1290 High Yield Bond Fund

Market Overview

Early on in the second quarter of 2018 there was enough anecdotal evidence, away from the effects of winter that the statistical aberrations associated with the first quarter's Gross Domestic Product (GDP) calculation were poised to correct. Swings in construction spending, inventories and trade created a favorable backdrop, that when added to a building momentum in consumption, suggested that there was a high likelihood that growth in the quarter had markedly accelerated. That said, further gains in employment, to a level that is believed to be well through that which is said to be full employment, raised concerns amongst policy makers at the Federal Open Market Committee (FOMC) that inflationary pressures could be building. As such the FOMC indicated that their near-term actions should continue along the lines of a gradual reduction in financial accommodation.

During the second quarter of 2018, U.S. High Yield underperformed U.S. Equities (S&P 500 +3.43%) but outperformed U.S. Treasuries (+0.10%) and U.S. Investment Grade Corporates (-0.94%). Performance was driven by CCC-and-lower rated credits (+3.58%), which outperformed B-rated credits (+1.52%) and BB-rated credits (-0.12%). From a sector perspective, 13 of the 18 industry sectors posted positive returns in the quarter. The best performing sectors were telecommunications (+3.08%), energy (+2.37%), and healthcare (+1.84%). The worst performing sectors were automotive (-3.44%), banking (-1.51%), and services (-0.47%). The High Yield Index's Option Adjusted Spread was 371 basis points (1 basis point is a unit that is equal to 1/100th of 1%) at the end of June, a 1 basis point decrease from 372 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 6.53%, compared to 6.35% at the start of the quarter. The ICE BofA Merrill Lynch U.S. High Yield Index's (the Fund's benchmark) average price was $97.84 at quarter end, $0.63 lower than the $98.47 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 second quarter of 2018 the 1290 High Yield Bond Fund underperformed its benchmark. The under-performance was driven by negative security selection, primarily within the higher yielding portion of the market. This was the result of the Fund's holdings in American Tire Distributors (ATD) bonds (0.18%*), which underperformed, as well as lack of exposure to several larger distressed capital structures, which outperformed. Slightly offsetting this was positive security selection within the higher quality portion of the market. The Fund's macro positioning had a positive impact on performance led by the Fund's underweight position within better quality, longer duration securities.

Source for all figures stated above: BofA Merrill Lynch
* % of total market value of fund holdings as of 6/30/18. Subject to change.
Current and future Fund holdings are subject to risk.

From a sector perspective, the portfolio underperformed in the automotive sector as mentioned above. The Fund experienced negative security selection within the energy sector. The Fund's underweight positioning in the oil field services subsector and its up-in-quality positioning within both the exploration and production and oil field services subsectors detracted from relative performance. Partially offsetting these negative effects was positive security selection within the services, telecommunications, leisure, and technology sectors during the quarter. Also, the portfolio's underweight within the banking sector and its overweight within the healthcare sector positively impacted relative performance during the quarter.

Fund Highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in Intelsat (0.00%*), Neovia Logistics (0.41%*) and Valeant Pharmaceuticals (0.69%*). Intelsat is a global satellite operator serving government, media and telecommunication clients. Intelsat bonds were top contributors to return due to investors' increasing confidence regarding the company's ability to monetize a portion of the spectrum currently utilized over the US. Intelsat bonds also traded higher as a result of the company selling equity and equity-linked instruments with the proceeds earmarked for debt reduction. Neovia Logistics (SPL) is a provider of supply chain logistics services to companies in the automotive, technology and aerospace industries. Neovia Logistics bonds outperformed due to the company reporting a year-over-year improvement in its most recent quarterly earnings as operations appear to be stabilizing. Valeant Pharmaceuticals is a global specialty pharmaceutical company with a diverse product portfolio. Valeant bonds were a top contributor to return due to the company reporting solid earnings for its most recent quarterly period and raising earnings guidance for the full year. Also, during the quarter, Valeant issued an unsecured bond resulting in an improved debt maturity profile for the company.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in American Tire Distributors (0.18%*), BWAY (0.86%*) and Change Healthcare (0.69%*). American Tire Distributors (ATD) is the largest distributor of replacement tires in North America. ATD announced that suppliers Goodyear Tire and Bridgestone Tire would no longer be using ATD's distribution network. These two suppliers combined made up approximately 25% of revenues for ATD. The sudden change in business prospects challenged our original investment thesis, and we sold out of the bonds by the end of June at a significant loss. BWAY is a global supplier of industrial rigid packaging products primarily to the housing, chemical and consumer product end markets. BWAY bonds were a bottom contributor due to soft earnings in the most recent quarter and due to the announcement of an acquisition which will increase BWAY's leverage. Change Healthcare is a leading provider of revenue and payment cycle management technology solutions to the healthcare industry. Change Healthcare bonds were a bottom contributor despite there being no material company specific news during the quarter. Investors continue to monitor the company's progress towards completing an IPO which was previously delayed.

* % of total market value of fund holdings as of 6/30/18. Subject to change.
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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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