MainStay INVESTMENTS℠
A New York Life Company

Portfolio Manager **Commentary**

Q2 2010

Subadvised by: MacKayShields

MainStay High Yield Corporate Bond Fund

Fund Review

Mainstay High Yield Corporate Bond posted stronger returns than its benchmark, the Credit Suisse High Yield Index (Index) and its Morningstar High Yield Bond Fund peers for the quarter ended June 30, 2010. The high-yield market, as measured by the Index, returned 1.16% in June and 0.21% in the second quarter of 2010. The market's spread over Treasurys widened 117 basis points during the quarter to 708 basis points, and the yield rose to 8.79%. As spreads widened during the quarter on weakening economic data, the Fund's defensive positioning and higher-quality credits were the primary drivers for the Fund's outperformance relative to the benchmark and its peers.

The Fund's exposure in chemicals, gaming/leisure, health care, and utilities benefitted performance. Within the chemicals industry, one of our holdings was a top contributor after reporting improved results and announcing a partial redemption of bonds funded with an equity investment by Koch Industries. In health care, our positions overall did well, but two of our holdings were poor performers. These companies continue to have solid operating performance but tend to be a source of liquidity during periods of market volatility. Additionally, there were a few bright spots in the volatile energy sector during the period. One of the Fund's holdings was accretive to results after exceeding expectations and announcing a redemption for their bonds.

The worst-performing industries for the quarter were forest products/containers and services. Nevertheless, among our holdings in forest products/containers, two of our holdings in particular aided the Fund's return as both companies reported stable operating results while the outlook for the companies' products improved. The services industry, as with other consumer related industries, was negatively impacted by the weakening economic numbers that surfaced during the quarter.

At the end of the quarter, the Fund was overweight chemicals, energy, gaming/leisure, and health care compared to the Index. The Fund had an equal weight in forest products/containers and was underweight services. The largest industries in the Fund were energy, financials, health care, and transportation.

Market Review/Outlook

New issue activity was strong early in the quarter ($34.2 billion was priced in April according to JP Morgan) but slowed sharply during the latter half of the quarter against the backdrop of increased market volatility. The year-to-date new issue volume total of $125 billion is still on pace to beat last year's record.

High-yield significantly underperformed the 10-year Treasury, which posted a positive 8.54% return for the second quarter, though investors are still attracted to the yield spread relative to treasuries. Poor economic news coupled with the European Sovereign Debt Crisis drove investors to the safety of Treasurys pushing yields lower. High-yield outperformed stocks during the quarter. The S&P 500 declined -11.43% during the reporting period.

High-yield market valuations continue to reflect not only improving economic conditions but a complete cyclical recovery. The spread between lower-quality credits (split-B) and higher-quality credits (BB) in the Index was 330 at the end of June and at a level last experienced in the strong economic environment of 2004-2007. Meanwhile, fundamentals remain uncertain for most high yield issuers. It is still unclear whether the top-line growth experienced in the first quarter marks the beginning of a sustainable demand recovery or the restocking of inventories from depressed 2009 levels. In addition, consumer demand is showing signs of fading for retailers and auto companies, and housing markets remain weak.

We continue to believe current valuations in the riskiest part of the high-yield market are extremely unattractive. In particular, we believe much of the deeply subordinated debt issued to finance leveraged buyouts during the last credit boom will generate negative returns from current price levels. Given the poor value that credit risk currently represents, our investment process requires us to remain underweight the riskier part of the high yield market, but we believe the Fund continues to represent attractive relative value.

The opinions expressed are those of MacKay Shields managers of MainStay High Yield Corporate Bond Fund, as of the date of this report and are subject to change. This is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. MacKay Shields is a federally registered advisor and an affiliate of New York Life Investment Management LLC.

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.

High-yield securities, or "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 can 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. Funds that invest in bonds are subject to credit, inflation, and interest rate risk and can lose principal when interest rates rise. The Fund may experience a portfolio turnover rate of over 100% and may generate short-term capital gains, which are taxable.

The 10-Year U.S. Treasury Bond measures the current market interest rate or yield on U.S. Treasury bonds maturing 10 years in the future. The Credit Suisse High Yield Index is a market-weighted index that includes publicly traded bonds rated below BBB by S&P and Baa by Moody's. 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 aggregated 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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