

Why Investors Should Consider Global Equities

Globalization has created a world of investment opportunities that extend beyond regional borders. With the global economic recovery making headline news, now is a particularly important time for investors to review their allocation to equities and, when suitable, consider global equities a “core” holding with long-term diversification and growth potential.

Why Global Equities?

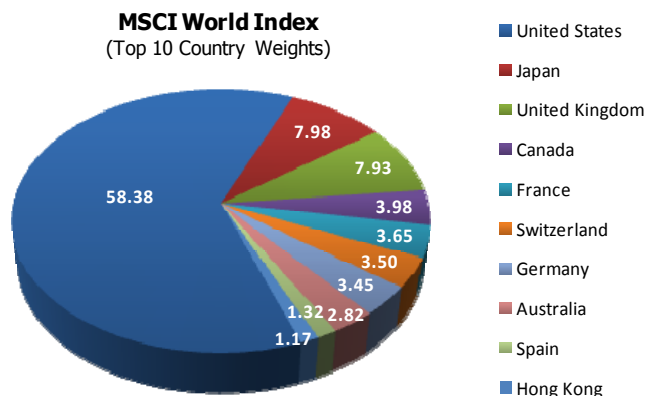
- Globalization – Growth Prospects in the World Economy:** Despite the recent financial crisis, known as the “Great Recession,” World GDP has nearly doubled in size over the past 10 years and has grown close to 25% since 2008. Along with this economic recovery, we have also experienced a remarkable increase in the size of the global equity market which reached a market capitalization of \$68.7 trillion in 2014, representing a 21% increase in size from the previous year.¹



	2004	2008	2014*
World GDP	\$43.0 Trillion	\$62.3 Trillion	\$77.6 Trillion

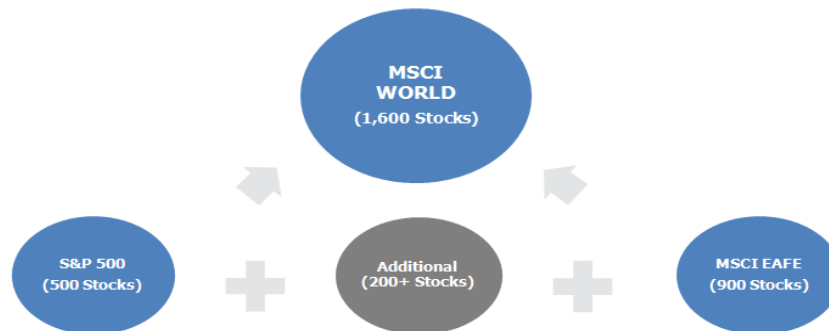
*Year-to-date through October, 2014. Source: International Monetary Fund, World Economic Outlook Database.

- Diversification – Consider Global Equities the “Core” Holding:** Many actively managed global equity strategies are benchmarked to the MSCI World Index, which consists of large and mid-cap representation across 23 developed markets. With over 1,600 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.



¹ World Federation of Exchanges, 2014 WFE Market Highlights

- **Broader Investment Universe – “Best of World” vs. “Best of Region:”** By combining local company knowledge with a global industry perspective, global managers have an edge over regional specialists. A larger investment universe provides active managers with the opportunity to pursue investment in “best of world” companies. With a universe of over 1,600 stocks, the MSCI World Index (proxy for global equities) offers additional alpha generating opportunities with an additional 200+ stocks that are not available in typical regional allocations consisting of the S&P 500 Index or MSCI EAFE Index.

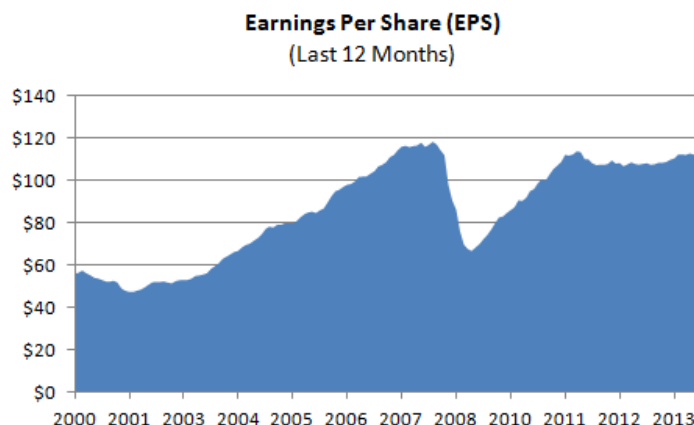


- **Common Household Names:** Investors may be surprised to learn that their core portfolio allocations to U.S. Developed Equity (S&P 500 Index) and International Developed Equity (MSCI EAFE Index) often lack exposure to a variety of companies with a strong global presence. Set forth below are just a few examples of stocks available in the MSCI World Index, but not included in either the S&P 500 Index or MSCI EAFE Index as of December 31, 2014. Global strategies often have access to a wider investment universe from which investment managers can seek alpha.

