1290 High Yield Bond Fund

Fund commentary 3Q20

Market overview

The open question over the course of the quarter was how robust the recovery would be given the uneven nature of the reopening across the differing geographical regions. Clearly, when viewing the quarter's data in totality, two key factors to answer the question became apparent. First, the unprecedented size and scope of the fiscal and monetary responses from the government proved to be highly supportive of the most distressed sectors in the economy and financial markets. Secondly, the ability of a large portion of the labor force to work from home mitigated the overall negative impact on the nation's economic activity.

The ICE BofA U.S. High Yield Index posted a total return of +4.71% during the third quarter of 2020 – a modest contrast to the +9.61% return in the second quarter of 2020. Returns were strong in July (+4.78%) before slowing in August (+0.98%) and turning slightly negative in September (-1.04%). The positive quarterly return was driven initially by improved corporate earnings and continued optimism regarding a potential coronavirus vaccine. Recovery of risk assets slowed in September as chances of another round of economic stimulus from the government grew slimmer as we approached the presidential election. High yield market flows were positive throughout the third quarter of 2020 at +$10.7 billion, with +$8.8 billion of inflows in July, +$6.2 billion of inflows in August and -$4.3 billion of outflows in September. High yield primary market activity during the quarter was $131 .9 billion, slightly lower than the $145.5 billion priced in the second quarter of 2020, and up sharply from the $67.7 billion in the third quarter of 2019. New issue volume was modestly lower at the beginning of the quarter, with $26.7 billion of new issuance in July, $54.3 billion in August, and $50.9 billion in September. During the third quarter, twelve companies defaulted on $10.4 billion in high yield bonds, and two issuers completed distressed exchanges. The high yield par weighted default rate ended the quarter at 5.80%, down from 6.19% at the beginning of the quarter.

During the third quarter of 2020, U.S. High Yield underperformed U.S. equities (S&P 500® +8.47%), but outperformed U.S. investment grade corporates (+1.69%) and U.S. Treasuries (+0.18%). Within U.S. high yield, higher quality BB-rated credits (+4.17%) underperformed both single B-rated credits (+4.60%) and CCC-and-lower rated credits (+7.68%). All of the 18 industry sectors posted positive returns for the quarter. The best performing sectors were transportation (+7.65%), leisure (+7.46%), and capital goods (+6.34%). The worst performing sectors were energy (+2.65%), utility (+3.13%), and media (+3.46%). The High Yield Index's Option Adjusted Spread was 541 basis points (1 basis point = 1/100th of 1%) at the end of September, a 103-basis point decrease from 644 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 5.76%, compared to 6.85% at the start of the quarter. The High Yield Index's average price was $99.22 at quarter-end, $4.44 higher than the $94.78 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 third quarter of 2020 the 1290 High Yield Bond Fund's macro positioning had a negative impact on relative performance. Both the Fund's underweight positioning within the longest duration segment of the market and its overweight positioning within the short duration segment of the market detracted from relative performance during the period. Partially offsetting these negative effects was the Fund's overweight within the highest yielding segment of the market which had a positive impact on relative performance. Security selection was not a significant driver of relative performance during the period. The Fund's cash position detracted from relative performance. Fund performance benefitted from participating in multiple new issues which performed well.

From a sector perspective, Fund performance benefitted from positive security selection within multiple sectors but most notably within the energy sector. These positive effects were offset by negative security selection within the capital goods, basic industry and retail sectors during the period. The Fund's underweight positioning within the utility and energy sectors positively impacted relative performance. The Fund's underweight positioning within the leisure sector detracted from the Fund's 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 Lifetime Fitness (0.77%*), Kenan Advantage Group (0.93%*) and MultiPlan (0.57%*). Lifetime Fitness (LTF Merger) operates high-end fitness clubs across the US. The bonds were a top contributor as more gyms were allowed to open and operate across the country post the Covid-19 mandated shutdown. The opening of gyms should improve Lifetime's liquidity as clubs continue ramping up and contribution margins turn positive. Kenan Advantage Group is the largest liquid bulk hauler of refined products, chemicals and other products in North America in the short-haul 'last-mile' segment of the transportation industry. The company's bonds were a top performer during the quarter after posting a better than expected earnings result. MultiPlan (Polaris Intermediate Corp.) is an independent preferred provider organization that helps insurers control costs through rental of its provider network, analytics-based solutions and fraud, waste and abuse prevention services. MultiPlan was a top performer in the quarter due to its announcement that it would be acquired by Churchill Capital, a SPAC/blank check company, and list on the NYSE.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in McGraw Hill (0.14%*), Occidental Petroleum (0.80%*) and Calumet Specialty Products Partners (0.26%*). McGraw Hill is one of the world's leading suppliers of educational materials and various learning solutions. The company's unsecured notes due 2024 underperformed in the third quarter due to uncertainty surrounding school re-openings and higher education enrolment levels as well as investor concerns regarding the company's strategic direction and ability to retain market share following the cancellation of the planned merger with Cengage in the second quarter. Occidental Petroleum is a diversified Exploration & Production company. Occidental Petroleum bonds underperformed during the quarter largely due to continued oil price weakness. Calumet Specialty Products Partners is an operator of specialty and traditional refining facilities. The company's bonds were a bottom performer during the quarter due to reporting lower year-over-year earnings that resulted from weak refining margins.

* % of total market value of fund holdings as of September 30, 2020. 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.

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