

Subadvised by:



MainStay US Small Cap Fund

MainStay US Small Cap Fund underperformed its benchmark, the Russell 2500 Index, for the quarter. The market began the quarter strongly. However, in May and June growing uncertainty over a sustainable global recovery translated into market volatility and a strong correction in valuations. Not a single sector within the Index posted positive returns for the quarter. The most cyclical sectors that had performed well earlier in the year, such as materials and financials, fared the worst.

Security selection was the primary cause of the underperformance for the Fund relative to the benchmark this quarter. While security selection contributed positively in the information technology, telecommunication services, and utility sectors, it was not strong enough to offset the security selection in financials, industrials, materials, and health care. From an allocation perspective, the Fund's overweight to consumer discretionary hurt, but on the whole, sector allocations contributed positively to relative returns. The portfolio benefited from having a greater-than-market weight to utilities, as well as having a less-than-market weight to energy.

At the end of the quarter, our largest overweight was to industrials, and our largest underweight was to financials. Our asset allocation is mainly the result of our disciplined, bottom-up process that focuses on high-quality companies led by intelligent management teams. As always, we continue to seek out companies with financial strength and a history of generating free cash flow. It is our belief that owning good companies will be rewarded over time.

On the economic front, we are witnessing a slowing in global leading economic indicators. Nonetheless, they still indicate a moderate growth environment. At this time, companies are still indicating that the business environment is good. However, we again need to raise the question of whether the financial economy will begin to impact the real economy. The concern is that growing uncertainty, particularly stemming from the European financial stresses, fiscal tightening, and less stimulative Chinese monetary policy, will create a wait-and-see attitude that slows business investment and growth. For now, we see continued moderate global GDP growth but are cautiously attuned to any indication that growth is slowing.

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.

Growth stocks may be more volatile than other stocks because they are generally more sensitive to investor perceptions and market moves. The principal risk of investing in value stocks is that the price of the security may not approach its anticipated value or may decline in value. Stocks of mid-cap companies may be more volatile and less liquid than the securities of larger companies.

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index. 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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