

Subadvised by: **MacKayShields**

MainStay Convertible Fund

MainStay Convertible Fund underperformed its benchmark, the Bank of America Merrill Lynch All Convertible Index, for the quarter. The second quarter started off strong with solid U.S. GDP growth led by acceleration in consumer spending. In addition, manufacturing activity improved, as companies started to rebuild depleted inventories, and the housing market showed signs of life with new and existing home sales activity increasing. Unfortunately, the positive news was short-lived as we learned that the European landscape was shifting quickly due to credit concerns out of Greece and other indebted E.U. nations. Volatility suddenly dominated the markets through the balance of the quarter, as a sovereign debt crisis spread throughout Europe. The market's gyrations were further fueled by the oil spill in the Gulf of Mexico, domestic fears of a "double-dip" recession, and general contagion fears. What soon followed was a global flight to quality and a broad sell-off of risky assets, including convertibles, which were down for the quarter by roughly half of the decline of the S&P 500 Index. Those convertible securities with the lowest sensitivity to underlying equities declined less, overall. For the quarter, investment grade and large cap convertible issues dominated speculative and small cap issues, as investors shifted into defensive mode. For the same reason, cyclical sectors, such as consumer discretionary, financials, and information technology, weighed more heavily on convertible market performance.

In conjunction with the news about the drilling disaster in the Gulf, some of the Fund's energy holdings were the worst performers during the quarter. One of our holdings saw its convertible bonds decline due to fears that the company may face liability related to its work on The Macondo well. We are holding onto these bonds in part due to a put feature the bonds have where we can sell the bonds back to the company in December of 2012 at par, which results in is a very attractive 10% "yield to put" from where the bonds are currently trading. With oil still trading at over \$70 per barrel, we believe our overweight in energy is warranted. We are maintaining our positions as we believe that the recent sell-off is overdone.

Though it was a tough quarter for equities and convertibles, the portfolio did have some positive performers. Though most of our energy holdings were down in the quarter due to the Gulf spill, one of our exploration companies was up in the quarter on a solid earnings report. Relative performance was also helped by our position in a movie production company, which performed well on news of an activist investor getting board representation at the company. Also, an industrial products manufacturer was up related to a positive earnings report. From a sector perspective, our technology holdings held up better than the overall market.

We continue to believe that given the current level of unemployment and resulting softness in consumer confidence, the economic recovery will be relatively muted. We believe that American households will continue to be forced savers and companies that depend on increased consumer spending will be challenged. In addition, the prospect of higher taxes does not bode well for a consumer-led economic recovery. However, businesses ruthlessly cut costs during the downturn. Any top line improvement should have an impact on the bottom line as a result of these extremely lean cost structures. In addition, given the slack labor markets and subdued business activity, we expect interest rates to remain low, which should serve as a tailwind for any economic recovery. As such, we seek to invest in companies that can succeed regardless of the general economic climate. As always, the Fund's bottom-up approach strives to identify convertible securities that have the potential to participate in 60%-80% of the underlying stock's price appreciation, while limiting downside participation to 30%-50% of the stock's decline.

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.

Issuers of convertible securities may not be as financially strong as those issuing securities with higher credit ratings and may be more vulnerable to changes in the economy. High-yield securities ("junk bonds ") are generally considered speculative because they present a greater risk of loss than higher-quality debt securities and may be subject to greater price volatility. 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. These risks are likely to be greater for emerging markets than in developed markets. The Fund may experience a portfolio turn over rate of over 100% and may generate short-term capital gains which are taxable. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise.

The Bank of America Merrill Lynch (ML) All Convertible Securities Index is an unmanaged market-capitalization weighted index of domestic corporate convertible securities-to be included in the Index, bonds and preferred stocks must be convertible only to common stock and have a market value or original par value of at least \$50 million. Results assume the reinvestment of all capital gain and dividend distributions. 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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