



This ADV brochure, dated March 25, 2014  
provides information about the qualifications and business practices of:

## **NEW YORK LIFE INVESTMENT MANAGEMENT LLC**

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New York Life Investments is a service mark used by New York Life Investment Management LLC. MainStay is a registered trademark of New York Life Investments. MainStay Investments is a registered name under which New York Life Investments does business.

*The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. In addition, registration as an investment adviser does not imply a certain level of skill or training. Additional information about New York Life Investment Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **ITEM 2: SUMMARY OF MATERIAL CHANGES**

Since our last annual update, filed April 1, 2013, the following material changes were made:

- The “Client Referrals and Other Compensation” section was revised to remove references to a solicitation arrangement that was in place between us and an affiliated investment adviser under which the affiliate was paying us for soliciting certain international investment advisory clients on its behalf. This arrangement has been terminated.
- Effective January 1, 2014, Dawn Pallitto was appointed Chief Compliance Officer of NYL Investment Management LLC, replacing Tara McAleer. Ms. McAleer has assumed primary responsibility for overseeing all New York Life Investments Division compliance functions.
- The “Other Financial Industry Activities and Affiliations” section was revised to add NYL Investors LLC as a related investment adviser.

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#### **ITEM 4: ADVISORY BUSINESS**

New York Life Investment Management LLC ("New York Life Investments" or the "Firm") is an indirect wholly-owned subsidiary of New York Life Insurance Company ("New York Life") and a wholly-owned subsidiary of New York Life Investment Management Holdings LLC. As of December 31, 2013, New York Life Investments managed \$316,644,135,143 of client assets on a discretionary basis, and \$2,795,243,824 of client assets on a non-discretionary basis.

Founded by New York Life in April, 2000, New York Life Investments provides a broad array of investment advisory services to: affiliated insurance companies' general and separate accounts and other affiliated corporate entities; third-party institutional clients; investment companies; other pooled investment vehicles; and wrap fee programs sponsored by unaffiliated entities (see "*Types of Clients*" section below). To accomplish this, in some cases employees of New York Life Investments have been dual hatted and are acting in an advisory capacity with respect to accounts managed by our affiliate NYL Investors LLC ("NYL Investors"). NYL Investors was formed in October, 2013, and is a wholly-owned subsidiary of our parent company New York Life. NYL Investors is also an SEC registered investment adviser (SEC File No 801-57396).

New York Life Investments is generally comprised of the following investment divisions: i) Separately Managed Accounts Group; and ii) Strategic Asset Allocation and Solutions Group. As a result of our dual hatting arrangements, certain employees of New York Life Investments also support the Fixed Income Investors and Real Estate Investors divisions of NYL Investors. Through these direct or affiliated investment divisions, the Firm offers advisory services which may be tailored to meet a client's needs. For example, a client may prohibit the purchase of specific securities, or may prohibit the purchase of securities within a specific sector or industry. Client imposed restrictions are detailed in the client's investment advisory agreement. With respect to our Separately Managed Accounts clients, these restrictions are typically communicated to us by a program sponsor.

New York Life Investments also has a Retirement Plan Services business that provides an array of full-service defined benefit (DB), defined contribution (DC), integrated DB/DC, and Taft-Hartley services. The platform offers an open architecture that incorporates a variety of investment options including target date funds, group separate accounts, commingled funds, self-directed brokerage accounts, and proprietary and non-proprietary mutual funds.

Finally, New York Life Investments offers, either directly or through subadvisers, fixed income and equity advisory services to various proprietary registered investment companies including: The MainStay Funds (File No. 811-4550); MainStay VP Funds Trust (File No. 811-03833-01); MainStay Funds Trust (File No. 811-22321); and MainStay Defined Term Municipal Opportunities Funds (File No. 811-22551). In addition, New York Life Investments serves as the investment adviser to the Private Advisors Alternative Strategies Fund (File No. 811- 22647) and Private Advisors Alternative Strategies Master Fund (File Nos. 811- 22646). These registered investment companies are referred to herein collectively as the "*The MainStay Funds*" which is also the name under which most of the funds are marketed.

### **NYL Investors' Fixed Income Investors**

NYL Investors' Fixed Income Investors division ("FII") offers fixed income advisory services. FII has expertise in most major U.S. dollar fixed income sectors including: investment grade corporate bonds, mortgage-backed securities, asset-backed securities, government securities, high yield bonds, and floating rate loans. Certain personnel within FII also assist New York Life Investments in its capacity as collateral manager for a series of collateralized loan obligation funds.

FII employs a team-oriented approach to managing fixed income portfolios for affiliated and unaffiliated clients in the institutional and retail markets. Using a combination of top-down fundamental analysis and bottom-up credit research, FII constructs diversified portfolios that are designed to deliver consistent performance and stability. This is accomplished by striving to add incremental excess return while avoiding principal loss.

### **NYL Investors' Real Estate Investors**

NYL Investors' Real Estate Investors division ("REI") offers real estate debt and equity advisory services to our parent company, New York Life, and its affiliates, and to third-party investors through our pooled real estate investment funds. With respect to real estate-related debt products, REI's capabilities and services include origination, underwriting and loan administration. These products include: commercial mortgage loans, mezzanine, bridge and structured debt investments, commercial mortgage-backed securities, unsecured REIT bonds, and single family jumbo loan pools. REI also provides acquisition, operation, disposition and asset management services with respect to real estate equity investments for New York Life and its affiliates, and for our pooled real estate investment funds. Additionally, within the real estate asset class, REI identifies and underwrites investments in third party-sponsored real estate equity and debt funds, and low income housing tax credit (LIHTC) funds. Lastly, REI provides advisory and asset management services to New York Life for its corporate properties and for its leased properties.

### **Strategic Asset Allocation and Solutions Group**

Our Strategic Asset Allocation and Solutions Group ("SAS") offers asset allocation advisory services typically through a fund-of-funds structure. SAS has expertise in tactical asset allocations utilizing macro-economic views as well as knowledge of investment risks and correlation of various asset classes across equities, fixed income and alternative asset classes to provide active management and risk adjusted active return to client's stated benchmark or objective. SAS is an asset allocator and will invest through both active alpha generators of underlying individual strategies as well as passive vehicles such as ETFs. In this regard the expertise of this team is a fund-of-funds structure. SAS employs a team-oriented approach to managing multi-asset portfolios for affiliated and unaffiliated clients in the institutional and retail markets. Additionally, our services include assisting clients with solutions based investing where we will work with the clients in designing the strategic benchmark that may fit their intended objective.

### **Separately Managed Accounts Group**

Our Separately Managed Accounts Group (“SMA Group”) performs the operational and administrative functions for high net worth individual and retail separately managed accounts (“SMAs”). These SMAs are offered through programs sponsored by unaffiliated broker-dealers whereby portfolio management, brokerage execution, custodial and administrative services are provided by the sponsor for a single charge (commonly referred to as a “wrap fee program”). In these cases, we rely on the program sponsor to determine the suitability of our services for the client, and for the wrap fee program.

