1290 FUNDS®

1290 High Yield Bond Fund

Fund commentary 1Q21

Market overview

During the first quarter of 2021, with both fiscal and monetary policy being historically supportive and accommodative, expectations for the U.S. economy to return to the pre-pandemic levels, sooner rather than later, were widespread and not without good reasons. Surges in manufacturing, construction and inventory rebuilding firmly anchored the goods side of the economy. Service sector activity, on the other hand, remained somewhat below the levels witnessed pre-pandemic, as hospitality, travel, entertainment and other leisure businesses in some states and cities faced continued limits and guidelines, in an ongoing effort to control the spread of COVID-19. And as is often the case in the first quarter of the year, harsh winter storms created a pause in activity mid-quarter, though by the end of the quarter, signs of rapid recovery were widespread, suggesting a strong start to the second quarter of the year.

The ICE BofA U.S. High Yield Index posted a modestly positive return of +0.90% during the first quarter of 2021, down from the +6.48% return in the fourth quarter of 2020. Returns were slightly positive in each month, with January +0.38%, February +0.35%, and March +0.17%. The muted yet positive quarterly performance was driven by increased distribution of COVID vaccines, partially offset by rising rates and increased inflation expectations. High yield market flows were negative during the first quarter of 2021 at -$10.3 billion, with -$1.6 billion of outflows in January, -$2.7 billion of outflows in February, and -$5.9 billion of outflows in March. The high yield primary market was extremely active, setting a new quarterly record for issuance with $158.6 billion, 59% higher than the $99.6 billion that priced in the fourth quarter of 2020, and up from the $72.9 billion in the first quarter of 2020. New issue volume was strongest at the end of the quarter, with $55.7 billion of new issuance in January, $38.1 billion in February, and a new monthly record of $64.8 billion in March. During the first quarter, four companies defaulted on $2.3 billion in high yield bonds, and one issuer completed a distressed exchange. The high yield par weighted default rate ended the quarter at 4.80%, down from 6.08% at the beginning of the quarter.

During the first quarter of 2021, U.S. High Yield underperformed U.S. Equities (S&P 500 +6.17%), but outperformed U.S. Investment Grade Corporates (-4.50%) and U.S. Treasuries (-4.61%). Within U.S. High Yield, CCC-and-lower rated credits (+5.21%) outperformed both B-rated credits (+1.18%) and higher quality BB-rated credits (-0.21%). 13 of the 18 industry sectors posted positive returns in the quarter. The best performing sectors were energy (+3.88%), transportation (+3.70%), and leisure (+2.41%). The worst performing sectors were utility (-1.59%), telecommunications (-0.39%), and media (-0.38%). The High Yield Index's Option Adjusted Spread was 336 basis points (1 basis point = 1/100 of 1%) at the end of March, a 50-basis point decrease from 386 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 4.27%, compared to 4.24% at the start of the quarter. The High Yield Index's average price was $104.00 at quarter-end, $0.71 lower than the $104.71 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.

During the first quarter of 2021 the 1290 High Yield Bond Fund's macro risk positioning had a positive impact on the Fund's performance relative to its benchmark, the ICE BofA U.S. High Yield Index. Specifically, Fund performance benefitted from underweight positioning within both the lower yielding, longer duration segment of the market and the longest duration segment of the market. The Fund experienced negative security selection, particularly within the highest yielding portion of the market. The Fund's cash position had a slightly negative impact on 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 the financial services and healthcare sectors. These positive effects were partially offset by negative security selection within the leisure, transportation, and automotive sectors. The Fund's underweight positioning within the utility sector positively impacted relative performance while the Fund's underweight positioning within the energy sector detracted from relative performance.

Fund highlights

What helped performance during the quarter?

The top contributors to return for the quarter were debt positions in McGraw Hill (0.35%*), Genesis Energy (0.84%*) and Enova International (0.48%*). McGraw-Hill is one of the world's leading suppliers of educational materials and various learning solutions. The company was a top performer in the first quarter due to continued strong growth in digital sales to higher education and the completion of a large debt transaction that included an extension of the term loan debt previously due in 2022 and an exchange offer for the majority of the 2024 unsecured notes for new 1.5 lien secured notes. Genesis Energy is a provider of energy midstream services in the US. It was a top contributor as the company provided a positive outlook for its business in the Gulf of Mexico as part of its fourth quarter earnings commentary. Enova International is an online-only lender, traditionally focused on subprime consumers. Enova's 8.5% notes due 2024 were a top contributor to performance as the company's clients are benefiting from government stimulus measures, thus improving the credit quality of the company's loan book, profitability, and free cash flow.

What hurt performance during the quarter?

The bottom contributors to return for the quarter were debt positions in Diamond Sports Group (0.36%*), Ford Motor Credit (0.59%*) and Sprint (0.42%*). Diamond Sports Group owns regional sports networks, producing and distributing for television professional baseball, basketball, and hockey games in select geographies. The company's 6.625% notes due 2027 were a bottom contributor to performance during the quarter as the company has yet to reach an agreement with several distributors despite the start of baseball season, negatively impacting expectations for the company's fundamentals in 2021. Ford Motor Company is a global automotive manufacturer, producing cars, trucks, SUVs and electric vehicles under the Ford, Lincoln, and various other brand names. The Ford Motor Credit 4% bond due 2030 underperformed during the period due to this bond's longer duration. Sprint is part of the merged Sprint and T-Mobile US, the second largest wireless telecommunication service provider in the US. Sprint Capital's 8.75% notes due 2032 were a bottom contributor to performance in the first quarter of 2021 given the long duration of the bond and the rising interest rate environment.

* % of total market value of fund holdings as of March 31, 2021. 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. The Fund is subject to the risk that the securities markets will move down, sometimes rapidly and unpredictably, based on overall economic conditions and other factors, which may negatively affect Fund performance. Bonds rated be-low BBB by S&P or Fitch or below Baa by Moody's (or, if un-rated, determined by the investment manager to be of comparable quality) are speculative in nature and are subject to additional risk factors such as increased possibility of de-fault, illiquidity of the security, and changes in value based on changes in interest rates. 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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