MainStay Investments®

MARKETFIELD ASSET MANAGEMENT

January 31, 2013

# MainStay Marketfield Fund

## Fund Overview

**OBJECTIVE**

The investment objective of the Fund is capital appreciation. We endeavor to accomplish this by seeking low-volatility absolute returns in excess of broad equity indexes.

**STRATEGY & PROCESS**

The Fund attempts to provide returns on capital substantially in excess of the risk-free rate rather than matching any particular index or external benchmark. The Fund has a broad investment charter that allows it to utilize equity securities, fixed-income instruments, commodities, futures and options. Additionally, with respect to 50% of the Fund's net assets, the Fund may engage in short sales of index-related and other equity securities to reduce its equity exposure or to profit from an anticipated decline in the price of the security sold short.

The use of short selling could result in increased volatility of returns.

## Fund Facts

**FUND STATISTICS**

| | |
|---|---|
| CUSIP: Class A: | 56064B878 |
| Investor Class: | 56064B886 |
| Class C: | 56064B860 |
| Class I: | 56064B852 |
| Class R2: | 56064B845 |
| Inception Date | 7/31/07 |
| Benchmark | S&P 500 Index |
| Net Assets | $5,611M |
| Number of Holdings | 93 |

**TOP TEN LONG EQUITY HOLDINGS** (AS OF 1/31/13)

| | |
|---|---|
| BASF SE (Germany) | 2.71% |
| iShares Dow Jones Transport Avg. ETF | 2.34% |
| SPDR S&P Regional Banking ETF | 2.29% |
| Eagle Materials Inc. | 2.21% |
| iShares MSCI Mexico ETF | 2.11% |
| iShares MSCI Italy ETF | 2.07% |
| CRH PLC (UK) | 1.97% |
| Facebook Inc. | 1.78% |
| General Electric Co. | 1.74% |
| USG Corp. | 1.73% |
| TOTAL | 20.95% |

**PORTFOLIO ALLOCATION** (AS OF 1/31/13)

| | |
|---|---|
| Equity Long | 84% |
| Equity Short | 41% |

## ★★★★★ OVERALL MORNINGSTAR RATING™ (CLASS I) AMONG 96 LONG-SHORT EQUITY FUNDS AS OF 1/31/13

Ratings are based on risk-adjusted return. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3 year Morningstar Rating metrics.*

## Fund Performance

Monthly Average Annual Total Returns as of 1/31/13 With Sales Charges

| | Tickers | YTD | One Year | Three Year | Five Year | Inception |
|---|---|---|---|---|---|---|
| Class A (10/08/2012) | MFADX | -0.97% | 11.66% | 9.49% | 8.93% | 8.40% |
| Class INV (10/08/2012) | MFNDX | -0.97% | 11.66% | 9.49% | 8.93% | 8.40% |
| Class C (10/08/2012) | MFCDX | 3.74% | 16.27% | 10.74% | 9.35% | 8.70% |
| Class I (07/31/2007) | MFLDX | 4.86% | 18.43% | 11.85% | 10.44% | 9.79% |
| Class R2 (10/08/2012) | MFRDX | 4.87% | 18.01% | 11.45% | 10.05% | 9.40% |
| S&P 500 | N/A | 5.18% | 16.78% | 14.14% | 3.97% | 2.78%** |

**Inception date used was for Class I (07/31/07)

Quarterly Average Annual Total Returns as of 12/31/12 With Sales Charges

| | Tickers | One Year | Three Year | Five Year | Inception |
|---|---|---|---|---|---|
| Class A (10/08/2012) | MFADX | 7.06% | 8.09% | 7.49% | 7.60% |
| Class INV (10/08/2012) | MFNDX | 7.06% | 8.09% | 7.49% | 7.60% |
| Class C (10/08/2012) | MFCDX | 11.43% | 9.32% | 7.90% | 7.91% |
| Class I (07/31/2007) | MFLDX | 13.50% | 10.40% | 8.97% | 8.99% |
| Class R2 (10/08/2012) | MFRDX | 13.06% | 10.00% | 8.58% | 8.60% |
| S&P 500 | N/A | 16.00% | 10.87% | 1.66% | 1.90%** |