As the investment adviser to these SMAs, New York Life Investments receives a portion of the wrap fee charged by the sponsor. For this fee, we perform operational, administrative and trading services, and engage subadvisers to provide subadvisory and trading services as applicable. In rare cases, we may be paid an advisory fee for these services directly by the client rather than through the sponsor. We currently have subadvisory agreements with the following affiliated federally registered investment managers, or “subadvisers”: MacKay Shields LLC, (SEC File No. 801-5594) and Institutional Capital LLC (SEC File No. 801-40779). In addition, we have a subadvisory agreement with Epoch Investment Partners, Inc. (SEC File No. 801-63118) which is an unaffiliated subadviser. We also retain a third-party vendor, SEI Global Services Inc., to provide certain non-advisory administrative services.

The investment strategies offered by our SMA Group are different from the investment strategies offered by our other investment divisions. These strategies include: i) convertible bonds; ii) municipal bonds; iii) small-mid cap equity; iv) large cap equity; v) large cap value equity; vi) all cap equity; vii) global choice equity; and viii) global equity yield. MacKay Shields LLC is the subadviser to the convertible bond and municipal bond strategies. Institutional Capital LLC is the subadviser to the large cap value equity strategy. Epoch Investment Partners is the subadviser to the small-mid cap equity, large cap equity, all cap equity, global choice equity and global equity yield strategies.

New York Life Investments also provides non-discretionary advisory services to sponsors of Unified Management Accounts (“UMA”) and Diversified Managed Accounts (“DMA”). In these cases, our services are generally limited to providing model portfolios to the sponsors, but in some cases, we may also provide trading services, depending upon the sponsor firm agreement. These model portfolios are generated by the subadviser.

### **Retirement Plan Services**

Our Retirement Plan Services business offers advisory services through its *On Target* product. A separate brochure has been filed with the SEC describing this product. The brochure is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **Mutual Funds**

For certain portfolios of *The MainStay Funds*, New York Life Investments manages the money directly.. For all other funds, we hire federally registered subadvisers to provide

investment management services. Subadvisers are selected based on an evaluation of their skills and investment results in managing assets for specific asset classes, investment styles and strategies. Currently, we engage the following affiliated subadvisers: MacKay Shields LLC (SEC File No. 801-5594), Institutional Capital LLC (SEC File No. 801-40779), Cornerstone Capital Management LLC (File No. 801-45262), Cornerstone Capital Management Holdings LLC (SEC File No. 801-69663) and Private Advisors LLC (File No. 801-55696). We also engage the following unaffiliated subadvisers: Winslow Capital Management, Inc. (SEC File No. 801-41316); Markston International, LLC (SEC File No. 801-56141); Epoch Investment Partners, Inc. (SEC File No. 801-63118); Van Eck Associates Corporation (SEC File No. 801-21340); Dimensional Fund Advisors LP (SEC File No. 801-16283); DuPont Capital Management Corporation (SEC File No. 801-44730); Eagle Asset Management, Inc. (SEC File No. 801-21343); Janus Capital Management LLC (SEC File No. 801-13991); Massachusetts Financial Services Company (SEC File No. 801-17352); Pacific Investment Management Company LLC (SEC File No. 801-48187); Marketfield Asset Management LLC (SEC File No. 801-77055) and T. Rowe Price Associates, Inc. (SEC File No. 801-856).

For additional information regarding *The MainStay Funds'* investment strategies and associated risks please refer to *The MainStay Funds'* Prospectuses and Statements of Additional Information which are available on our website at [www.mainstayinvestments.com](http://www.mainstayinvestments.com).

## **ITEM 5: FEES AND COMPENSATION**

### **FEES**

Clients are generally billed for advisory services according to the fee schedule agreed to by the client and included in their investment management agreement ("IMA"). Generally, advisory fees are payable either monthly or quarterly in arrears, based on the value of assets under management at the end of the period. Where we are responsible for valuing a client's portfolio for fee billing or investment performance purposes, we generally use pricing information provided by an independent pricing vendor. In the event that a vendor is unable to provide a price for a security, or provides a price that we do not believe it accurate, we will determine a fair value for the security that we think believe accurately reflect the value of the security. When this occurs, we could have an incentive to value these securities higher in an effort to generate greater fees or higher investment returns. To mitigate this potential conflict, we have adopted policies and procedures that are reasonable designed to ensure that all securities are properly valued. Implementation of this policy is overseen by our Valuation Committee which is comprised of senior representatives from the various investment disciplines, operations, trading and compliance.

All advisory arrangements may be terminated by the client upon assignment or by either party upon prior written notice, according to the termination provisions outlined in the IMA. If a contract is terminated, all advisory fees are subject to pro-rata adjustment, based upon the date of termination.

Fee schedules are negotiable and can vary depending on a variety of factors such as the type of account, size of the account, and the investment program selected. Our typical fee schedules are as follows:

### **NYL Investors' Fixed Income Investors**

FII's management fees generally range from .01% to 1.00% of average daily net assets under management. However, performance and fixed fees could be higher than 1.00% depending on account performance and account size. The annual fee schedules for FII's significant investment strategies (see "*Investment Strategies and Risk of Loss*" section below) are:

<b>Investment Grade Corporate Core Fixed Income Intermediate Government Credit</b>	0.25% for all asset levels
<b>Investment Grade Bond Index</b>	0.10% for all asset levels
<b>Floating Rate</b>	0.50% for all asset levels

In addition to the management fees described above, there are other fees associated with the management of FII client accounts. For example, the custodian for your account, which you independently select, charges a custodial fee that varies by custodian. In addition, the broker-dealers that we select to execute transactions in your account charge a fee. Brokerage and custody fees are not included in the investment management fee that you pay to us. Instead, custodian fees are charged to you separately by the custodian, and brokerage fees affect your account during the trade execution process. Please refer to "*Brokerage Practices*" section below for additional information regarding our process for selecting brokers to execute transactions in client accounts.

FII is also the principal investment manager for general and separate account assets of our parent company, New York Life and its insurance affiliates, New York Life Insurance and Annuity Corporation ("NYLIAC") and NYLIFE Insurance Company of Arizona ("NYLAZ") both of which are wholly-owned subsidiaries of New York Life. We charge these affiliates a negotiated management fee based on asset class and may earn performance based fees. The average fixed income management fee for affiliated accounts is .112% but is subject to change as the asset mix changes. The annual fixed income performance fee for affiliated accounts is determined using a transaction-based value added system. In general, the performance fees paid by our affiliates over the last five years have ranged from .01% to .02%.

### **NYL Investors' Real Estate Investors**

REI charges New York Life a range of asset-based advisory fees for managing the various types of real estate-related investments. In certain cases, such as real estate equities, the fees are on a sliding scale. Borrowers and/or third party investors are charged servicing fees for the mortgages held under co-lending agreements and management fees for their capital in the



pooled real estate investment funds that we manage. These fees are based on a percentage of the loan or investment. The fees associated with our private real estate funds are detailed in each fund's private placement memorandum.

### **Strategic Asset Allocation and Solutions Group**

SAS offers asset allocation advisory services typically through a fund-of-funds structure. Therefore, the fees associated with the accounts managed by SAS are disclosed in each funds governing documents.

