1290 High Yield Bond Fund

Market Overview

Economic activity in the third quarter witnessed further gains in employment, service consumption, construction, retail sales and inventories. Manufacturing activity remained at elevated levels and forward-looking surveys suggested more of the same. Consumer confidence and business surveys jumped to multi-year highs, despite the implementation of trade tariffs and rising gasoline prices. Measures on inflation varied little from those seen in the previous months and remained well within policy makers preferred range. This combination of data points, when considered in total, argued that the Federal Reserve's gradual path toward policy normalization remained the appropriate course of action.

During the third quarter of 2018, U.S. High Yield underperformed U.S. Equities (S&P 500® +7.71%) but outperformed U.S. Treasuries (-0.63%) and U.S. Investment Grade Corporates (+0.96%). Performance was driven by CCC-and-lower rated credits (+2.85%), which outperformed B-rated credits (+2.41%) and BB-rated credits (+2.36%). From a sector perspective, all 18 industry sectors posted positive returns in the quarter. The best performing sectors were healthcare (+3.45%), telecommunications (+3.27%), and media (+3.09%). The worst performing sectors were retail (+1.05%), automotive (+1.33%), and real estate (+1.61%). The High Yield Index's Option Adjusted Spread was 328 basis points (1 basis point is a unit that is equal to 1/100th of 1%) at the end of September, a 43 basis point decrease from 371 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 6.28%, compared to 6.53% at the start of the quarter. The ICE BofA Merrill Lynch U.S. High Yield Index's (the Fund's benchmark) average price was $98.52 at quarter end, $0.68 higher than the $97.84 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 third quarter of 2018 the 1290 High Yield Bond Fund produced a positive total return but underperformed its benchmark. Security selection had an approximately neutral impact on relative performance during the period. The Fund experienced negative security selection within the higher yielding portion of the market which was offset by positive security selection within other segments of the market including the short duration segment. The Fund's macro positioning had a slightly negative impact on relative performance largely due to the Fund's overweight position within the short duration portion of the market which underperformed during the period. This negative effect was partially offset by the positive performance impact derived from the Fund's underweight position within better quality, longer duration securities. Cash drag detracted from relative performance during the period.

Source for all figures stated above: BofA Merrill Lynch
Current and future Fund holdings are subject to risk.

From a sector perspective, the portfolio experienced negative security selection within certain sectors including the media and technology sectors. This negative effect was partially offset by positive security selection within a number of sectors including consumer goods and leisure. The Fund's overweight to the healthcare sector positively impacted relative performance during the period.

Fund Highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in Change Healthcare (0.81%*), Sprint (0.78%*), and Bausch Health (0.70%*). Change Healthcare is a provider of revenue and payment cycle management technology solutions to the healthcare industry. The company's bonds were a top contributor due to reports of a likely initial public offering of the company's equity in 2019. Initial public offering (IPO) proceeds would likely be used to reduce debt and leverage, and would provide a public indicator of material equity cushion below the bonds. Sprint is the fourth largest wireless telecom operator in the US. Sprint's 2023 bonds were a top contributor to return as investors became increasingly confident that Sprint's pending merger with T-Mobile (1.03%*) will receive regulatory approval. If approved, investors expect this to be a credit positive transaction. Bausch Health is a global specialty pharmaceuticals company. Bausch's 2026 bonds were a top contributor to return as the company posted better than expected earnings and raised full year guidance slightly. Bausch Health bonds have also performed well due to continued management commentary regarding the potential to accelerate the organic de-leveraging by issuing equity or equity-linked instruments.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Rite Aid (0.47%*), Sanchez Energy (0.30%*), and Transmontaigne Partners (0.34%*). Rite Aid is a drugstore chain. Rite Aid 2023 bonds were a bottom contributor due to the company's planned merger with Albertsons (0.00%*) being called off, which reduced the probability that this bond will be refinanced in the near term. Sanchez Energy is an exploration and production company with Eagle Ford Shale assets located in south Texas. The Sanchez Energy unsecured bonds were a bottom contributor due to the company reporting poor 2Q18 results and eliminating its full year production guidance as its Comanche asset continued to underperform expectations. Transmontaigne owns and operates refined products and crude oil storage terminals in the US. In July, the general partner/sponsor (ArcLight) made a non-binding offer to acquire the entire company and the board is considering this offer. As a result, the bonds traded lower due to the uncertainty over a potential change in ownership.

* % of total market value of fund holdings as of 9/30/18. 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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AXA Equitable Life Insurance Company (NY, NY)

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