1290 GAMCO Small/Mid Cap Value Fund

Fund commentary 1Q21

Market overview

With today's backdrop of a reopening economy and enormous fiscal stimulus, animal spirits were alive and well in financial markets during the first quarter of 2021. After declining 34% peak-to-trough February to March 2020 early in the pandemic, the S&P 500® Index was up over 50% from its March 2020 low through March 2021. Smaller cap indices like the Russell 2000® Index were up over 90% as it bounced back even higher after trailing their larger cap counterparts for the longer-term trailing periods. Markets are at all-time highs, and our new president's first major piece of legislation, a $1.9 trillion relief bill featuring another round of stimulus checks, has further added fuel to an already hot economy.

The monetary and fiscal policy response to the Coronavirus pandemic has been unprecedented. To-date, $8 trillion worth of fiscal stimulus, nearly 40% of gross domestic product (GDP), has been enacted or proposed. The Federal Reserve's (Fed) balance sheet has grown 50%, by nearly $3 trillion, in the last year. With so much stimulus in the pipeline, combined with vaccination progress and a widening valuation gap between Value and Growth stocks, it's no surprise cyclical areas of the market have come to life. This is the natural progression of the business cycle. Cyclical and 'BOTL' stocks (banks, oil, travel & leisure) have led the market surge, along with small capitalization stocks.

Many of the fundamentals that buoyed a strong market environment prior to the pandemic remain largely intact today. Borrowing costs remain historically low, and despite sales declines across many industries in 2020, companies implemented aggressive cost saving measures to preserve their war chests. Robust debt and equity issuance has boosted cash balances on corporate balance sheets by an estimated $2 trillion. These dynamics should continue to propel strong merger and acquisition (M&A) activity in 2021 and beyond. During the first quarter alone, M&A activity surged, totaling $1.3 trillion globally.

Throughout the quarter interest rates rose, with 10-year Treasuries climbing above 1.7% at the end of March, although still low relative to historical averages. A rising rate dynamic may eventually have some negative implications for overall valuations of equities (raising the discount rate on future cash flows), but also positive ones for banks and other financials that earn profits based on net interest margin. Low interest rates and the expansion of the Fed's balance sheet have contributed to an increase in commodity and housing prices. If this works through the economy and spurs inflation higher, it will be important to watch inflation trends, given their impact on Treasury yields and, ultimately, their impact on long duration (Growth) equities.

The impact of inflation and resulting Fed hikes on equities is not as worrisome as some fear. Equities, relative to bonds, are the advantaged asset class in rising rate environments. Many businesses can absorb higher input costs by passing along higher prices to customers. Additionally, the Fed only tightens in response to a strengthening economy, which is also a tailwind for businesses. Indeed, the S&P 500® index has appreciated in each of the last three Fed tightening cycles. Furthermore, any near-term inflation spike is likely to be temporary rather than structural.

Source: GAMCO Asset Management. The Fund does not own any of the companies mentioned in the above commentary.

Fund overview

The 1290 GAMCO Small/Mid Cap Value Fund pursues its investment objective, to seek to maximize capital appreciation, by investing, under normal circumstances, at least 80% of its net assets, plus borrowings for investment purposes, in securities of small and mid-capitalization companies. The Fund seeks 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 subadviser's philosophy and process focuses on fundamental company research and individual stock selection.

The Fund kept pace with the Russell 2500 Value™ Index's, its benchmark, very robust quarterly return (up 15.9% compared to 16.8% for the benchmark) and it was up more than 10% more than the Russell 2500 Value Index for the year ended March 31, 2021, up a staggering 97.9% compared to 87.5% for the benchmark. The Fund's higher exposure to industrial, communication services and consumer staples companies helped its performance during the first quarter of 2021, while its underweighting in financials, real estate and technology offset some of that outperformance.

The subadviser 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 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. The subadviser 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 exposure to industrial companies, which the subadviser has had a core competency in investing in for over four decades, provided the largest relative contribution to return for the quarter as these cyclical businesses continued their strong performance amidst the reopening economy. Several subsets of industrial holdings will increasingly benefit from tailwinds as the environment normalizes, including equipment rental companies, like Herc Holdings (3.10%*), which was up nearly 50% during the quarter.
- Shares of satellite communications company, Loral Space and Communications (0.71%*), were up nearly 80%, responding favorably in anticipation of its Low-Earth Orbit (LEO) business merger announcement. Loral has a robust Geostationary satellite fleet, best LEO architecture and significant C-band spectrum assets.
- Shares of Edgewell Personal Care (0.77%*) rose, as a reopening economy should provide an increase in demand for its sun and skin care products. Trends in its long beleaguered wet shave business have finally stabilized, and we believe have the potential to do better as people return to offices and shave their pandemic beards. The company still trades at one of the most attractive valuations in the home and personal care space, despite being a beneficiary of economic reopening and seeing its business suffer from the pandemic, rather than benefit as some peers did.

What hurt performance during the quarter?

- The Fund's strategic underweighting in financial companies, which can be viewed as commodities to an extent because of these companies' strong reliance on interest rates, was the largest relative detractor from the Fund's performance for the second consecutive quarter. 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 would benefit financial companies while above-expectation inflation favors those with pricing power. A rising rate dynamic may eventually have some negative implications for overall valuations of equities, but also positive ones for banks and other financial companies that earn profits based on net interest margin.

* % of total market value of the Fund's holdings as of March 31, 2021. Subject to change.
Current and future Fund holdings are subject to risk.

Fund highlights (continued)

What hurt performance during the quarter? (continued)

- Aerospace and defense products company, Aerojet Rocketdyne (1.38%*), was down slightly at the end of the quarter as it began trading ex-dividend early in March in anticipation of the special $5 per share pre-closing dividend that shareholders received later in the month. This followed strong performance last quarter when Lockheed Martin (0.00%*) announced its $56/share (inclusive of the $5 special dividend), $5 billion all cash offer for the company in December. The deal is expected to close in the second half of 2021.
- The Fund's systemic underweight to energy due to the subadviser's general avoidance of purely commodity driven businesses was a detractor from performance during the quarter, as crude oil prices rose due to a tighter U.S. supply driven by supplier reaction to higher prices and a colder winter in the southern states, which caused supply disruptions.

* % of total market value of the Fund's holdings as of March 31, 2021. 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. Performance may be affected by one or more of the following risks. The Fund is subject to the risk that the securities markets will move down, sometimes rapidly and unpredictably, based on overall economic conditions and other factors, which may negatively affect Fund performance. 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. . From time to time, based on market or eco-nomic conditions, the Fund may have significant positions in one or more sectors of the market. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors. Foreign 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. **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. Individuals cannot invest directly in an index.

1290 Funds® is part of a family of mutual funds advised by Equitable Investment Management Group, LLC, a wholly owned subsidiary of Equitable Financial Life Insurance Company (Equitable Financial). Equitable Financial is an indirect wholly owned subsidiary of Equitable Holdings, Inc. Equitable Distributors, LLC is the wholesale distributor of 1290 Funds®. Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN) offers 1290 Funds® to investors.

1290 Funds® is a registered service mark of Equitable Investment Management Group, LLC, New York, NY 10104.

1290 Funds® is distributed by ALPS Distributors, Inc., 1290 Broadway, Suite 1000, Denver, CO 80203, which is not affiliated with Equitable Investment Management Group, LLC; Equitable Financial; Equitable Distributors, LLC; Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN); or GAMCO Asset Management.

1290 FUNDS®