### **Separately Managed Accounts Group**

With respect to our SMAs, clients pay the third-party sponsor a single wrap fee. This single wrap fee covers our investment advisory fee, the subadviser's investment advisory fee, custody fees, performance measurement costs, and administrative costs. We may also participate in wrap programs where the fees are unbundled and the client may incur commission costs.

For our services, the sponsor or client pays us an annual advisory fee ranging from .28% to .80%. Our annual fee varies from program to program depending on the sponsor, the investment strategy, the type of account, the services provided, and the amount of assets in the program. Upon receiving our fee from the sponsor, we pay a portion of our fee to the subadvisers that we hire to manage the assets.

SMA advisory fees are generally charged and payable quarterly in advance, or in arrears, based on the value of assets under management at the end of the quarter. In certain cases, fees are paid less frequently than quarterly but not more than six months in advance. The compensation schedules for the SMAs are dictated by the sponsor's billing practices.

### **Mutual Funds**

With respect to *The MainStay Funds*, the advisory and other fees charged for managing each portfolio of the Funds are outlined in the Fund's Prospectus and Statement of Additional Information. These fees are based on a percentage of assets under management, as approved by the Boards of Trustees of the Funds.

### **COMPENSATION**

There may be instances where our supervised persons recommend that an advisory client, or prospective advisory client, invest in either *The MainStay Funds* or in a private fund that we may sponsor. When this occurs, neither New York Life Investments nor any of our supervised persons receive asset-based compensation for the sales that result from these recommendations to the advisory client.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted above, NYL Investors' FII manages general and separate account assets of our parent company, New York Life and its insurance affiliates, NYLIAC and NYLAZ. New York Life Investments charges these affiliates a negotiated management fee based on asset class and we may also earn performance based fees. The annual fixed income performance fee is determined using a transaction-based value added system, and is subject to a cap which differs by line of business. Over the past five years, these performance fees have ranged from .01% to .02%. However, since January, 2012, these performance fees have been capped at .01%

Given the percentage of assets under management that are attributable to these affiliated entities, the performance based fees that are generated by these accounts could be substantial. As a result, the appearance of a conflict exists whereby our portfolio managers may have an incentive to favor these accounts over our other accounts. This potential conflict is mitigated by the fact that the combined management fee and performance based fee that we charge to our affiliates is on average lower than the management fee that we charge to our other clients. In addition, we have policies and procedures in place to make sure that all clients are treated fairly and to ensure that no client account receives preferential treatment in the allocation of investment opportunities (see "*Brokerage Practices*" section below).

NYL Investments also serves as collateral manager for a series of collateralized loan obligation funds ("CLOs"). As collateral manager of these vehicles, we are entitled to additional compensation on a subordinated basis if certain performance targets are achieved. As a result, the appearance of a conflict may exist where our portfolio managers may have an incentive to favor these vehicles over other accounts pursuing a floating rate debt strategy. This conflict is mitigated by the fact that the CLOs have investment guidelines that are typically more restrictive than the other accounts managed by our employees in the floating rate debt strategy. In addition, we have policies and procedures in place to make sure that all clients are treated fairly and to ensure that no client account receives preferential treatment in the allocation of investment opportunities (see "*Brokerage Practices*" section below).

## **ITEM 7: TYPES OF CLIENTS**

As discussed in detail in the "*Advisory Business*" section above, New York Life Investments, either directly or through our dual hatting arrangements with NYL Investors, provides a broad array of investment advisory services to: affiliated insurance companies' general and separate accounts and other affiliated corporate entities; third-party institutional clients; investment companies; other pooled investment vehicles; and wrap fee programs sponsored by unaffiliated entities. It also serves as collateral manager to certain special purpose vehicles including, but not limited to, CLOs. The minimum initial account size for a NYL Investors' FII separately managed account is typically \$100 million.

NYL Investors' REI offers real estate debt and real estate equity advisory services to our parent company, New York Life, and to third-party qualified investors through pooled real estate investment funds. For third-party accounts invested in these real estate investment

funds, the minimum account size ranges from \$1,000,000 to \$5,000,000 depending on the fund.

SAS offers asset allocation advisory services typically through a fund-of-funds structure. Therefore, the minimum account size for an SAS managed account is dictated by the funds governing documents.

Finally, New York Life Investments' SMA Group provides fixed income and equity advisory services to wrap fee programs sponsored by unaffiliated entities. The minimum initial account size for our SMAs is typically \$100,000. This minimum however, may be lower in the case of the UMAs and DMAs.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Although New York Life Investments, either directly or through our dual hatting arrangement with NYL Investors, offers advisory services in several asset classes through FII, REI, SMA, SAS and through *The MainStay Funds* (please refer to the "Advisory Business" section above), our significant investment strategies are currently managed by FII and SAS.

As discussed above, FII is a multi-product fixed income asset management division of NYL Investors with expertise in most major U.S. dollar fixed income sectors including: high yield bonds, floating rate loans, investment grade corporate bonds, mortgage-backed securities, asset-backed securities, and government securities. Within these sectors, FII's significant investment strategies include:

- Investment Grade Corporate: Seeks to maximize total return relative to the Barclay's U.S. Credit Index.
- Core Fixed Income: Seeks to outperform the total return of the Barclays U.S. Aggregate Bond Index over a full market cycle.
- Investment Grade Bond Index: Seeks to replicate the risk/return characteristics of the Barclays U.S. Aggregate Bond Index.
- Intermediate Government Credit: Seeks to outperform the total return of the Bank of America Merrill Lynch 1-10 Year U.S. Corporate & Government Index.
- Floating Rate: Seeks to provide high income by tapping the potential of the floating rate loan market.

SAS offers asset allocation advisory services, often through a fund-of-funds structure, with the goal of improving return versus a client's stated benchmark. SAS relies upon a combination of valuation metrics, technical indicators, and macro-economic views when

developing return estimates, and brings extensive risk modeling expertise to the portfolio management process. Depending on account guidelines, underlying investments may be made in open end mutual funds, exchange traded funds, or individual equity, bond, and derivative securities.

## **Investment Process**

### **NYL Investors' Fixed Income Investors**

For its Investment Grade Corporate, Core Fixed Income and Intermediate Government Credit strategies, FII's goal is to deliver consistent performance and stability by adding incremental returns in excess of the benchmark, while avoiding principal loss. For its Investment Grade Bond Index strategy, the goal is to mirror the risk/return of the index. To achieve these goals, FII implements a risk-controlled, value-oriented investment process focused on active team management that leverages the top-down and bottom-up capabilities of the FII investment management team.

