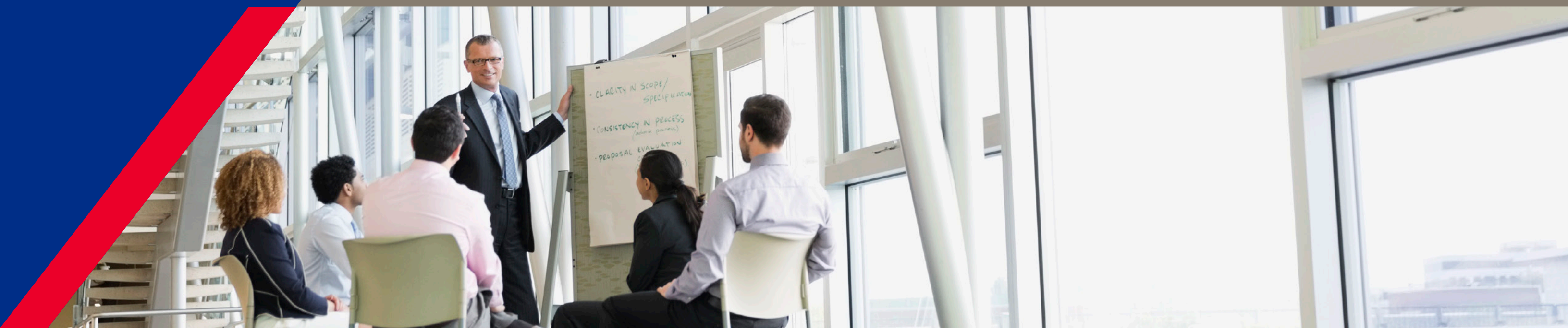
Investing in Small/Mid Cap Value

A Conversation with GAMCO



Describe the investment philosophy of the firm.

Our value-oriented stock selection process is based on the fundamental investment principles first articulated in 1934 by Columbia University professors Benjamin Graham and David Dodd, who some refer to as the fathers of modern security analysis, and further augmented by Mario Gabelli in 1977. Our firm is credited by the academic community for establishing the notion of Private Market Value (PMV) with a Catalyst™ and applying this process in the analysis of public equity securities. Our investment process focuses on companies that we believe dominate their respective markets and demonstrate an ability to generate substantial free cash flow [1]. At the core of our unique PMV with a Catalyst™ approach is an analytical process that identifies companies selling below their PMV, the price an informed industrialist would pay for the entire company. Catalysts are potential events that could trigger a narrowing of the spread between the market price and the PMV either instantly, as would be the case in an announced takeover, or more gradually over time. There are a variety of catalysts that can cause change, including company specific and industry or regulatory changes.

We then examine our investment universe to determine which companies are trading with a "margin of safety", or discount to what the entire business is worth, which is integral to our investment process.

Please describe the research effort on this strategy.

We do not cover all industries; rather we focus on areas of core competency on a global basis, and across all capitalizations. Each equity analyst is an expert in his/her respective industry, and our firm has accumulated compounded knowledge in the industries we have covered over many decades. The research process can best be described as "GAPI" – we Gather, Array, Project and Interpret data. Each analyst examines all publicly available filings (10Ks,10Qs, 8Ks) as well as industry publications to examine a company's financial strength. Data is arrayed using our proprietary spread sheet model, highlighting earnings, cash flow, and PMV, and analysts are trained to project data out over a five year period. Analysts typically meet with corporate management, and ask questions focusing on financial results as well as management's vision for the company's future. They also frequently meet with suppliers, customers and vendors to the company.

Your firm is known for its expertise at the smaller end of the capitalization spectrum. Please describe the unique opportunity you see in small- and mid-cap companies.

