1290 High Yield Bond Fund

Market Overview

The second quarter's economic releases came in a distant second in the headline competition to the events in Washington, France and the United Kingdom. Perhaps this was the result of the fact that the actual data depicting U.S. economic activity, versus previous forecasts, was far less interesting. That is to say, yes the data did not live up to early expectations, but it was nonetheless sufficient enough so as to not generate its own narrative. The more widely followed (and economically important) data points of employment, inflation and personal consumption confirmed the continuation of growth in the quarter at a rate now closer to the long-term projected trend. Manufacturing, construction and trade were mixed, but did not display any worrisome trend breaks. In fact only inflation briefly became a topic of concern as what appear to be one off events challenged the Federal Open Market Committee's (FOMC) contention that inflationary pressures were continuing to firm. Nevertheless, in as much as the evidence suggested a measurable acceleration in growth from that seen in the first quarter, the policy makers at the FOMC expressed confidence that their movement toward rate normalization remained appropriate.

During the second quarter of 2017, U.S. High Yield's underperformed U.S. Equities (S&P 500 +3.09%), and U.S. Investment Grade Corporates (+2.42%) but outperformed U.S. Treasuries (+1.21%). Performance was driven by BB-rated credits (+2.59%), which outperformed B-rated credits (+1.76%) and CCC-and-lower rated credits (+1.70%). From a sector perspective, 17 of 18 industry sectors posted positive returns in the quarter. The best performing sectors were banking (+4.31%), healthcare (+3.51%) and financial services (+3.42%). The worst performing sectors were energy (-1.27%), utilities (+1.18%) and services (+1.90%). The High Yield Index's Option Adjusted Spread was 377 basis points (1 basis point = 1/100 of 1%) at the end of June, a 15 basis point decrease from 392 basis points at the beginning of the quarter. The High Yield Index's yield-to-worst (the rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor) ended the quarter at 5.68%, compared to 5.88% at the start of the quarter. The High Yield Index's average price was $101.33 at quarter end, $0.51 higher than the $100.82 average price at the start of the quarter.

Fund Overview

The 1290 High Yield Bond Fund pursues its investment object by investing, under normal circumstances, at least 80% of its net assets, plus borrowings for investment purposes, in a broad range of high-yield, below investment grade bonds. The Fund posted a positive total return and performed approximately in-line with the B of A Merrill Lynch US High Yield Index, the Fund's benchmark, during the second quarter of 2017. Positive security selection within the higher yielding portion of the market, led by an underweight to higher yielding energy securities, had the biggest positive impact on relative performance. Offsetting this was the portfolio's underweight positioning within the higher quality, more interest rate sensitive portion of the market, which outperformed. The Fund's overweight positioning within the more defensive, short duration (a measure of a bond's sensitivity to interest rates) portion of the market which underperformed, was a drag on performance, as was the portfolio's cash position. Fund performance benefitted from participation in multiple new issues during the period which performed well post pricing.

Source for all figures stated above: BofA Merrill Lynch

From a sector perspective, the Fund experienced positive security selection within the underperforming energy sector. Relative outperformance within energy was driven by the Fund's up-in-quality positioning within this sector led by its underweight to the volatile oilfield service companies and higher cost exploration & production companies. In addition, the Fund experienced positive security selection in the telecommunications and basic industry sectors. Offsetting these positive effects was negative security selection within the capital goods, consumer goods and utility sectors during the period. Fund performance benefitted from an overweight to the outperforming healthcare sector while the Fund's underweight to the outperforming banking sector detracted from relative performance.

Fund Highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in Rayonier Advanced Materials (0.90%*), Digicel (0.91%*) and Valeant Pharmaceuticals (0.57%*). Rayonier Advanced Materials is a producer of specialty cellulose products. Rayonier bonds were a top contributor to return during the quarter following the company's announcement that they are acquiring Tembec (0.0%*). Digicel is an emerging markets focused telecommunications provider. Digicel bonds were a top contributor to return during the quarter as the company reported earnings that were in-line with expectations and reiterated guidance for further credit improvement. Valeant Pharmaceuticals produces specialty pharmaceuticals. Valeant Pharmaceuticals bonds were a top contributor to return during the quarter as the company modestly raised guidance for the full year and also continues to execute on its plan to sell assets and use proceeds to reduce debt.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Neovia Logistics (0.64%*), JBS (1.09%*) and Talen Energy (0.36%*). Neovia Logistics is a global logistics company. Neovia bonds were a bottom contributor to return during the quarter due to the company reporting soft earnings as management continues to focus on operational improvements. JBS is a global meat processing company. JBS bonds were a bottom contributor to return during the quarter due to news of investigations into the company's business practices and subsequent settlements that were reached. Talen Energy is an independent power producer. Talen Energy bonds were a bottom contributor to return during the quarter due to the continued pressure on power prices in the U.S.

- % of total market value of fund holdings as of 6/30/17. 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 High Yield Bond Fund seeks to maximize current income. Performance may be affected by one or more of the following risks. The investor should note that investing in lower-rated, non-investment grade debt securities (commonly referred to as "junk bonds") involves additional risks such as an increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates. When investing in the Fund, you are subject to, but not limited to, the same interest rate, inflation and credit risks associated with the underlying bonds owned by the Fund.

Past performance is no guarantee of future performance.

CCC-rated bonds are non-investment grade (high yield) bonds which are considered extremely speculative. B-rated bonds are considered highly speculative, and BB-rated bonds are considered speculative. For the credit quality ratings shown above, the rating is determined from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moody's and Fitch). Credit quality is measured on a scale that ranges from AAA (highest) to D (lowest). Credit quality does not remove market risk and is subject to change.

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. BofA Merrill Lynch U.S. High Yield Index (aka BofA Merrill Lynch High Yield Master II Index) tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

The Fund may not be successful in implementing its investment strategy or may not employ a successful investment strategy, and there can be no assurance that the Fund will grow to or maintain an economically viable size, which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Until the Fund is fully capitalized it may not be pursuing its investment objective or executing its principal investment strategies.

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