By following a highly collaborative top-down and bottom-up investment process, FII seeks to generate excess return by focusing on the following:

- *Sector Allocation:* Sector allocation refers to the different asset classes within the fixed income marketplace that a portfolio will be invested in versus its respective benchmark. For example, subject to unique investment guidelines, a core fixed income portfolio that is benchmarked against the Barclays Aggregate Index will be invested in five major sectors of the investment grade fixed income market. Those sectors are U.S. Treasuries, U.S. government agencies, mortgage-backed securities, corporate bonds, and structured securities, such as asset-backed securities. Given FII's strong research team and value approach, particular emphasis is placed on corporate bonds and structured securities. In order to determine optimal sector allocation, FII performs scenario analysis to provide quantitative support for allocation decisions with the objective of maximizing risk-adjusted excess return over a cycle.
- *Security Selection:* Security selection refers to the specific securities comprising the portfolio. New York Life Investments looks to leverage its deep experienced team of analysts to work in conjunction with the portfolio management team to determine the appropriate weightings of individual securities. Decisions to overweight or underweight an individual security are made within the framework of overall portfolio construction. In many cases, security selection can often add value to the portfolio not only by what securities one owns, but more importantly by not owning underperforming securities. FII actively seeks to avoid securities which in our opinion do not offer appropriate reward for a given level of risk. Specific security selection risks are managed through diversification and adherence to position limits.

- *Duration Management:* Duration management refers to the level of tracking error that can be generated purely from maintaining a different overall duration versus the underlying benchmark. Decisions regarding duration management often have the most significant potential impact on returns and are generally the most difficult to predict. Focus in this area is on the long term trend in the direction of interest rates rather than short-term trading opportunities. FII uses a combination of fundamental, technical, and quantitative tools to assist in the decision-making process.
- *Yield Curve Management:* Yield curve management refers to the positioning of the portfolio across the term structure of interest rates versus its respective benchmark. Yield curve management differs from duration management in that duration management is more closely aligned with a parallel shift in the yield curve (i.e. interest rates moving up or down) while yield curve management is focused on the changing shape of the term structure of interest rates (i.e. the yield curve flattening or steepening). At any given duration level, a portfolio can have very different yield curve profiles that will lead to different return characteristics. Depending upon market conditions, yield curve management can have a significant impact on returns and needs to be rigorously monitored. FII uses scenario analysis and other quantitative and fundamental tools to determine the optimal yield curve positioning.

FII's Floating Rate strategy is managed by the High Yield Credit Group within FII ("HYG"). The HYG, which also manages New York Life Investment's collateralized loan obligation funds, practices bottom-up fundamental credit research and prefers credits with positive free cash flow, solid collateral, and proven management. It typically avoids investment decisions based simply on credit ratings, and typically does not engage in technical trading or market timing. It also maintains significant diversification across issuers and industries in order to distribute risk on a broad basis. The HYG will trade to avoid significant credit deterioration or credit events. It will also trade to improve diversification or improve risk-adjusted yield.

Prior to making an investment, the HYG conducts an initial screen of the investment opportunity based on credit statistics, deal structure, relative value and portfolio needs. Analyst input is critical to the HYG's decision making process. The foundation of its research process is the consistent, repeatable, first-person evaluation of all aspects of an existing or prospective borrower. Upon initial purchase, and subsequent surveillance of a credit, the analysts seek an informed opinion as to the long-term creditworthiness of such credit using all available sources of internal and external information, without excessive reliance on the view of any one source or the rating agencies. The HYG will sell an asset to avoid credit deterioration, to improve diversification or to enhance risk-adjusted yield.

### **Strategic Asset Allocation and Solutions Group**

SAS uses a top-down driven investment process to determine asset allocation and portfolio analytics to construct and implement risk aware investment portfolios. SAS believes that careful analysis of economic and market data provides insight into the prospects for corporate earnings growth broadly and the direction of potential price changes across large

populations of securities. SAS does not look at individual companies or securities, but rather tries to identify macro themes with systemic influence over market pricing.

SAS's investment process begins with the collection of data and ideas as they relate to business, consumer, government activity and market pricing. From this information, SAS seeks to find segments of the securities markets that are attractively valued, that are dominated by issuers poised to benefit from developing economic conditions, and that are likely to experience favorable net capital flows from investors.

Risk parameters are also estimated. SAS considers realized volatility and correlation patterns, trends, and information embedded in derivatives pricing when developing risk and co-risk inputs. The portfolio construction process incorporates not only the groups return and risk projections, but also recognizes that there is significant error associated with forecasting and so requires a confidence metric reflecting how comfortable SAS is with its projections. A re-sampled optimization is then performed. The net result is typically an asset allocation solution that is more stable and less sensitive to estimation error than a standard optimization run.

### **RISK OF LOSS**

You should be aware that there are certain material risks associated with investing in the strategies noted above. These risks include (without limitation):

- *Credit Risk:* The risk that an issuer of a debt security may fail to repay the interest or principal when due.
- *Liquidity Risk:* The risk that you cannot sell a security or that the sale price for the security will be extremely low. Liquidity risk is often measured by how often a security trades. The more that a security trades, the lower the liquidity risk.
- *Interest Rate Risk:* The risk that fluctuating interest rates will cause a security's value to change. When interest rates go up, the value of a non-callable debt security tends to go down, and when interest rates go down, the value of a non-callable debt security tends to go up.
- *Call & Repayment Risk:* The risk that a security is repaid prior to expectations or maturity. This risk is elevated when interest rates decline and the issuer of the security has the ability to refinance the security at a lower cost. When this occurs, the proceeds from the called bond would have to be invested at the new lower interest rate which may not be sufficient to replace the income or cash flow produced by the called security because interest rates have declined.
- *Extension Risk:* The risk that the average life of the security extends therefore delaying the return of principal and possibly causing a missed opportunity to invest at a higher interest rate.

- *Floating Rate Loan Risk:* The floating rate loans in which the HYG invests are usually rated below investment grade and are generally considered speculative because they present a greater risk of loss, including default, than higher quality debt securities. Although certain floating rate loans are collateralized, there is no guarantee that the value of the collateral will be sufficient to repay the loan in the event of default. Floating rate loans may, under certain circumstances, be less liquid than higher quality debt securities, and an active trading market may not exist. In addition, some loans may be subject to restrictions on their resale, which may prevent your account from obtaining the full value of the loan when it is sold.
- *Asset Allocation Risk:* Although allocation among different asset classes generally limits exposure to the risks of any one class, the risk remains that we may favor an asset class that performs poorly relative to the other asset classes. For example, deteriorating stock market conditions might cause an overall weakness in the market that reduces the absolute level of stock prices in that market. Under these circumstances, if we were invested primarily in stocks, the account would perform poorly relative to a portfolio invested primarily in bonds. Similarly, we could be incorrect in our analysis of economic trends, countries, industries, companies, the relative attractiveness of asset classes or other matters.

## **ITEM 9: DISCIPLINARY INFORMATION**

On May 27, 2009, New York Life Investments settled charges by the SEC relating to the MainStay Equity Index Fund (the "Fund"). The Fund was a series of *The MainStay Funds* and was managed by New York Life Investments. The settlement relates to the period from March 12, 2002 through June 30, 2004, during which time the SEC alleged that we failed to provide the Fund's board with information necessary to evaluate the cost of a guarantee provided to shareholders of the Fund, and that prospectus and other disclosures misrepresented that there was no charge to the Fund or its shareholders for the guarantee.