**Inception date used was for Class I (07/31/07)

**Class A & INV: 5.5% maximum initial sales charge. Class C: 1% CDSC if redeemed within one year.**

**Total Annual Fund Operating Expenses: Class A: 2.70%, Investor Class: 2.86%, Class C: 3.61%, and Class I: 2.45%; Effective October 5, 2012, New York Life Investment Management LLC ("New York Life Investments") has contractually agreed to waive fees and/or reimburse expenses so that Total Annual Fund Operating Expenses (excluding taxes, interest, litigation, extraordinary expenses, brokerage and other transaction expenses relating to the purchase or sale of portfolio investments, and acquired (underlying) fund fees and expenses) for Class I shares do not exceed 1.56% of its average daily net assets. This agreement will be in effect for a two-year period unless extended by New York Life Investments and approved by the Board of Trustees.**

Average annual total returns include the change in share price and reinvestment of capital gains and distributions. Effective 10/8/12, Marketfield Fund was renamed MainStay Marketfield Fund. At that time, the Fund's existing no-load shares were redesignated Class I shares. Performance for Class A, Investor, R2 and C shares, first offered 10/8/12, includes the historical performance of Class I shares from inception through 1/31/13, adjusted to reflect the applicable sales charge (or CDSC) and fees and expenses for such shares. Class I shares are generally available only to corporate and institutional investors.

*Performance reflects the reinvestment of dividends and other earnings and is net of advisory fees. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling 800–MAINSTAY (624–6782).*

The S&P 500 Index (SPX) is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the SPX.

## Top five sectors–net

| | |
|---|---|
| Industrial | 26.53% |
| Materials | 13.66% |
| Consumer Discretionary | 10.98% |
| Consumer Staples | 5.26% |
| Energy | 1.07% |

*Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk. There can be no guarantee that investment objectives will be met.*

MainStay Investments®

Marketfield Asset Management



# Management Team

**Michael C. Aronstein**
President, Chief Investment Officer, and Portfolio Manager

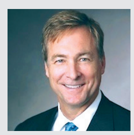
Michael C. Aronstein is Portfolio Manager of MainStay Marketfield Fund. In 2004, Mr. Aronstein joined Oscar Gruss & Son Incorporated, where he held the position of Chief Investment Strategist. Prior to joining Oscar Gruss, Mr. Aronstein was Chief Investment Strategist at Preservation Group, a provider of independent macroeconomic and strategic advice to professional investors. Mr. Aronstein began his investment career in 1979 at Merrill Lynch, serving positions as Senior Market Analyst, Senior Investment Strategist, and Manager of Global Investment Strategy. Mr. Aronstein spent six years as President of Comstock Partners, a diversified investment advisor, and left to found West Course Capital, a discretionary commodity management firm. Mr. Aronstein graduated from Yale College with a Bachelor of Arts in 1974. His views on macroeconomic and strategic issues are regularly sought by and disseminated through the financial print and visual media. Mr. Aronstein manages $5,611 million in MainStay Marketfield Fund and $545 million in The Marketfield Fund, Ltd.; total assets under management are $6,156 million.

**Michael Shaoul**
Chairman and CEO

Michael Shaoul also serves as Chief Executive Officer of Oscar Gruss and Son Incorporated, a position he has held since December 2001. He joined Oscar Gruss in 1996 as Chief Operating Officer. Between 1992 and 1996, Mr. Shaoul ran Park Square Associates, a Manhattan-based real estate investment and management company. He was awarded a Ph.D. in Accounting and Finance in 1992 from Manchester University (UK). Mr. Shaoul has written articles on behalf of *Barron's* and has been regularly quoted in *The Wall Street Journal* and Dow Jones Newswires regarding his opinions on the investment markets.

**Myles D. Gillespie**
Principal, Senior Trader

Myles D. Gillespie joined Marketfield Asset Management in 2007. Myles is a graduate of The Hotchkiss School and holds a Bachelor of Arts degree from Franklin and Marshall College (Class of 1983). From 1983 to 1986, he worked as a stock index futures trader with Henderson Brothers and in 1986 became a NYSE Specialist at Quick & Reilly. He was appointed Executive Vice President of JCC Specialist Corp., the successor firm to Quick and Reilly, in 1989. In 1999 he became President of Fleet Specialist, Inc., the successor firm to JCC Specialist Corp., retiring from this position in 2004. During his time at the NYSE, Myles served as a NYSE floor Official (1993-1999) and NYSE floor Governor (2001-2004).



