1290 GAMCO Small/Mid Cap Value Fund

Fund commentary 3Q20

Market overview

U.S. equities scored a second consecutive strong gain for the quarter ended September 30, and the best trailing six-month performance since 2009. We have seen unprecedented volatility in the recent period with unemployment soaring from a 60-year low to a 90 year high in 2 months. Unprecedented monetary and fiscal response gave rise to a market rebound and the shortest recession on record. Overcoming a weak September, the new bull market that started on March 23 is intact and has been driven by record monetary and fiscal stimulus, the evolving Chinese and U.S. economic recoveries and heightened virus vaccine hopes. While it's possible some vulnerable populations could receive a vaccine by the end of the year, consensus is for more broad distribution in the spring of 2021.

The market has, so far, not been overly concerned about the election. No matter who is sworn in as President in January 2021, the steep increase in the federal debt and deficit make it likely that tax rates will go up for both corporations and individuals next year. We do have some optimism, however, that this may be counterbalanced by bipartisan pro-growth initiatives such as the much needed, but so far elusive, infrastructure bill. As to what this all means for the stock market, these dynamics must be analyzed through the prism of a Federal Reserve that has said it will keep rates near zero until maximum employment is achieved and inflation "moderately exceeds" 2 percent for the foreseeable future. Despite all the uncertainty and many headwinds, this environment supports a low discount rate and high earnings multiples for stocks.

Long evolving changes in market structure, exacerbated by the economic shifts brought on by COVID, have created a wealth of opportunities among smaller companies, especially among those characterized as Value. Smaller capitalization companies continue to lag behind their larger cap counterparts for the trailing 1-, 3-, 5- and 10-year periods. While Value outperformed Growth in September, Value focused companies have continued to trail within the broader smaller cap category during the third quarter and for the trailing 1-, 3-, 5- and 10-year periods. In many cases, these stocks 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. At least three elements could trigger a more durable rotation in investor preferences:

- Sustained COVID re-opening and economic recovery. This appears to us to be more a matter of when than if and should favor cyclical firms and those most directly impacted by COVID (including live entertainment, travel and leisure companies).
- Renewed M&A activity as the economic and electoral landscape becomes clearer. Scale remains as important as ever, funding costs are still low and a number of entities stressed by the COVID crisis will be looking for alternatives. Small and mid-cap companies dominate this menu.
- A shift from the Goldilocks macroeconomic backdrop of low interest rates, low inflation and steady but modest economic growth of most of the last ten years. With rates pinned to nearly zero and demographic, political and productivity trends pointing to decelerating long-term growth, government stimulus-fed inflation seems to be the variable most likely to change. A steeper yield curve should benefit financials while above-expectation inflation favors those with pricing power.

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 2500™ Value Index (the "Index") for the third quarter of 2020, the Fund's benchmark. . The Fund's higher exposure to industrial and communication services companies were the primary contributors to outperformance during the period.

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?

- The Fund's higher weighting in industrial companies delivered the largest relative outperformance during the quarter for the Fund. Among the largest industrial company contributors, Navistar (1.11%*) was up more than 50% during the quarter as TRATON (0.00%*) raised its initial pre-COVID bid by $8 to $43 a share. The 6-month period since TRATON's initial bid has allowed Navistar to show it can weather a massive downturn in truck purchases and to showcase many next generation technologies it plans to roll out over the next 3-5 years, potentially making it more valuable.
- Lennar (0.82%*), one of the largest domestic homebuilders, was up more than 40% during the quarter on strength in the housing market spurred by a rebound in home purchases driven by the pandemic, low inventory in new and existing homes, and record low interest rates.
- Remy Cointreau (2.49%*) has an advantaged portfolio made up almost entirely of brands that sell at premium price-points, including Remy Martin, one of the largest and highest priced Cognac brands in the world. Recent share performance has been strong as data from Asia, which is a large growth driver for the company, has continued to improve as it recovers from COVID. The U.S. market remains resilient, where Remy is benefitting from a resurgence in the popularity of Cognac. The company is well positioned to benefit from long-term positive trends in the global spirits industry.

What hurt performance during the quarter?

- Shares of Energizer Holdings (1.60%*) gave back previous gains as disruptions in international markets and currency headwinds pressured results; however, the company raised its revenue outlook for 2020 on high demand for North American batteries and continued growth in auto care.
- Macquarie Infrastructure Company (1.00%*) has been impacted by the COVID-related travel downturn on their Atlantic Aviation and MIC Hawaii businesses. However, general aviation flight activity has continued to increase, and its bulk liquid storage and handling business saw sustained high levels of storage utilization. A potential near-term catalyst for Macquarie could be the sale of one of its operating businesses.
- Despite a slight pause in the stock during the recent quarter following a sharp rise in the second quarter, recreation products company, Brunswick (2.37%*) has continued to benefit from a consumer shift to boating as a safe outdoor leisure activity within the current pandemic environment. Marine product demand (boats, engines and parts & accessories) surged through the summer months after an unexpected pick-up in April. Brunswick is now positioned for a long-term tailwind in the industry as the pandemic has ushered in a new wave of boat buyers who can become long term customers of Brunswick's diverse portfolio of products, including various boating parts & accessories.

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

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.

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. **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. Individuals cannot invest directly in an index.

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