Without admitting or denying the allegations, we consented to the entry of an administrative cease and desist order finding violations of Sections 15(c) and 34 (b) of the Investment Company Act of 1940, and Section 206(2) of the Investment Advisers Act of 1940, as amended, and were required to pay a civil penalty of \$800,000, disgorge \$3,950,075 (which represents a portion of the management fees relating to the Fund for the relevant period), and pay interest of \$1,350,709. Pursuant to the SEC order, approximately \$3.5 million has been distributed to shareholders who held shares of the Fund between March 2002 and June 2004, and the remainder has been paid to the SEC, for deposit in the U.S. Treasury. On June 27, 2011, the SEC approved the final accounting and ordered the termination of the settlement fund used to distribute payments to shareholders. These amounts, totaling approximately \$6.101 million, did not have any material financial impact on New York Life Investments.

There are no other legal or disciplinary events involving New York Life Investments that are material to our advisory business or to the management of your account to report at this time. In the event that your account is managed by a subadviser hired by New York Life Investments, please refer to the Form ADV of the subadviser for a description of material disciplinary events, if any, involving such subadviser.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The following relationships or arrangements with related persons are material to our business and may create potential conflicts of interest:

### **Broker-Dealers**

Some of our employees, including some of our executive officers, are registered with the Financial Industry Regulatory Association (FINRA) as representatives and principals of NYLIFE Distributors LLC. NYLIFE Distributors is our affiliate and is registered as a broker-dealer with the SEC. NYLIFE Distributors LLC serves as the principal underwriter and distributor of *The MainStay Funds*. By virtue of their FINRA registrations, certain of our employees may promote the sale of *The MainStay Funds* to registered representatives of other broker-dealers who may recommend that their clients purchase these products. In limited circumstances, we may also recommend that our clients purchase *The MainStay Funds*.

NYLIFE Distributors may compensate registered employees who promote the sale of *The MainStay Funds* for their efforts, and New York Life Investments may make payments to NYLIFE Distributors to help fund such compensation.

We do not use affiliated broker-dealers to execute securities transactions for our clients. However, in instances where our advisory client purchase *The MainStay Funds*, NYLIFE Distributors may be listed as the dealer of record on the account.

### **Investment Companies**

We serve as the investment adviser for *The MainStay Funds*. Conflicts may arise as to the allocation of investment opportunities among *The MainStay Funds* and our other clients. We have policies and procedures in place to make sure that all clients are treated fairly and to ensure that no client account receives preferential treatment in the allocation of investment opportunities (see “*Brokerage Practices*” section below).

### **Investment Advisers**

We are affiliated with, and have material relationships with, the following federally registered investment advisers:

- NYL Investors LLC (File No. 801-57396): As noted above, in some cases, employees of New York Life Investments may be dual hatted and acting in an advisory capacity with respect to accounts managed by NYL Investors



including: affiliated insurance companies' general and separate accounts and other affiliated corporate entities; third-party institutional clients; investment companies; and other pooled investment vehicles.

- MacKay Shields LLC (File No. 801-5594), acts as a subadviser for certain mutual funds, and for certain institutional accounts, for which New York Life Investments serves as adviser. MacKay Shields LLC also provides advisory services to separately managed account clients who participate in wrap programs that are sponsored by unaffiliated investment advisers or broker-dealers. MacKay Shields also serves as the investment manager of various limited partnerships and also engages in other advisory services. Clients of New York Life Investments may be solicited to invest in such limited partnerships or in others for which MacKay Shields serves in a similar capacity.
- Institutional Capital LLC (File No. 801-40779), acts as a subadviser for certain mutual funds for which New York Life Investments serves as adviser. Institutional Capital also provides advisory services to separately managed account clients who participate in wrap programs that are sponsored by unaffiliated investment advisers or broker-dealers.
- Cornerstone Capital Management Holdings LLC (File No. 801-69663), acts as a subadviser for certain mutual funds for which New York Life Investments serves as adviser, and may provide certain non-advisory services in connection with New York Life Investment's management of *The MainStay Funds*.
- Cornerstone Capital Management LLC (File No. 801-45262) acts as a subadviser for certain mutual funds for which New York Life Investments serves as adviser.
- GoldPoint Partners LLC (File No. 801-61010), serves as the investment manager of various limited partnerships and also engages in other advisory services. Clients of New York Life Investments may be solicited to invest in such limited partnerships or in others for which GoldPoint Partners serves in a similar capacity.
- Private Advisors, LLC (File No. 801-55696), serves as the investment manager of various limited partnerships and also engages in other advisory services. Clients of New York Life Investments may be solicited to invest in such limited partnerships or in others for which Private Advisors serves in a similar capacity. Private Advisors also acts as a subadviser for certain mutual funds for which New York Life Investments serves as adviser.
- MCF Capital Management LLC (File No. 801-73076), manages portfolios of commercial loans and related debt and equity investments in which clients of New York Life Investments may invest. While MCF Capital Management

maintains autonomous investment processes, it may leverage the resources and services of New York Life Investments for certain functions including the implementation of its Rule 206(4)-7 Compliance Program. In addition, certain officers of New York Life Investments may also serve as officers of MCF Capital Management.

From time to time, we may enter into arrangements with our affiliated investment advisers to recommend clients to each other. If we pay a cash fee to anyone for soliciting clients on our behalf or if we receive a cash fee from another investment adviser for recommending clients to it, we comply with the requirements of the SEC's cash solicitation rule to the extent that they apply. This rule requires a written agreement between the investment adviser and the person soliciting clients on its behalf. The rule may also require that the soliciting person provide a disclosure document to the potential client at the time that the solicitation is made. As required by the rule, we will not engage another person to solicit clients on our behalf if that person has been subject to securities regulatory or criminal action within the preceding ten years.

With the exception of the dual hatting relationships between New York Life Investments and NYL Investors, the investment management and operations functions at New York Life Investments and our affiliates are generally autonomous and operate separately from each other. These functions include all decision making on what, how and when to buy, sell or hold securities in client portfolios, the trading related to implementation of these decisions and operations. This policy is intended to limit the dissemination of inside information and to permit the investment management, trading and operations functions of each firm to operate without regard to or interference from the other. We believe this separation is in the best interest of clients of the firms as operating independently permits each firm to pursue the investment objectives of clients without reference to limitations resulting from investment activities of the other. To support this policy, we have adopted certain procedures, including a portfolio information barrier between us and these other affiliated investment firms. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

### **Banking Institution**

New York Life Trust Company is our affiliate and is a New York State chartered trust company. Some officers and employees of New York Life Investments are also officers, employees or directors of New York Life Trust Company. New York Life Trust Company acts as a directed trustee or custodian for the retirement plan accounts for which New York Life Investments is the recordkeeper. New York Life Trust Company effects securities transactions for such accounts, and, unless otherwise directed by the applicable plan sponsor, New York Life Trust Company utilizes the services of affiliated broker-dealers in effecting such transactions.

New York Life Investments also serves as subadviser to a collective investment trust for which New York Life Trust Company acts as trustee, and is the named custodian.