**David C. Johnson, Jr.**
Principal, Director of Research

Mr. Johnson joined Marketfield Asset Management LLC as Director of Research in April 2011. Mr. Johnson is a graduate of the University of North Carolina at Chapel Hill. He received his MBA in 1984 from Darden School of Business, University of Virginia. Prior to joining Marketfield, Mr. Johnson was an investment analyst, portfolio manager, and head of business development at Wilkinson O'Grady & Co., Inc. He spent the first 10 years of his career in the fixed-income department of Salomon Brothers, where he managed one of its primary sales groups. Mr. Johnson was president of Preservation Group, where he worked closely with Mr. Aronstein.

## Before You Invest

**Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund regularly makes short sales of securities, which involves the risk that losses may exceed the original amount invested. However, a mutual fund investor's risk is limited to the amount invested in a fund. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. Investments in absolute return strategies are not intended to outperform stocks and bonds during strong market rallies.**

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*MainStay Marketfield Fund is subadvised by Marketfield Asset Management LLC and distributed by NYLIFE Distributors LLC, 169 Lackawanna Avenue, Parsippany, NJ 07054, a wholly owned subsidiary of New York Life Insurance Company. NYLIFE Distributors LLC is a Member FINRA/SIPC.*

*MainStay Investments® is a registered service mark and name under which New York Life Investment Management LLC does business. MainStay Investments, an indirect subsidiary of New York Life Insurance Company, New York, NY 10010, provides investment advisory products and services.*

*Neither New York Life Investment Management LLC, its representatives or affiliates provide tax, legal or accounting advice. Please consult your own advisors on these matters.*

*The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.*

## Obtain the Prospectus

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

# Commentary

2013 is 15% through, and a new dynamic is evident in financial markets. For the first time since the panic of 2008, adequate returns have been largely confined to equities in developed markets. This is in sharp contrast to each of the past five years, in which it has been possible for managers to deliver near double digit compound returns while avoiding exposure to U.S. and European stocks.

At the end of 2008, almost every capital and commodity market was positioned to deliver unusually generous returns. After the peak in emerging market stocks at the end of 2010, 2011 was the year of duration, during which all forms of high-grade interest rate risk provided outstanding returns. An index of long-term treasury bonds had a total return in excess of 25% for the year.

Last year was another good one for developed market equities, but investors willing to take credit risk in any form were able to come close to matching the returns enjoyed by equity owners. 2013 is beginning on a very different note.

At present, a diversified exposure to developed market stocks should have provided year to date returns of close to 5%. This comes against a background in which many popular commentators and academics have assured investors that they would be fortunate to realize mid single digit annual returns from equities. The lack of potential return and the demise of buy and hold investment styles has been the conventional wisdom since the end of 2008, wherefrom U.S. stocks have provided annual total returns in excess of 15%.

The consequences of missing these opportunities have, until this year, been softened by the adequacy of returns available elsewhere. That dynamic has now changed. At the moment, it is difficult to find any broad fixed income index that has provided a positive return for the year to date. The popular commodity indices are up around 1%, while gold has lost nearly 5%. Both major emerging market equity ETFs are down for the year, and EM bonds are down more.

Our investment style demands that we identify conceptual errors that account for what we believe to be general mispricing of certain assets. We do not simply buy things that appear to be cheap and sell those that have run up a long way. Unless we can identify the broad, analytic errors that are preventing the broad markets from recognizing the displacements in price that we recognize, we will not invest. This approach flies in the face of academic concepts of market efficiency. Although we believe that markets are largely efficient, our view is that they are often efficient in transmitting erroneous ideas.

For the past four years we have tried to explain our preference for U.S. equities by pointing to their structural mispricing as a function of the mistaken conflation of volatility and risk. The idea that local market volatility is a good proxy for permanent risks to capital has been around for decades as a cornerstone of the modern quantitative era. The reduction of economics and investing to arrays of quantitative functions has created major problems for both endeavors.

The use of volatility as a proxy for real risk (the risk of permanent impairment of capital) has gained widespread public acceptance since the panic of 2008. The rapidity of loss across all asset types during that episode was so emotionally disturbing to so many investors that the desire to avoid a repeat of the experience became a cornerstone of investment policy. Avoiding volatility really came to mean avoiding the abrupt losses of 2008.

