

Investing in Multialternatives

A conversation with Equitable Investment Management

Q&A with Kenneth T. Kozlowski, CFP, CLU, ChFC,

Chief Investment Officer,
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Kenneth Kozlowski leads a dedicated team responsible for asset allocation and rebalancing functions used in connection with the 1290 Funds®. In 2010, Mr. Kozlowski became the head of the Investment Management Services (“IMS”) unit within Equitable Investment Management. IMS includes the Portfolio Analytics Group which is responsible for subadvisor selection, screening and monitoring. Mr. Kozlowski, who joined the company in 1999, has more than 25 years’ experience in the mutual fund business. He is a Certified Financial Planner (CFA)™ and holds the Chartered Life Underwriter (CLU), and Chartered Financial Consultant (ChFC) professional designations. He holds memberships in the Financial Planning Association and the Society of Financial Service Professionals. Mr. Kozlowski graduated from Swarthmore College in Swarthmore, PA with a B.A. in Economics.

Q. What are alternatives and what are the potential benefits of adding alternatives to a diversified portfolio?

A. Alternative investments are typically investments in a certain asset class that are not a traditional stock, bond or cash investment. Examples of alternative investment options include real estate, commodities and currency. Historically, many alternative asset classes tend to be non-correlated to traditional equity and fixed-income asset classes. This means that alternative asset class returns have the potential to move in opposite directions than many traditional investments. With this in mind, combining an allocation to alternatives with traditional equity and fixed-income allocations can offer investors the potential to increase diversification, smooth out returns and dampen overall volatility in their portfolio.

Q. How was the 1290 Multi-Alternative Strategies Fund designed?

A. This fund currently blends 11 alternative asset categories and strategies in one mutual fund and assigns them an equal weight, so they each have the same potential to contribute to the fund’s performance. Each asset category and strategy invests in one or more exchange-traded funds (ETFs). The ETFs help to make sure that the fund pursues the average performance of each chosen asset category or strategy.

Q. How were the fund’s eleven strategies determined?

A. We select strategies that aim to deliver one or more benefits including:

- Capital growth potential not highly correlated to stock and bond markets – i.e., the potential to avoid large losses in down markets for stocks and bonds.
- The potential for lower volatility over the long-term when implemented in a traditional portfolio of stocks and bonds.
- Opportunities to diversify among different alternative strategies in a single fund.
- Opportunities to diversify abroad by participating in global asset classes and currencies.
- Access to hard assets that can protect against inflation or U.S. dollar depreciation.
- Access to strategies that have previously been available only to hedge fund investors.

Q. What are the characteristics of the funds' alternative strategies?

A. The 11 chosen asset categories and strategies historically have a profile of meeting these criteria when they are equally weighted in a single portfolio, as shown in Table A below. Each strategy offers a risk and return profile that is **differentiated from the others, and also from traditional investments.**

Table A: Characteristics of alternative strategies

Category/strategy	Low correlation to U.S. stocks	Low correlation to U.S. bonds	Low volatility	Global diversification	Hard assets/inflation hedge potential	Hedge-fund like strategy ¹
Absolute return		■	■			■
Commodities	■	■			■	
Convertible securities		■			■	
Currencies		■		■		
Global real estate		■		■	■	
Long/short equity	■	■	■			■
Managed futures	■	■	■	■	■	■
Event driven		■	■	■		■
Multi-strategies	■	■	■	■		■
Precious and base metals	■	■			■	
Real return	■		■		■	
# of category/strategies meeting criteria	6	10	6	4	6	5

¹ Hedge-fund like strategies are constructed to take advantage of certain identifiable market opportunities in order to earn alpha, or excess investment return relative to a benchmark index.

