MainStay INVESTMENTS℠ A New York Life Company

Portfolio Manager **Commentary** Q2 2010

Subadvised by: MacKayShields

MainStay High Yield Municipal Bond Fund

Fund Review

MainStay High Yield Municipal Bond Fund posted strong outperformance against its benchmark, the Barclays Municipal Bond Index, for the quarter ended June 30, 2010. Overall, credit spreads continued to narrow as municipal paper rated BBB and below produced higher returns than higher-rated municipals. Higher returns were derived from longer dated maturities, while tobacco bonds once again lagged the overall municipal market. Price appreciation contributed slightly more to Fund performance than income for the quarter. The Fund is still ramping up (inception was 3/30/10) and we expect the dividend to increase over time as we opportunistically invest cash that is held in the Fund. At the end of June, the Fund held approximately 10% in cash. No securities were sold, nor gains realized during the period.

Within the portfolio, approximately one-third of the holdings are bonds which are insured by a fallen monoline insurer[1]. Positive contributions to performance were spread evenly across most sectors, led by dedicated tax bonds, hospital bonds, and Industrial Development Bonds (IDB's). The best performing individual security was a distressed general obligation bond which received positive credit news after our purchase. On the negative side, in line with the rest of the tobacco sector, two of our tobacco securities produced negative results for the period.

Outlook

Although high-yield municipal returns over the past 18 months have been high by historical standards, we believe the high-yield municipal market continues to offer considerable opportunity in the current environment. The increase in value since 2009 began came from price levels that were significantly distressed as a result of diminished liquidity and investor risk aversion that was prevalent throughout the global credit crisis. Looking at municipal spread products (via Barclays Indices), municipals are still cheap relative to their historic norms in the following categories: Municipal High Yield vs. Investment Grade Municipals, Municipal High Yield vs. Corporate High Yield, and Baa Municipals vs. Aaa Municipals. In addition, headline risk and municipal securities that are trading lower due to having an insurance wrapper from a fallen monoline insurer are creating opportunities for firms that employ a research-driven approach to municipal investing. Finally, the technicals in the overall municipal market are very strong as higher tax rates loom and taxable Build America Bonds (BAB's) continue to reduce tax-exempt supply, especially on longer maturities.

The opinions expressed are those of MacKay Municipal Managers ™ Team of MacKay Shields' John Loffredo and Robert DiMella, managers of MainStay High Yield Municipal 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.

1. Monoline insurer (also referred to as "monoline insurance companies" or simply "monolines") are companies that provide insurance to issuers' debt that meet certain credit criteria. They are so named because they provide services to only one industry. Prior to 2007, monolines had a penetration rate of over 50% of the market. In Q1' 2010, the penetration rate diminished to 6% and Assured Guaranty has captured all of it (source: JPMorgan, US Fixed Income Markets Weekly, June 18, 2010).

Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index is composed of approximately 60% revenue bonds and 40% state government obligations. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs.

Barclays Capital High Yield Municipal Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

Barclays Capital U.S. Corporate High Yield Index is an unmanaged index of fixed–rate, noninvestment grade debt issues rated Ba1 or lower by Moody's, rated BB+ or lower by S&P, rated below investment grade by Fitch Investor's Service or if unrated previously held a high yield rating or have been associated with a high yield issuer, and must trade accordingly

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BAA Municipal Index and AAA Municipal Index are subsets of the Barclays Capital Municipal Bond Index. An investment cannot be made directly into an index.

Build America Bonds (BAB) are taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer of the bondholder. BABs were created under the American Recovery and Reinvestment Act signed into law on February 17, 2009.

High yield municipal bonds may be subject to increased liquidity risk as compared to other high yield debt securities. There may be little or no active trading market for certain high yield municipal bonds, which may make it difficult for the Fund to sell such securities at or near their perceived value. In such cases, the value of a high yield municipal bond may decline dramatically, even during periods of declining interest rates. The high yield municipal bonds in which the Fund intends to invest may be more likely to pay interest that is includable in taxable income for purposes of the Federal alternative minimum tax.

The Fund may invest more heavily in bonds from certain cities, states or regions than others, which may increase the Fund's exposure to losses resulting from economic, political, or regulatory occurrences impacting these particular cities, states or regions. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the Fund from its investment in such bonds and distributed to shareholders may be taxable. It is possible that interest on a municipal bond may be declared taxable after the issuance of the bond, and this determination may apply retroactively to the date of the issuance of the bond, which could cause a portion of prior distributions made by the Fund to be taxable to shareholders in the year of receipt.

The Fund may invest in derivatives, which may increase the volatility of the Fund's net asset value and may result in a loss to the Fund. High-yield securities ("junk bonds") are generally considered speculative because they present a greater risk of loss than higher-quality debt securities; these securities may also be subject to greater price volatility. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise.

For more information about MainStay Funds, call 800-MAINSTAY (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.

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