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In Quest for Growth, MainStay Scoops Up Four Funds

by **Hannah Glover**

MainStay Investments plans to bulk up its fund line with the adoption of four equity funds from Epoch Investment Partners, representing \$750 million in assets.

For MainStay, the additions broaden the shop's product line, which touts a variety of large-cap and fixed-income products, to include international, small-cap and mid-cap strategies with established track records. The funds to be adopted include the Epoch Global Equity Shareholder Yield fund, the Epoch International Small Cap fund, the Epoch U.S. All-Equity fund and the Epoch Large Cap U.S. Large Cap Institutional fund.

For Epoch, whose management team will continue to run the funds, the partnership will expand distribution through MainStay's deeper sales network. Pending shareholder approval, the funds will be renamed the MainStay Epoch funds.

The deal also makes MainStay, which is the retail distribution arm of New York Life Investments, the primary distributor of New York-based Epoch's separately managed account line. Epoch Investment Partners manages more than \$7 billion in assets for institutional and retail clients.

The announcement came a week after the firm appointed MacKay Shields' muni-bond team to subadvise the \$189 million MainStay Tax-Free Bond Fund. The lead managers, Robert DiMella and John Loffredo, founded Mariner Municipal Managers in 2007 and worked together for several years prior at BlackRock. MacKay Shields, also a division of New York Life Investment Management, recently acquired Mariner.

MainStay president Stephen Fisher says that these announcements mark several years of focused development for the firm, which he says is poised for strong continued sales. "We are continuing to put our money where our mouth is, and we look forward to continuing to grow," he says.

Analysts expect fund firms' growth through adoption to continue. Aside from MainStay, other companies that have benefitted from such strategies include Pioneer and John Hancock, says Michael Evans, president of Boston-based Fuse Research Network. Market turmoil and shrinking asset bases had somewhat slowed adoptions and other acquisitions, but as boutiques, in particular, reassess their scale and stronger companies look to broaden their appeal, Evans anticipates more adoptions to come.

With \$20.8 billion under management in its open-end stock and bond funds, MainStay ranks 51st in size among fund families, slightly trailing SEI and edging out Transamerica Funds, according to data from Morningstar. But with \$1.29 billion in net flows in the 12 months ending June 30, MainStay ranks 29th in terms of flows, just behind Aston, with \$1.29 billion in flows, and ahead of FMI Funds, which saw \$1.14 billion in flows during that period, according to data from Morningstar. (Morningstar data do not include money market or fund-of-fund sales.)

Within the intermediary-sold channel only, MainStay ranked 15th in net flows for the 12-month period ending April 30th, according to Strategic Insight data cited by the firm.

MainStay continues to hire in sales and marketing, specifically in key accounts and the bank channel, says Fisher. Presently, the firm has a team of 34 wholesalers in the field and 34 internal wholesalers supporting them. “We’re seeing a blur of banks and brokerages,” he says, referring to mergers such as those between Merrill Lynch and Bank of America, and Wells Fargo and Wachovia. “We’ve been having great success in this channel,” Fisher says.

Fisher also points to the success MainStay has had through acquisitions and adoptions in the past. For example, when MainStay adopted the Winslow Large Cap Growth Funds in 2005, it had about \$25 million under management. Pairing that family with MainStay’s sales force has helped grow the fund to \$2 billion today, he says.

In 2006, MainStay acquired Institutional Capital and added three value-oriented ICAP mutual funds to its lineup. The firm’s plans for growth reflect the benefits of having a deep-pocketed parent, Fisher says. “We’re constantly looking at ways to improve,” Fisher says.

Adopting funds with established track records, like the Epoch line, is especially attractive, Evans notes. Most wirehouses and many advisors will only consider offering products with three or more years of performance. “If you take on a product with a track record, it is salable from day one,” Evans says.

Fund adoptions are what Robert Ellis, principal of Novarica’s wealth management practice, calls “consolidation lite.” Ellis expects not only adoptions, but massive amounts of mergers and liquidations.

In fact, based on data through the end of 2008, Ellis expects the number of mutual funds on the market in 2015 to be close to the levels offered in 1993. That would be a drop from about 8,000 funds today to between 4,000 and 5,000 in six years.

Ellis also expects total assets to shrink from about \$10 trillion to \$7 trillion by 2015, due to a combination of flat markets, investor preference for low-fee products, such as exchange-traded funds and collective investment trusts, as well as better acceptance of those low-fee alternatives in variable annuities and defined contribution plans.

That is not to say the industry is ailing. “If anything, it will be a healthier industry,” Ellis says. “We won’t be dragging these little funds that don’t carry their weight in distribution,” he says.

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