## **Insurance Company**

New York Life Investments is a wholly-owned, indirect subsidiary of New York Life. New York Life is a mutual insurance company that is an admitted insurer in all 50 states and in the District of Columbia. Subject to New York Life's supervision, some of our employees, through our dual hatting arrangement with NYL Investors, provide advisory services to the general account and separate accounts of New York Life and NYLIAC, as well as for the general account of NYLAZ. NYLIAC and NYLAZ are wholly-owned subsidiaries of New York Life. New York Life and NYLIAC may also invest in the *Private Investment Funds* that we or our affiliates manage.

Some of our employees are also officers of New York Life in accordance with state insurance law requirements. Given the percentage of assets under management that are attributable to these entities, the appearance of a conflict may arise as to the allocation of investment opportunities between them and our other clients.

To address this potential conflict of interest, we have adopted several procedures that are intended to ensure that all client accounts are treated fairly and equitably. Pursuant to these procedures, it is not permissible to allocate or re-allocate an order to enhance the performance of one account over another (see "*Brokerage Practices*" below). It is also not permissible to favor any account over another. Compliance with these requirements is monitored as part of our supervisory review process.

To further mitigate this potential conflict, our affiliated insurance company general accounts generally follow buy-and-hold strategies and have different investment objectives from our third-party and separate accounts, which generally follow total return strategies with specific benchmarks and investment objectives. As a result of these different strategies, transactions that are appropriate for an affiliated general account may not be appropriate for a separate account or unaffiliated account and vice versa. Such a determination is typically made by the portfolio manager prior to executing a trade, and the rationale for the investment decision is documented as part of the trading process. Our Compliance Department conducts periodic reviews to ensure that allocation decisions are being properly documented.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING:**

### **Code of Ethics and Personal Trading**

New York Life Investments has a fiduciary relationship with our clients that requires that we and our employees place the interests of our clients first and foremost. As such, our Code of Ethics (the "Code") covers all employees and sets forth guidelines that promote ethical conduct generally. In addition to the Code's policies regarding personal securities trading, the Code requires our employees to follow policies and procedures relating to the conduct standards of our Code including: conflicts of interest, inside information and information barriers, gifts and entertainment, personal political contributions, and selective disclosure of

mutual fund portfolio holdings. A copy of our Code is available upon request. Our contact information appears on the cover page of this brochure.

While we permit our employees to engage in personal securities transactions, as a company we recognize that these transactions may raise potential conflicts of interests. This is particularly true when they involve securities owned by, or considered for purchase or sale for, a client account.

We address potential conflicts of interests in our Code by requiring that, with regard to investments and investment opportunities, our employees' first obligation is to our clients. Our Code requires that all of our employees adhere to the highest duty of trust and fair dealing. All employees: (i) must conduct their personal securities transactions in a manner that does not interfere with any client's portfolio transactions, or take inappropriate advantage of an employee's relationship with a client, (ii) may not trade while in possession of material, non-public information, (iii) may not engage in short-term trading (the purchase and sale or sale and purchase within 30 days) of any mutual fund advised or subadvised by us, and (iv) must certify annually to compliance with the Code and related policies.

Some provisions of our Code, particularly with respect to personal trading, apply only to "Access Persons" and "Investment Personnel". Access Persons are defined as officers or directors of New York Life Investments, or employees who have access to non-public information regarding any client's purchase or sale of securities, or who have non-public information regarding the portfolio holdings of any mutual fund that we advise. While certain exceptions may apply, generally Access Persons:

- Subject to certain exceptions, may not purchase or sell "Covered Securities" without pre-clearance through our Compliance Department. Covered Securities include everything except: i) transactions involving direct obligations of the US Government; ii) shares of unaffiliated open end investment companies; iii) commercial paper; iv) certificates of deposit; and v) high quality short term investments and interests in qualified state college tuition programs.
- May not profit from the purchase and sale or sale and purchase of the same Covered Security within 60 days.
- May not purchase or sell a Covered Security on a day when there is a buy or sell order for a client.
- May not purchase securities in initial public offerings or in connection with private placements except with the express written prior approval our Chief Compliance Officer.
- May not participate in Investment Clubs.
- Must file quarterly reports and certifications of covered trading activity.

Investment Personnel must adhere to the following additional restrictions. Investment Personnel are defined as employees who in connection with their regular functions participate in making recommendations regarding the purchase or sale of securities for client accounts (i.e., portfolio managers, traders and analysts):

- May not purchase or sell securities (subject to a de minimus threshold) for their own account if such securities have been purchased or sold for a client account in the prior seven days, or can reasonably be expected to be purchased or sold for a client account in the next seven days.
- May not trade in options with respect to individual securities.

### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

In the ordinary course of providing our investment advisory services, we may also recommend that clients purchase or sell securities or interests in which our affiliates have a material financial interest. For example:

- Some of our employees, through our dual hatting arrangement with NYL Investors, provide investment advisory services to the general and separate accounts of our parent company New York Life as well as for NYLIAC and NYLAZ which are wholly-owned subsidiaries of New York Life. New York Life Investments, or our employees, may recommend that clients purchase or sell securities that are also held in these affiliated accounts.
- We may purchase or sell shares of our proprietary mutual funds, *The MainStay Funds*, for client accounts.
- We may recommend investments to our clients that the clients of our advisory affiliates also own.
- We or an affiliate may serve as the general partner for a pooled investment vehicle that we advise and recommend to clients.

As a result of these recommendations and potential transactions, potential conflicts of interest could arise between us and our clients. These potential conflicts include:

- Unfair allocation of limited investment opportunities between our affiliated and unaffiliated accounts.
- Preferential allocation of investment opportunities to our accounts that pay a performance-based management fee.
- Placing trades for our affiliated accounts before or after trades for our other accounts to take advantage of (or avoid) market impact.

- Using information concerning transactions in our advisory affiliate’s client accounts, or in *The MainStay Funds*, to the benefit of our client accounts.

These potential conflicts are mitigated by the fact that our affiliated insurance company general accounts generally have different investment strategies than our unaffiliated accounts (see the “*Industry Affiliations*” section above). As a result of these different strategies, transactions that are appropriate for an affiliated account may not be appropriate for an unaffiliated account and vice versa.

To further mitigate these potential conflicts of interest, when purchases or sales are appropriate for both an affiliated and an unaffiliated account, such orders are typically aggregated or “bunched” as one order. These orders are then allocated across client accounts in a fair and equitable manner to ensure that no one client account receives preferential treatment over another (see “*Brokerage Practices*” below).

To address potential conflicts of interest across affiliates, each adviser affiliate operates independently with respect to investment strategy, trading and operations. Furthermore, affiliates are generally not privy to another affiliate’s information (i.e. investment decisions, research, client information) that may potentially pose conflicts of interest. Specifically, New York Life Investments and its affiliates have established information barrier policies that serve to limit the dissemination of material non-public information. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

## **ITEM 12: BROKERAGE PRACTICES**

### **BROKERAGE PRACTICES**

When we select or recommend a broker-dealer for transactions in our clients’ accounts, we consider a number of factors regarding the broker-dealer and the reasonableness of its compensation. The factors we consider in selecting a broker-dealer and determining the reasonableness of its compensation include:

- Security price and spreads;
- Commission rates, if applicable;
- Size of the order;
- Nature and extent of services and frequency of coverage;
- Integrity, reputation, financial responsibility and stability;
- Market knowledge and ability to understand trading characteristics of the security and overall performance;
- Ability to execute in desired volume and to act on a confidential basis;
- Willingness to commit capital;
- Access to underwritten offerings and secondary markets;
- Operational efficiency and facilities made available including trading networks, access to multiple brokers and markets, and significant resources for positioning as principals; and

- Nature and extent of research services (i.e., soft dollars).

