1290 High Yield Bond Fund

Market Overview

As the data for the fourth quarter of 2018 began to surface in mid-October, there was some indication that the economic pace of the previous two quarter's was not to be repeated. Not to be misunderstood, the consumer remained well represented in the data as all manners of consumption remained buoyant. Rather it was business investment and trade that, when calculated as an annualized rate of change, more than explained what appeared to be a downward shift in the data back toward trend growth over the course of the quarter. More interestingly, as commodity prices retreated on worries of a softening in the forward trajectory for global growth, inflationary pressures—so critical to the U.S. Federal Reserve's policy actions—shifted from accelerating to decelerating in a move somewhat reminiscent of that experienced in the second half of 2014.

During the fourth quarter of 2018, ICE BoAML U.S. High Yield Index (High Yield Index), the Fund's benchmark, outperformed U.S. Equities (S&P 500® -13.52%) but underperformed U.S. Treasuries (+2.58%) and U.S. Investment Grade Corporates (-0.06%). Performance was driven by CCC-and-lower rated credits (-10.35%), which underperformed BB-rated credits (-2.99%) and B-rated credits (-4.85%). All industry sectors posted negative returns in the quarter. On a relative basis, the best performing sectors were utilities (-1.35%), banking (-2.32%), and leisure (-2.52%). The worst performing sectors were energy (-9.77%), insurance (-5.09%), and financials (-4.60%). The High Yield Index's Option Adjusted Spread was 533 basis points (1 basis point = 1/100th of 1%) at the end of December, a 205 basis point increase from 328 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 7.95%, compared to 6.28% at the start of the quarter. The High Yield Index's average price was $92.31 at quarter end, $6.21 lower than the $98.52 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 (investment grade bond securities are regarded as carrying minimal risk to investors). During the fourth quarter of 2018 the 1290 High Yield Bond Fund produced a negative total return but outperformed its benchmark, the High Yield Index. The Fund's relative outperformance was driven in part by its macro positioning. The Fund's overweight position within the short duration portion of the market, particularly at the beginning of the quarter, positively impacted relative performance. This positive effect was partially offset by the Fund's underweight position within better quality, longer duration securities which outperformed during the period. The Fund experienced positive security selection, particularly within the highest yielding portion of the market. The Fund's cash position positively affected relative performance given the negative total return of the U.S. high yield market during the quarter.

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

Fund Overview (continued)

From a sector perspective, the Fund experienced positive security selection within a number of sectors including energy, telecommunications, media and basic industry. The most significant positive security selection occurred within the energy sector which underperformed the U.S. high yield market during the quarter. Within energy, the Fund's relative performance benefitted from an underweight to the oil field equipment and services subsector as well as an underweight and up-in-quality positioning within the exploration and production subsector. Negative security selection within the healthcare sector detracted from relative performance as did the Fund's underweight within the outperforming banking sector.

Fund Highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in Talen Energy Supply (0.0%*), Calpine Corporation (0.0%*) and Pactera (0.37%*). Talen Energy is one of the largest independent power producers in the United States. The company's 2021 bonds outperformed during the quarter due to the company announcing an above-market tender offer for these notes. Calpine Corporation generates electricity from natural gas and geothermal resources and operates in competitive power markets. The 2025 bonds performed well during the quarter due to the company reporting solid earnings for the third quarter. Pactera (BCP) is a China-based company that provides IT consulting and outsourcing services to customers worldwide. Pactera was a top contributor during the period due to the company reporting solid earnings for the third quarter.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Rackspace (0.59%*), Calumet Specialty Products Partners (0.47%*) and Sanchez Energy (0.0%*). Rackspace (Inception Merger Sub, Inc.) is a provider of managed IT solutions including managed dedicated server and private cloud hosting, public cloud, managed public cloud services, and managed IT applications. Rackspace was a bottom contributor during the quarter due to the company reporting soft earnings for the third quarter and due to this bond being downgraded by multiple rating agencies during the period. Calumet Specialty Products Partners is a refiner of specialty chemical products and traditional fuels. The 2022 bonds underperformed during the quarter due to the company reporting disappointing earnings for the third quarter combined with general market weakness within the high yield Energy sector. Sanchez Energy is an Exploration and Production company with Eagle Ford Shale assets located in South Texas. The Sanchez unsecured bonds traded lower during the quarter after reporting disappointing earnings for the third quarter and announcing that the company had hired financial advisors.

* % of total market value of fund holdings as of 12/31/18. 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”) are speculative in nature and involve 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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