

## MainStay ICAP Equity Fund



### Fund Review

MainStay ICAP Equity Fund outperformed the S&P 500 Index and S&P 500 Value Index during the quarter. In comparison to its Value Index, stock selection was the driver of the Fund's outperformance. All sectors in the Value Index posted negative returns with the materials and industrials sectors leading the decline.

Among the contributors to the Fund's relative performance was selection in the materials, industrials, and energy sectors. The Fund's materials exposure benefited both absolute and relative returns. As investors looked to protect their wealth amidst the volatile markets, gold continued to perform well and material companies like Newmont Mining Corp. (3.4% of Fund) gained during the period. While cyclical sectors such as industrials sold off, the Fund's industrial holdings, including Caterpillar Inc. (2.1% of Fund), was also accretive to relative returns. Lastly, energy stocks were quite volatile during the quarter and uncertainty about regulation reform was a drag on results. Nevertheless, the team's holdings declined less than those held in the Index. An overweight in Marathon Oil Corp (3.1 % of Fund), for example, proved to be beneficial to relative performance.

Offsetting some positive contributors to the Fund's relative return was a below Index weight in utilities, and selection in financials and technology. An underweight to financial companies, however, helped temper some of the underperformance. Utilities was the best-performing sector on a relative basis in the Index. The team is not finding compelling ideas in that sector, and thus remains underweight versus the benchmark. In financials, fears about the U.S. economy and discussions about financial-reform had a negative impact. Wells Fargo (3.6% of Fund), for example, which gained during the first quarter, declined during this period. Wells Fargo has a long track record of generating above-average top-line growth relative to its peers. The company enhanced their earnings power with the acquisition of Wachovia in late 2008 and expanded their retail footprint in the eastern part of the U.S. Technology stocks, which typically perform well in the early to mid-stages of an economic recovery, declined. The team continues to focus on companies that have strong operating leverage, including Texas Instruments (2.9% of Fund). Overall, the company's operating margins have improved as it has moved towards analog and away from wireless.

### Outlook

ICAP believes global economies may be approaching a point where growth may begin to slow. Consensus expectations for U.S. economic growth appear likely to ease toward a 2 ½ % to 3% range. Evidence that would point to a durable and sustained recovery in the United States has yet to fully emerge. Employment has not moved decisively higher, which would provide critical support for the global economy. New legislation and regulatory uncertainty in major sectors such as healthcare, financials, and energy may be stifling activity.

Outside the U.S., signs are also troubling; in Europe, the deterioration in credit market conditions is beginning to disrupt growth while Chinese authorities continue to try to slow down their economy. Inflation is expected to remain low over the foreseeable future. Over the next several years, high levels of private and public debt are likely to result in sub-par economic growth in the western developed economies and Japan. Growth in emerging markets is expected to remain relatively strong.

The global equity markets have struggled due to concerns about the pace and sustainability of the economic recovery. A shift to tighter fiscal policy in the developed economies may cause these concerns to linger. Still, we see several favorable factors for the equity markets: 1) The global expansion is expected to continue. 2) Equity valuations are not expensive, particularly versus fixed-

income alternatives as of June 30, 2010. 3) Earnings estimates appear achievable. A high degree of operating leverage should benefit earnings as sales improve and costs remain under tight control.

The “strong will get stronger” theme is maintained. The portfolio emphasizes companies with strong operational and financial characteristics. We believe these companies can gain share from weaker competitors and thus improve their earnings.

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Please call 1-800-MAINSTAY (1-800-624-6782) for a prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus contains this and other information about the investment company. Please read the prospectus carefully before investing.

Investment objectives may not be met as the underlying investment options are subject to market risk and will fluctuate in value. Past performance is no guarantee of future results.

Stocks of mid-cap companies may be more volatile and less liquid than the securities of larger companies.

Foreign securities may be subject to greater risks than U.S. investments, including currency fluctuations, less liquid trading markets, greater price volatility, political and economic instability, less publicly available information, and changes in tax or currency laws or monetary policy.

The Fund may invest in derivatives, which may increase the volatility of the Fund's net asset value due to their liquidity risk and may result in a loss to the Fund. The Fund may experience a portfolio turnover rate of over 100% and may generate short-term capital gains which are taxable.

The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P 500/Citigroup Value Index is an unmanaged index of stocks representing approximately half of the market capitalization of the stocks in the S&P 500 Index that, on the growth-value spectrum, have been identified as falling either wholly or partially within the value half of the spectrum based on multiple factors. An investment cannot be made directly into an index.

All holdings and sector weightings are as of June 30, 2010, and are not indicative of future holdings or weightings. This information has been provided for informational purposes only and may change daily.

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