When selecting a broker-dealer, we do not consider its referral of clients to us. We also do not consider its sale of shares of *The MainStay Funds* or of any private funds that we or any of our affiliates advise. While we may direct brokerage to broker-dealers that have consulting divisions that might refer clients or investors to us, we have no agreements to do so. When evaluating compensation (e.g., commissions), we are not required to solicit competitive bids, and do not have an obligation to seek the lowest available commission cost, but rather best overall execution.

For clients that invest through the SMAs, the wrap fee charged by the sponsor firm covers trade and execution services. As a result, the sponsor and client typically request that transactions for clients' accounts be executed by the sponsor of the wrap fee program (or its affiliate) or a broker-dealer designated by the sponsor firm. In the event that the sponsor cannot provide "best execution" for a given transaction, we or the subadviser that we retain, has the option to trade with a different broker-dealer. If this occurs, the client may incur a commission cost. For equity wrap programs, we may implement a rotation methodology that is reasonably designed to avoid systematic favoring of one sponsor or product over another and to trade similarly situated accounts equitably over time. We note however, that there may be instances when prevailing market conditions or the nature of an order requires us to deviate from our standard rotation.

The subadvisers who provide models with respect to trades in the SMAs may execute trades for other clients with similar strategies prior to our placing trades with wrap sponsors. In addition, we/our subadvisers may not conduct transactions on behalf of our wrap accounts as frequently as we do on behalf of other clients because, among other reasons, the wrap program transactions may be de minimis due to the wrap fee programs lower minimum account balances and/or minimum size order requirements. Finally, New York Life Investments may not be able to accommodate investment restrictions that are unduly burdensome or materially incompatible with our investment approach. Clients are encouraged to consult their own financial advisors and legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of an investment manager and a particular strategy and participating in a wrap or other program. In the course of providing services to program clients who have financial advisors, we may rely on information or directions communicated by the financial advisor acting with apparent authority on behalf of its clients.

### **SOFT DOLLARS**

New York Life Investments receives brokerage and research services from broker-dealers that execute portfolio transactions for clients, and from third parties with which such broker-dealers have arrangements. The brokerage commissions that are used to acquire research in these types of arrangements are known as "soft dollars."

Specifically, New York Life Investments obtains soft dollar credits (to pay for soft dollar services) from the portfolios of *The MainStay Funds* that execute agency transactions

including OTC agency transactions. These soft dollar credits may be generated by either New York Life Investments directly or by a subadviser to *The MainStay Funds*.

Generally, the total amount of soft dollar commissions generated from each eligible *MainStay Fund* account is capped at approximately 30% of eligible commissions on an annual basis. The nature of the products and services provided by brokerage firms generally include information and analysis concerning investment strategy, securities markets and economic and industry matters.

An inherent conflict of interest exists with respect to the use of soft dollars because of an investment advisers' ability to purchase certain products and services on a cash basis using its own resources. Thus, the adviser has an incentive to disregard its best execution obligation when directing transactions and an incentive to generate more trades to earn soft dollar credits for services.

To manage the conflicts related to soft dollar usage, we, and each subadviser to *The MainStay Funds*, reviews all soft dollars and determines in good faith that the amount of commissions paid is reasonable in relation to the value of the brokerage and research services provided. In addition, soft dollar arrangements are only entered into for services and products that qualify under the "safe harbor" provisions set forth in Section 28(e) ("Section 28(e)") of the Securities Exchange Act of 1934, as amended.

Research products and services provided by brokers through which transactions are effected on behalf of client accounts are used for the benefit of all clients collectively. We also seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits that are generated by the account.

Sometimes, a portion of the brokerage and research products and services used by our subadvisers are eligible under Section 28(e) and another portion is not eligible. These are referred to as "mixed-use" products and services. When this occurs, the subadviser will make a good faith allocation between the research and non-research portion of services, and will use its own funds to pay for the percentage of the service that is used for non-research purposes.

#### **AGGREGATION AND ALLOCATION**

If we believe that the purchase or sale of the same security is in the best interest of more than one client, we may aggregate the securities to be sold or purchased. We will not aggregate trades (also known as "bunching" trades) unless we believe that doing so is consistent with our duty to seek best execution for our clients.

When we allocate bunched trades to client accounts, we do not favor the interest of one client over another. In addition, it is not permissible to allocate or re-allocate an order to enhance the performance of one account over another, or to favor one account over another.

To the extent possible, orders are pre-allocated prior to execution. However, there may be instances where pre-allocating certain trades may not be feasible or practicable given the



unique nature of the respective market. In these instances, such allocation will never unfairly discriminate against or advantage one account over another.

There may be instances when there is a limited supply for a particular security or investment opportunity. In such cases, all orders will receive an equitable allocation based on account suitability and account size, and where appropriate, adjusted in consideration of a “normal minimum holding”. Normal minimum holdings are determined based on characteristics of the particular asset class.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **MONITORING**

#### **Fixed Income Investors**

All FII managed accounts are monitored continuously in an effort to ensure that client objectives are being achieved. Each FII investment team has the primary responsibility for review of the accounts it is managing, including review of the appropriateness of portfolio holdings and transactions in light of each account’s investment objectives, guidelines and restrictions. Investment Team reviews may include (depending on the asset class) reviews of sectors, securities, trade levels, durations and yield exposures.

Formal weekly and informal ad hoc meetings are typically held to discuss portfolio positions, strategies, trends and relative value. Where possible, portfolio attributions versus the benchmarks are calculated monthly/quarterly to determine how investment decisions and associated risks have performed. Quarterly portfolio reviews are also conducted which typically include a review of attribution, strategies and account performance versus portfolio benchmarks.

In addition, all FII trading activity is reviewed daily or weekly by a supervisor or his delegate to ensure that all trading was conducted in accordance with firm procedures. In all cases, accounts are subject to review by Compliance Personnel who monitor account trading on a daily basis with the assistance of Aladdin, our front-end trade order management and compliance system that incorporates pre-trade and post-trade compliance testing against account restrictions. Our Compliance Personnel review and investigate any alerts or breaches identified by the system.

With respect to custodial reconciliations, our Securities Operations Group will reconcile cash and holdings daily between our records and the custodian bank’s records. Any discrepancies will be researched and resolved in a timely manner. With respect to our affiliated accounts, holdings are reconciled monthly. To mitigate risks associated with manual processes, reconciliations are automated provided the custodian can transmit an electronic file.

Trades are communicated from our trading system to custodians electronically via SWIFT. Trades are also communicated electronically from our trading system to Omgeo OASYS and automatically confirmed with the broker/dealer. In the event a broker/dealer is not set up on Omgeo OASYS, the trade is generally confirmed verbally or via e-mail no later than T+1.