Our research intensive investment process is a natural fit for coverage of small- and mid-cap companies. Our analysts cover companies globally and are agnostic to market cap. Since our firm's inception in 1977, we have been known as an "anti-index manager." We have always had a strong focus on companies of smaller capitalizations uncovered by our intensive, fundamental research approach. In our opinion, these small- and mid-cap companies are less well followed by Wall Street analysts and have a potentially greater possibility of pricing inefficiency.

Within the small- and mid-cap value universe of stocks, we have certain areas of core competency where we have accumulated compounded knowledge going back decades. We prefer cash generating, franchise businesses that we believe can command pricing power over time. Areas we have a bias to include natural resources, aerospace and capital goods, energy and utilities, consumer stocks, health and wellness, entertainment and media, and financial services.

You are well known for your focus on catalysts over the years and particularly mergers and acquisitions. How might the 1290 GAMCO Small/Mid Cap Value Fund benefit from your firm's focus on this area and what kind of catalysts have you seen lately?

Catalysts include the repurchase of shares, sale or spin-off of a division, change in management, regulatory change, industry consolidation, or a takeover of a company. More recently, companies are using financial engineering as a tax efficient way of surfacing value. Global merger and acquisition activity has been strong, as companies are looking to grow in a slow growth environment. High cash levels on corporate balance sheets, low interest rates, and high stock prices provide an attractive backdrop for high levels of deal activity. We believe smaller and mid-size companies are the natural beneficiaries in a robust merger and acquisition environment.

Describe how you keep your research coverage and investment process dynamic.

Our research team utilizes broadly defined research core competencies under the direction of three “platform leaders” who each oversee analysts in three broadly defined sectors and help to train new analysts. While we are bottom up fundamental investors, we also take a step back and identify themes that we think will provide fertile ground for investment over the long term. One of our recent themes has been a focus on “health and wellness” in the food and beverage industry. GAMCO has also had a strong focus on the Cable and Digital sector since our inception in 1977. We also focus on the future theme of “aging of cars, trucks, aircraft and people.”

Infrastructure investing, which includes investment in bridges, toll roads, airports, pipelines, utility towers, and educational and healthcare facilities, has been a core competency of the research team for three decades. Investment in these real infrastructure assets is becoming a more popular investment choice because of the diversification benefits and the predictable and reliable long-term cash flow streams. At GAMCO, the Infrastructure team works to identify companies that will generate alpha[2] over a typical market cycle. We also believe that the issue of sustainability will be the greatest global challenge facing companies in coming years and we are analyzing the issues, changes and the implications of the changes that companies will face as the world population grows beyond 6.8 billion people. We believe that those companies that successfully address these issues and adapt their business to address constraints will likely sustain greater long-term profitability and deliver superior returns.

Q&A with Regina M. Pitaro, Managing Director, GAMCO Investors, Inc.

Regina M. Pitaro joined GAMCO Investors, Inc. in 1984 and has served in senior level positions in Marketing and Client Relations. Ms. Pitaro made significant contributions to the development and success of the firm’s Merger Arbitrage strategy including authoring one of only three books on the subject entitled *“Deals…Deals…and more Deals.”* Prior to joining GAMCO, she worked as an analyst for Lehman Brothers. Ms. Pitaro holds an MBA in Finance from Columbia Graduate School of Business and an MA in Anthropology from Loyola University of Chicago.

1 Free cash flow is a measure of financial performance calculated as operating cash flow, the amount of cash generated by a company's normal business operations minus capital expenditures, the funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

2 Alpha is a measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Risks

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.

Investing involves risks, including loss of principal. The funds are new with limited operating history.

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Past performance is not a guide to future performance.

No guarantee or representation is made that investment objectives and/or opinion stated will be achieved. Each specific client or investor's experience may vary.

Funds that emphasize investments in small cap companies generally experience greater price volatility.

The information has been established on the basis of data, projections, forecasts, anticipations and hypothesis which are subjective. This analysis and conclusions are the expression of an opinion, based on available data at a specific date. Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different for the projections, forecast, anticipations and hypothesis which are communicated in this document.

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