1290 Unconstrained Bond Managers Fund

Market Overview

(provided by PIMCO)

After a year of low volatility and strong risk asset returns, the beginning of the first quarter of 2018 was highlighted by the return of volatility. Solid growth data kept central banks on track, but rising interest rates and geopolitical concerns contributed to more challenged performance across equities and credit.

- Risk asset returns started higher as global stocks surged nearly 6% in January, but reversed on concerns about rising rates. Expectations for higher inflation, increased Treasury supply and more Fed hikes all contributed to higher rates. Volatility rose as measures like the VIX® Index (a standard measure of U.S. equity market volatility), had its single largest one-day rise in its history (back to 1990).
- Fears of a global trade war exacerbated the extent of swings in risk markets. Tariff announcements from the U.S. administration first on steel and aluminum imports, then on certain Chinese goods, resulted in retaliatory measures from China. Equities ended the quarter lower, credit spreads wider, and the dollar weaker. Interest rates still ended the quarter higher, but lower than where they were earlier in the quarter.
- Geopolitics beyond trade frictions continued to capture headlines. A slew of departures occurred within the Trump administration – and contributed to waning risk sentiment – while Germany formed a coalition government, Italy's election resulted in a hung parliament, and Russia re-elected Vladimir Putin.
- Central banks remained on course for diminished monetary support as the fundamental backdrop remained solid. In the U.S., the Federal Reserve raised its policy rate in March and the 'dot plot' (published after each Fed meeting, shows the projections of the 16 members of the Federal Open Market Committee –the rate-setting body within the Fed) indicated a slightly steeper path for rates in 2019-2020. The European Central Bank removed its commitment to more quantitative easing if necessary, and the Bank of China raised rates for the third time.
- Labor market and growth metrics in many developed regions continued to indicate robust growth momentum, even as indicators like the Purchasing Managers' Index (PMI) suggested some signs of softening.

Fund Overview

The 1290 Unconstrained Bond Managers Fund pursues its investment objective by investing, under normal circumstances, at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of U.S. and foreign bonds or other debt securities of varying maturities and other instruments that provide investment exposure to such debt securities. There are two sleeves to this fund, one managed by TCW and the other by PIMCO. TCW employs a highly flexible approach that allocates investments across a range of global investment opportunities related to credit, interest rates and currencies. Additionally, TCW is expected to implement multiple strategies simultaneously to dampen correlation and, in particular, downside risks of the broader securities markets. PIMCO employs an absolute return-oriented bond strategy that takes a flexible approach to capturing global opportunities and managing risk. PIMCO strives to actively mitigate downside risk, provide attractive risk-adjusted returns and preserve the diversification benefits of a traditional fixed income portfolio.

Spotlight on Holdings

PIMCO

What helped performance during the quarter?

- Select positions in non-Agency mortgage-backed securities
- Defensive duration (equals the weighted average maturity of all of the cash flows in the portfolio) positioning in the U.K.
- Long exposure to Latin America local rates such as Argentina, Brazil, and Mexico
- Tactical holdings of Treasury Inflation-Protected Securities (TIPS)

What hurt performance during the quarter?

- Exposure to U.S. interest rates
- Defensive duration positioning in Italy
- Exposure to corporate credit

TCW

What helped performance during the quarter?

- The largest contributions came from non-agency MBS holdings backed by subprime and alt-A (lower rated mortgages) collateral as the sector continued to benefit from solid fundamentals such as rising home values and solid demand.
- An emphasis on floating rate government guaranteed student loans within the Fund's asset-backed securities exposure also contributed, followed by incremental benefit from commercial mortgage-backed securities holdings.

What hurt performance during the quarter?

- Returns were held back by the duration position of approximately 2.0 years as Treasury rates rose across the curve during the quarter.
- Corporate credit also weighed on performance given spread widening within the sector, particularly for banking and pharmaceuticals, though this drag was offset by exposure to securitized products, which generally outperformed credit.

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 Unconstrained Bond Fund seeks to achieve maximum current income and total return over a full market cycle through opportunistic sector allocation. Performance may be affected by one or more of the following risks. Because the Sub-Advisers employ an unconstrained investment strategy and have great flexibility in selecting investments, the Fund may have significant exposure to certain types of securities and instruments, credit qualities, maturities, countries, and regions that are not represented in a similar manner or in similar weightings as that of other broad market domestic or foreign fixed income indexes. This flexibility may expose the Fund to significantly greater risk than other fixed income funds that are managed against a specific benchmark index, because the success of the Sub-Advisers' portfolio selections is dependent upon a greater number of variables. Foreign investing involves special risks such as currency fluctuations and political uncertainty.

An investor should note that investing in lower-rated debt, non-investment grade securities (commonly referred to as "junk bonds") are speculative in nature and are subject to 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, but not limited to, the same interest rate, inflation and credit risks associated with the underlying bonds owned by the Fund. Diversification does not eliminate the risk of experiencing investment losses.

S&P 500® Index is an unmanaged index which contains 500 of the largest U.S. industrial, transportation, utility and financial companies deemed by Standard and Poor's to be representative of the larger capitalization portion of the U.S. stock market. Individuals cannot invest directly in an index.

The **Cboe Volatility Index®** (VIX® Index) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

Past performance is no guarantee of future performance.

The Fund may not be successful in implementing its investment strategy or may not employ a successful investment strategy, and there can be no assurance that the Fund will grow to or maintain an economically viable size, which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Until the Fund is fully capitalized it may not be pursuing its investment objective or executing its principal investment strategies.

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