Q. How are specific ETFs chosen for each asset category and strategy?

A. We believe it generally works best to choose one ETF to represent an asset category or strategy, provided that this ETF has sufficient breadth of holdings to capture the category/strategy's characteristics. For each ETF, we also evaluated:

- Length of performance history
- Ability to track benchmark performance
- Cost
- Diversification potential
- Asset size and liquidity

In certain categories/strategies identified below, we may select multiple ETFs to maximize diversification. Examples include:

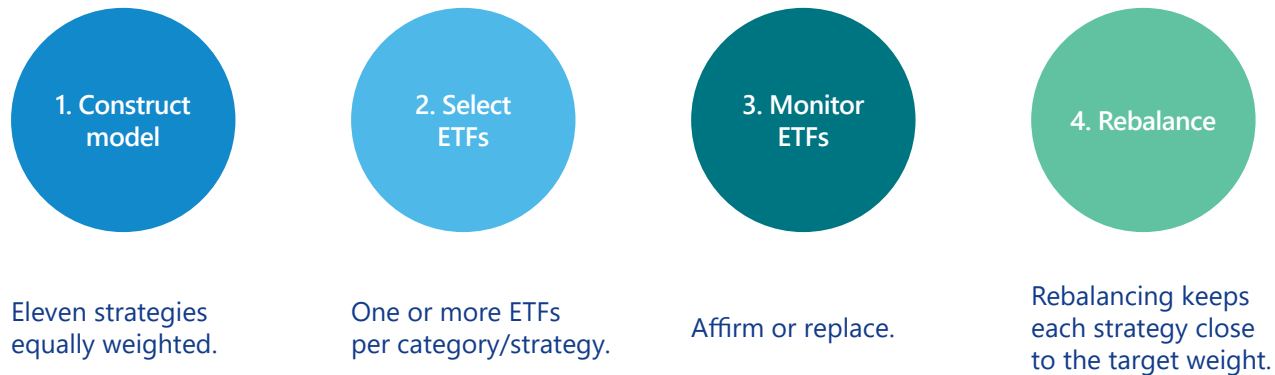
- **Commodities:** We chose three ETFs tracking different benchmarks, to obtain broad exposure to the spectrum of futures contracts and contract selection/roll mechanisms.
- **Global real estate:** We chose two ETFs – one for exposure to the U.S. real estate investment trust (REIT) market and the other for exposure to real estate securities traded outside the U.S.
- **Precious and base metals:** We chose three ETFs – one each for exposure to gold bullion, silver bullion and base metals.

Q. Will new ETFs be added, or will substitutions be made for existing ETFs held by the fund?

A. Equitable Investment Management Group, LLC (Equitable Investment Management) and the fund's portfolio managers constantly monitor the universe of alternative ETFs. They may add new ETFs or replace existing ETFs whenever they find compelling alternatives for implementing one of the 11 categories/strategies. They also could add additional ETFs to increase diversification within a strategy. However, the portfolio managers are mindful of the impact of ETF replacements on portfolio turnover. The goal is to maintain a low portfolio turnover in the fund, to reduce transaction costs and tax impacts for taxable investors.

Q. How is the Fund Managed?

A. It may help to think of four levels of portfolio management, as shown in the graphic at right. First, at the top level, Equitable Investment Management constructed a static model comprised of 11 alternative categories/strategies based on extensive research. Next, ETFs within each category/strategy are evaluated and chosen from a large universe using specific criteria. Then, the ETFs are monitored on an ongoing basis to ensure they capture the average performance of each category/strategy. Equitable Investment Management will affirm or replace ETFs as necessary. Finally, periodic rebalancing of categories/strategies and ETFs is another component of active management in the fund.



Q. How does the fund's rebalancing discipline work?

A. Each of the categories and strategies has a target weight in the fund's portfolio, and that weight is about 9%. The fund's portfolio managers allocate cash flows to keep each strategy's current weight as close to target weight as possible. In the event that a strategy's actual allocation deviates by more than 1% from target weight, the portfolio managers execute a rebalancing trade by selling securities from an overweight strategy and buying securities in an underweight strategy.

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

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Foreign investing involves special risks such as currency fluctuations and political uncertainty.

To the extent a fund invests in Underlying ETFs that invest in alternative investments, the fund will be subject to the risks associated with such investments. Alternative investments may use a different approach to investing than do traditional investments (such as equity or fixed income investments) and the performance of alternative investments is not expected to correlate closely with more traditional investments; however, it is possible that alternative investments will decline in value along with equity or fixed income markets, or both, or that they may not otherwise perform in accordance with expectation. Alternative investments may have different characteristics and risks than do traditional investments, can be highly volatile, may be less liquid, particularly in periods of stress, and may be more complex and less transparent than traditional investments. Alternative investments also may have more complicated tax profiles than traditional investments. The use of alternative investments may not achieve the desired effect.

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