### **Strategic Asset Allocation and Solutions Group**

All SAS managed accounts are monitored continuously in an effort to ensure that client objectives are being achieved. Holdings, performance, and risk reports are generated and distributed daily. The Group meets formally at least once a week, often more frequently, to review the prevailing markets conditions, reassess existing positioning, and to discuss new trading ideas. A majority of the committee sets policy, but the process by which the committee arrives at a decision is heavily influenced by the head of the Group.

### **Separately Managed Accounts Group**

For our SMAs, certain elements of the account maintenance and reconciliation functions has been outsourced to a third party vendor. Nonetheless, our SMA Group continues to be responsible for overseeing client accounts. As such, on a regular basis, performance is reviewed by the SMA Group to gauge actual portfolio performance against model portfolio performance. Deviations from the model portfolios are appropriately addressed and corrected. In addition, investment guidelines are monitored via our sub-administrators' Fiserv APL Accounting System. On a daily basis the SMA Group also reviews: i) trade reconciliation reports; ii) new account activity; iii) cash reports; and iv) trade settlement reports.

### **Mutual Funds**

For *The MainStay Funds*, our Mutual Fund Compliance Department works with the Funds' third-party administrator to conduct daily back-end reviews of each fund portfolio to ensure that the investment policies, restrictions, and objectives are being met. In addition, on a monthly basis, each mutual fund portfolio manager is asked to certify that the account has been in compliance throughout the month and that all trade errors have been properly reported.

### **Trade Errors**

New York Life Investments has a policy in place pertaining to the correction of trade errors. In the event that an error occurs, it is identified and corrected as soon as practicable. Generally, client accounts are made whole for any losses. However, pursuant to the policy, we may not reimburse for a de minimis error, which we define as a loss of \$25 or less.

### **CLIENT REPORTING**

The content and frequency of client reports varies by client. Such reporting requirements are typically part of the contract negotiations and are memorialized in the client's IMA. Our client reports typically include portfolio holdings, transaction and performance information, and information covering capital markets and portfolio outlook. Customized reporting is typically provided as frequently as desired by clients. With respect to our SMAs, account holders typically receive client reports from the account sponsor and do not receive client reports from us.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

We do not have any client referral arrangements in place at this time. However, from time to time we may enter into solicitation agreements with certain of our other affiliated investment advisers to refer clients to each other. In this case we may pay or receive a cash fee for such referrals. If we pay or receive a cash fee for client referrals, we comply with the requirements of the SEC's cash solicitation rule to the extent that they apply.

We may also have arrangements in place whereby we compensate an unaffiliated third-party for soliciting investors to invest in pooled investment vehicles managed or subadvised by New York Life Investments. These arrangements will be disclosed to the investor in the respective offering memorandum. This is not a solicitation of advisory services and therefore, the arrangement does not fall under SEC Rule 204(4)-3 regarding solicitation arrangements.

## **ITEM 15: CUSTODY**

We do not have direct custody of client funds or securities. All client accounts are maintained at qualified custodians, such as banks or broker-dealers that are chosen by the client. Clients receive account statements directly from their custodians. In addition, clients receive duplicate account statements from us. When you receive an account statement from us, you are encouraged to compare it to the account statement that you received from your custodian. The two statements should be consistent.

In rare cases, we may be deemed to have indirect custody of a client's account because the account is custodied with an affiliate or because we serve as general partner to a limited partnership. When we are deemed to have indirect custody of a client's account, we comply fully with the custody rules under the Investment Advisers Act of 1940.

## **ITEM 16: INVESTMENT DISCRETION**

We have investment discretion to manage securities on behalf of client accounts. Clients may impose restrictions on this discretion by, among other things, prohibiting the purchase of specific securities, or prohibiting the purchase of securities within a specific industry. Clients may also restrict the use of certain broker-dealers to execute trades, or may restrict the amount of securities that can be bought or sold within the account. We may also accept client accounts on a non-discretionary basis.

Client imposed restrictions are detailed in the client's investment advisory agreement. Prior to boarding a new client account, we obtain all necessary information to ensure that the account, including any relevant restrictions, is properly established on our trading and accounting systems.

## **ITEM 17: VOTING CLIENT SECURITIES**

New York Life Investments has adopted a Proxy Voting Policy. This Policy is designed to ensure that all proxies are voted in the best interest of our clients without regard to our interests or the interests of our affiliates. With respect to *The MainStay Funds* however, we may delegate responsibility for voting proxies to the fund's subadviser. When this occurs, the proxy is voted in accordance with the subadviser's proxy voting policy.

To assist us in researching and voting proxies for those accounts for which we have retained voting rights, we have engaged Institutional Shareholder Services ("ISS"), a third party proxy service provider. Where a client has contractually delegated proxy voting authority to us, we vote proxies in accordance with ISS' standard voting guidelines unless the client provides us with alternative guidelines. Alternative guidelines must be detailed in the client's investment advisory agreement.

A portfolio manager can override an ISS voting recommendation if he/she believes it is in the best interest of our clients to vote otherwise. To override an ISS recommendation, the portfolio manager must submit a written override request to our Compliance Department. Upon receipt of an override request, Compliance reviews the request to determine whether any potential material conflict of interests exist between us and our clients.

Material Conflicts may exist when we or one of our affiliates:

- Manages the issuer's or proponent's pension plan.
- Administers the issuer's or proponent's employee benefit plan.
- Provides brokerage, underwriting, insurance or banking services to the issuer or proponent.
- Manages money for an employee group.

Additional material conflicts may exist if one of our executives is a close relative of, or has a personal or business relationship with:

- An executive of the issuer or proponent.
- A director of the issuer or proponent.
- A person who is a candidate to be a director of the issuer.
- A participant in the proxy contest.
- A proponent of a proxy proposal.

If a potential conflict exists, our Compliance Department refers the override requests to our Proxy Voting Committee for appropriate resolution. The Proxy Voting Committee considers the facts and circumstances of the potential conflict, and determines how to vote. This determination could include: permitting or denying the override request; delegating the vote to an independent third party; or obtaining voting instructions from the client.

A material conflict may also exist when we manage a separate account, a fund or other collective investment vehicle that invests in *The MainStay Funds*. When we receive a proxy

in our capacity as a shareholder of an underlying portfolio of *The MainStay Funds*, we will vote in accordance with the recommendation of ISS based on our pre-determined guidelines. If there is no relevant predetermined guideline, then we will vote in accordance with the recommendation of ISS based on its research. If ISS does not provide a recommendation, we then may address the conflict by “echoing” or “mirroring” the vote of the other shareholders in those underlying funds."

A copy of our proxy voting policies and procedures or information as to how proxies were voted for securities held in their account is available upon request.

### **ITEM 18: FINANCIAL INFORMATION**

At this time, New York Life Investments is not required to file a balance sheet for our most recent fiscal year because we do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance.

### **ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

New York Life Investments is registered with the SEC and provides notice filings to certain states. We are not registered with any state securities authorities.