector. Pump and valve company, Circor (1.96%*), was up more than 100% despite challenging economic conditions as the market recognized its adequate liquidity and covenant cushion. In June, the company completed the divestiture of its remaining upstream energy business, which had been a drag on the company.
- Communication Services companies with exposure to advertising were especially hard hit during the March downturn. After an initial selloff at the start of the pandemic, shares of ViacomCBS (1.56%*) have rebounded, fueled by the expected return of sports and an improved economy. The recent market environment challenged legacy media operators by drastically shuffling television schedules as well as pressuring advertising revenue. During this time, ViacomCBS has been able to leverage its streaming services through expansion and licensing its content in the midst of cord cutting within the industry.
- Consumer Staples holdings, including National Beverage (0.94%*) have performed well within the COVID-19 environment and our overweighting in this sector helped performance during the quarter. Energizer Holdings (1.88%*) continued its strong YTD performance during the 2nd quarter as consumers continued to stock their pantries and also had a positive impact from its Auto Care acquisition last year.

What hurt performance during the quarter?

- The prolonged impact of COVID-19 has paused professional sports throughout the United States and has ended home games for the 2019-2020 season for both the NY Knicks & NY Rangers, which has weighed on Madison Square Garden Sports (0.36%*) during the quarter. Investors remain concerned about uncertainty over future attendance post reopening. However, the sell-off has created an opportunity to own valuable sports franchises at a discounted price.
- OPEC and Russia reached an oil production deal in April, which along with the market's recovery following the initial COVID-19 lockdowns in the US helped to drive oil prices higher during the quarter. The subadvisor's systemic underweight to energy due to our general avoidance of purely commodity driven businesses thus detracted from performance during the quarter.

* % of total market value of the Fund's holdings as of June 30, 2020.. Subject to change.
Current and future Fund holdings are subject to risk.

Fund highlights (cont'd)

What hurt performance during the quarter?

- Similarly, financial companies can be viewed as a commodity to an extent because of these companies' strong reliance on interest rates. The Fund's underweighting in this area hurt the relative performance during the quarter as financial companies rebounded along with the market.

For more information, call **(888) 310-0416** or visit **1290funds.com.**

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 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, and it may take more time to clear and settle trades involving foreign securities, which could negatively impact the Fund's investments and cause it to lose money. 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, as well as trade barriers and other protectionist trade policies (including those of the U.S.) governmental instability, or other political or economic actions, also may adversely impact security values.

Past performance is no guarantee of future performance.

Standard & Poor's 500® Composite Stock Index (referred to herein as "Standard & Poor's 500® Index" or "S&P 500® Index") is a weighted index of common stocks of 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. The index is capitalization weighted, thereby giving greater weight to companies with the largest market capitalizations.

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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