Changes in the structure of equity markets involving the elimination of real market makers have created much less real liquidity and therefore more immediate, localized price dislocation when there is any aggressive buying or selling. This hits the airwaves and quantitative models as heightened volatility and hence a sign of danger and risk.

Ascribing increased volatility to equities has provided the perfect excuse to lower their weightings in diversified portfolios. The general retreat from publicly traded stocks to almost anything else has been a clear feature of this bull market. It is evident among retail and institutional investors alike.

The use of volatility as a proxy for risk has been behind some of the most serious allocation mistakes of the past decade. In the aftermath of the 2000-2002 bear market, hedge funds that were able to show diminished volatility statistics gathered the lion's share of risk assets during the ensuing 5 years. Clever managers were able to structure trading approaches that quietly accumulated risk in the manner of catastrophe bonds, where, for 99% of the time, nothing untoward shows up in the portfolio results. The remaining 1% of events is calamitous, in the fashion of 2008.

The proliferation of apparently less volatile sources of return has been particularly egregious among institutional investors and their advisors. The flight into illiquid but apparently stable assets has been the most fashionable trend in the institutional and academic community. The popularity of these asset types plays off a past era during which illiquid assets were severely undervalued simply because almost no institutional investors would assume the career risks associated with buying them.

# Commentary Cont.

Following 20 years of exceptional returns, these assets were mainstreamed, although they are now more expensive than their liquid counterparts and crowded with late cycle fashionistas. The rationale is their apparent lack of volatility, which is simply a function of their never trading or being properly marked to market.

The more worrying misuse of volatility statistics that we see at present involves an institutional strategy known as "risk parity". This is an asset allocation approach whereby apparently less volatile assets are given an increasing weight in an overall portfolio. The basic premise is valid, but like so many good ideas, it has been distorted later in life to justify adding leverage at the heights of a long bull market. In the current instance, the low volatility of all fixed income assets compared with publicly traded equities, has given rise to strategies in which the fixed income components of institutional portfolios are levered in order to provide the same return potentials that managers have come to expect from equities. The leverage is adjusted in accordance with changes in volatility.

In practical terms, this means that 31 years into the greatest bull market that bonds have ever seen, the historic lows in bond volatility indices provide the impetus to apply maximum leverage to the entire asset class. This includes dollar bonds across the emerging market spectrum, both sovereign and high yield. If you have wondered how a twenty-year issue of The Republic of the Philippines traded at a 3.40% yield during the fourth quarter of last year, this might be your answer.

The risk parity approach to bond leverage is an exact replica of the equity portfolio insurance phenomenon of 1986-1987, presentations for which we had the opportunity to attend. We also had the opportunity to watch the technique in action on October 19th, 1987.

We have made the point for several months that the most dangerous event for capital markets and investors will occur with some change of heart regarding the sanctity of fixed income instruments. The European sovereign crisis was something of a warm-up, and passed without too much destructive effect on global portfolios.

The next episode is likely to be more serious. The proximate cause, whether a change in economic attitude, political upheaval, central bank error or the overwhelming weight of new issuance meeting fund outflows, is impossible to specify.

From a practical standpoint, a period during which investors suffer meaningful losses in a short period of time in an asset class that they assumed to be safe will have serious repercussions across markets. A ten or fifteen percent decline in equity prices will not come as a shock to too many investors. Many will simply watch and say, "see, I told you so". A correction of this sort is always possible, particularly after the sort of rallies that we have just witnessed.

A similar degree of loss in fixed income would qualify as a shock, and would take no more than a return of interest rates to levels last seen in early 2011.

With the U.S. economy continuing to improve and global bond issuance accelerating, the elements for a retreat from fixed income are in place, despite the Fed's presence as buyer of last resort. Our real concern is that what has started as an orderly retreat changes into something more dramatic.

Our portfolio remains oriented toward more aggressive equities in developed markets with equity short positions increasing as the rally has progressed in those domestic sectors considered "safe" and in emerging markets. We have a meaningful short position in a wide range of longer duration fixed income assets in the U.S. and emerging markets.

February 21, 2013

Michael C. Aronstein
President, CIO & Portfolio Manager