1290 High Yield Bond Fund

Market Overview

There was little question that weather would play an important role in how the first quarter's economic developments unfolded. After all winter does have a rich history of doing just that, and the quarter just passed was no exception. In almost all of the widely followed categories, to include employment, consumption, construction and manufacturing there was some weather impact to be considered. That said, the elevated optimism reported in business and consumer surveys remained remarkably intact. Inflation metrics, though worrisome at first, appeared to moderate as the quarter progressed. On the other hand, the nation's balance of trade continued to deteriorate in such a manner that its trajectory became a topic of political importance. Nevertheless and when considered in totality, the quarter's data suggested that economic growth remained roughly in line with that witnessed over the course of 2017 with little or no indication of faltering in the near future.

During the first quarter of 2018, U.S. High Yield underperformed U.S. Equities (S&P 500 -0.76%) but outperformed U.S. Treasuries (-1.18%) and U.S. Investment Grade Corporates (-2.20%). Performance was driven by CCC-and-lower rated credits (+0.36%), which outperformed B-rated credits (-0.46%) and BB-rated credits (-1.65%). From a sector perspective, 3 of 18 industry sectors posted positive returns in the quarter. The best performing sectors were transportation (+0.43%), financials (+0.10%), and healthcare (+0.02%). The worst performing sectors were banking (-2.63%), automotive (-2.32%), and media (-1.54%). The High Yield Index's Option Adjusted Spread was 372 basis points (1 basis point is a unit that is equal to 1/100th of 1%) at the end of March, a 9 basis point increase from 363 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 6.35%, compared to 5.84% at the start of the quarter. The High Yield Index's average price was $98.47 at quarter end, $2.12 lower than the $100.59 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 (a level of credit rating for stocks regarded as carrying a minimal risk to investors). During the first quarter of 2018 the 1290 High Yield Bond Fund outperformed its benchmark, the ICE BofA Merrill Lynch US High Yield Master II Index. During the period, the portfolio's macro risk positioning had a positive impact on relative performance. Both the underweight to better quality, more interest rate sensitive securities and the overweight to the more defensive short duration portion of the market positively impacted portfolio performance. The portfolio's relative outperformance was also driven by positive security selection, particularly within the lower yielding and short duration portions of the market. This positive effect was partially offset by negative security selection within the highest yielding segment of the market during the quarter.

Source for all figures stated above: BofA Merrill Lynch

From a sector perspective, the Fund's relative outperformance was driven by positive security selection within a number of sectors including services, retail, basic industry and media. These positive effects were partially offset by negative security selection within the telecommunications and utility sectors. Both the Fund's underweight to the banking sector and its overweight to the healthcare sector contributed to the relative outperformance during the quarter.

Fund Highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in Rite Aid (0.65%*), Exela (Intermediate Co.) (0.55%*), and Curo Financial (0.80%*) (Speedy Cash). Rite Aid operates a retail drugstore chain. Rite Aid bonds were a top contributor due to the company announcing a merger with Albertsons during the quarter which may result in these bonds being called. Also, Rite Aid has continued to use asset sale proceeds to reduce debt. Exela (Intermediate Co.) is a business process outsourcing (BPO) company that offers technology-enabled solutions to its customers in various industries, including healthcare, banking, insurance and government. Exela bonds were a top contributor to return due to management providing a positive outlook for 2018, driven by the company's continued growth and the ongoing realization of cost reductions. Curo Financial (Speedy Cash) is a consumer focused specialty finance company. Curo Financial bonds were a top contributor to return during the quarter due to the company reporting solid earnings during the period.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Sanchez Energy (0.39%*), Cincinnati Bell (0.47%*) and Rackspace (Inception Merger) (0.61%*). Sanchez Energy is an exploration and production company with assets located in the Eagle Ford Shale. Sanchez Energy bonds were a bottom contributor to return due to the company issuing a new secured bond during the quarter. Cincinnati Bell is the incumbent fixed-line telephone operator in the greater Cincinnati region. Cincinnati Bell has also expanded to offer IT services on a national basis. Cincinnati Bell bonds were a bottom contributor due to the company reporting relatively weak earnings during the period and given the overall weakness in fundamentals and bond trading levels of several comparable companies. Rackspace (Inception Merger) is a provider of private cloud, public cloud, and managed public cloud services, mainly to small-to-mid-size enterprises. Rackspace bonds were a bottom contributor to return during the quarter due to a cautious outlook provided by the management team during the company's most recent earnings conference call in March.

% of total market value of fund holdings as of 3/31/18. 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.

ICE BofA Merrill Lynch U.S. High Yield Index (aka BofA Merrill Lynch High Yield Master II Index) tracks the performance of U.S. 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. Individuals cannot invest directly in an index.

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(AXA00587) (exp. 9/30/18)