1290 FUNDS®

1290 High Yield Bond Fund

Fund commentary 2Q20

Market overview

There is little debate that the second quarter of 2020 will have produced the worst quarter of annualized U.S. growth in the modern statistical era. With most states declaring some form of stay-at-home policy, commerce, of all types, was but a fraction of normalcy. Massive government programs such as the CARES Act, in combination with financial support from the Federal Reserve, stemmed the damage somewhat, but not before a dramatic toll was taken, especially to employment. Yet, by quarter's end some encouraging signs emerged that these extraordinary policies were in fact setting the stage from which further gains may yet emerge.

The ICE BofA U.S. High Yield Index (the U.S. High Yield Index) posted a total return of +9.61% in the quarter ending June 30, 2020 – a stark contrast to the -13.12% return in the first quarter of the year. Returns were positive in April (+3.80%) and even stronger in May (+4.57%) before slowing modestly in June (+0.98%). The positive quarterly return was driven by a staggered reopening of state economies and non-essential businesses, along with further positive sentiment from the Federal Reserve. The recovery began to slow by quarter-end as more than half of states began seeing infection rates increase dramatically. High yield market flows were positive throughout the second quarter of 2020 at +47.3 billion, with +$13.9 billion of inflows in April, +$15.3 billion of inflows in May and +$9.7 billion of inflows in June. High yield primary market activity during the quarter was $145.5 billion, sharply up from both $72.7 billion in the first quarter of 2020, and $74.7 billion in the second quarter of 2019. New issue volume was strongest at the end of the quarter, with $36.7 billion new issuance in April, $47.3 billion in May, and $61.5 billion in June – the highest month on record for sector issuance. During the second quarter of 2020, twenty-five companies defaulted on $45.1 billion in high yield bonds, and five issuers completed distressed exchanges. The high yield par weighted default rate ended the quarter at 6.19%, up from 3.35% at the beginning of the quarter.

During the second quarter of 2020, the U.S. High Yield Index underperformed U.S. Equities (S&P 500 +20.54%), but outperformed U.S. Investment Grade Corporates (+9.27%) and U.S. Treasuries (+0.21%). Within U.S. High Yield, higher quality BB-rated credits (+9.85%) outperformed both single B-rated credits (+9.11%) and CCC-and-lower rated credits (+9.77%). All of the 18 industry sectors posted positive returns for the quarter. The best performing sectors were energy (+33.1%), automotive (+13.7%), and banking (+11.1%). The worst performing sectors were transportation (+2.6%), media (+4.5%), and services (+4.7%). The High Yield Index's Option Adjusted Spread was 644 basis points (1 basis point = 1/100th of 1%) at the end of June, a 233-basis point decrease from 877 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 6.84%, compared to 9.24% at the start of the quarter. The High Yield Index's average price was $94.78 at quarter-end, $8.97 higher than the $85.81 average price at the start of the quarter.

Source for all figures stated above: AXA Investment Manager, Bank of America.

Fund overview

The 1290 High Yield Bond Fund pursues its investment objective to seek to maximize current income, 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 second quarter of 2020 the Fund's overweight to short duration securities had a negative impact on relative performance. The Fund's underweight within the better quality, longer duration portion of the market had a positive impact on relative performance during the period. Security selection was not a significant driver of relative performance during the period. During this period of strong positive total returns in the market, the Fund's cash position had a negative impact on relative performance. Fund performance benefitted from participating in multiple new issues which performed well.

From a sector perspective, the Fund's overweight positioning in the technology and capital goods sectors detracted from relative performance. The Fund's underweight positioning within the energy and automotive sectors also had a negative impact on relative performance during the period. These negative effects were partially offset by the portfolio's underweight positioning within the utility and telecommunications sectors, which benefitted relative performance. The Fund benefitted from positive security selection within multiple sectors including financial services, capital goods and energy. The Fund experienced negative security selection within the telecommunications and basic industry sectors during the period.

Fund highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in CrownRock (0.69%*), Summit Midstream (0.40%*) and Crestwood Midstream (0.57%*). CrownRock is an exploration and production company with assets in the core of the Permian Basin. CrownRock bonds were a top performer as oil prices increased during the quarter. Summit Midstream is a provider of natural gas gathering and processing services in several producing basins in the U.S. Summit Midstream bonds were a top contributor due to the strong rally in the U.S. high yield energy sector during the quarter combined with the June announcement that the company bought back some of their bonds at a discount. Crestwood Midstream is a provider of oil and natural gas transportation, gathering, processing and storage services. Crestwood Midstream bonds were a top contributor due to the strong rally in the U.S. high yield energy sector during the quarter.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Diamond Sports Group (0.29%*), Bombardier (0.00%*) and Surgery Partners (0.00%*). Diamond Sports Group owns a number of regional sports networks across the U.S., broadcasting live home market professional baseball, basketball and hockey games via paid cable and satellite providers. The company's 6.625% bonds due 2027 were a bottom performer as the COVID-19 pandemic closed down professional sports leagues during the spring and early summer. The market is increasingly concerned that professional sports could either fail to restart over the summer or have shortened seasons resulting in a negative impact on Diamond Sports Group. Bombardier is one of the largest suppliers of business jets and rail components in the world. The company has been struggling over the last several years as soft demand in their business jet segment, high capital expenditures to manufacture a new aircraft (fka the C-Series) and recent weakness in their Transportation business caused excessive free cash flow burn. These headwinds were significantly exacerbated in late March 2020 with the onset of the COVID-19 pandemic and subsequent economic shut down. The combination of these factors resulted in the bond being a bottom contributor in the quarter. Surgery Partners (Surgery Center Holdings, Inc and SP Finco LLC) owns and operates ambulatory surgery centers (ASCs) and surgical hospitals. Surgery Partners underperformed in the quarter due to the COVID-19 crisis, which caused most states to halt elective surgeries during April and most of May.

* % of total market value of fund holdings as of 6/30/20. Subject to change.
Current and future Fund holdings are subject to risk.

For more information, call **(888) 310-0416** or visit **1290funds.com.**

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 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. Non-investment grade bonds, sometimes referred to as "junk bonds," are usually issued by companies without long track records of sales and earnings, or by those companies with questionable credit strength. The Fund is subject to the risk that the issuer or guarantor of a fixed income security, or the counterparty to a transaction, is unable or unwilling or is perceived as unable or unwilling to make timely interest payments, or otherwise honor its obligations, which may cause the Fund's holdings to lose value. From time to time, there may be little or no active trading market for a particular investment in which the Fund may invest or is invested. In such a market, the value of such an investment and the Fund's share price may fall dramatically. Changes in interest rates may affect the yield, liquidity and value of investments in income producing or debt securities. When interest rates rise, the value of the Fund's debt security generally declines. Conversely, when interest rates decline, the value of the Fund's debt securities generally rises.

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 BoA U.S. 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 at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. It is capitalization weighted. Individuals cannot invest directly in an index.

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