<ul style="list-style-type: none"> ■ LinkedIn Corporation ■ DISH Network Corporation ■ Hertz Global Holdings, Inc. 	<ul style="list-style-type: none"> ■ Thomson Reuters Corporation ■ American Airlines Group, Inc. ■ Royal Bank of Canada 	<ul style="list-style-type: none"> ■ Tesla Motors, Inc. ■ Las Vegas Sands Corp. ■ Sprint Corp.
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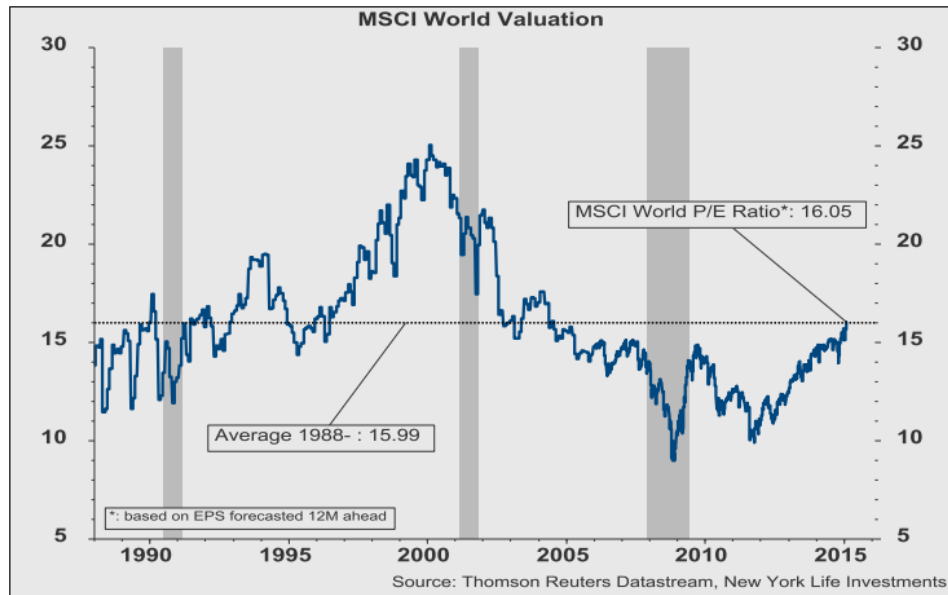
Why Now?

- **Economic & Earnings Recovery:** The financial economy is linked to the real economy. After several years of economic stimulus (“Quantitative Easing”) and aggressive cost control, corporations have returned to a position of strength with improved balance sheets and earnings growth. From a historical perspective, since 2000, earnings per share for companies in the MSCI World Index have doubled in size and are approaching record levels.



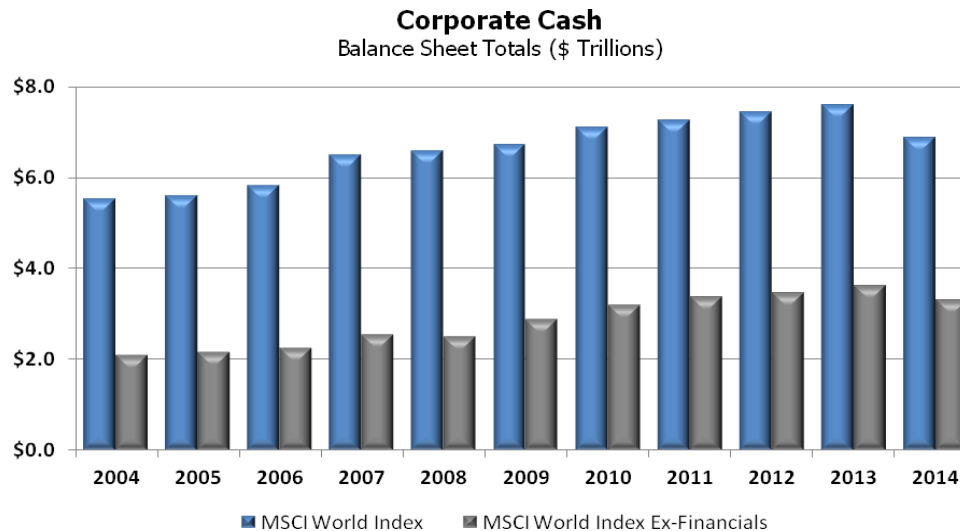
Source: FactSet, March 2014. Monthly data on the companies that make up the MSCI World Index. Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

- **Global Equities are Attractively Valued:** Despite the rally in equity prices since hitting a low in 2009, global equities remain attractively priced and are below the historical average valuation as measured by the P/E ratio.



Note: Shaded areas indicate U.S. recessions, according to the National Bureau of Economic Research (NBER).

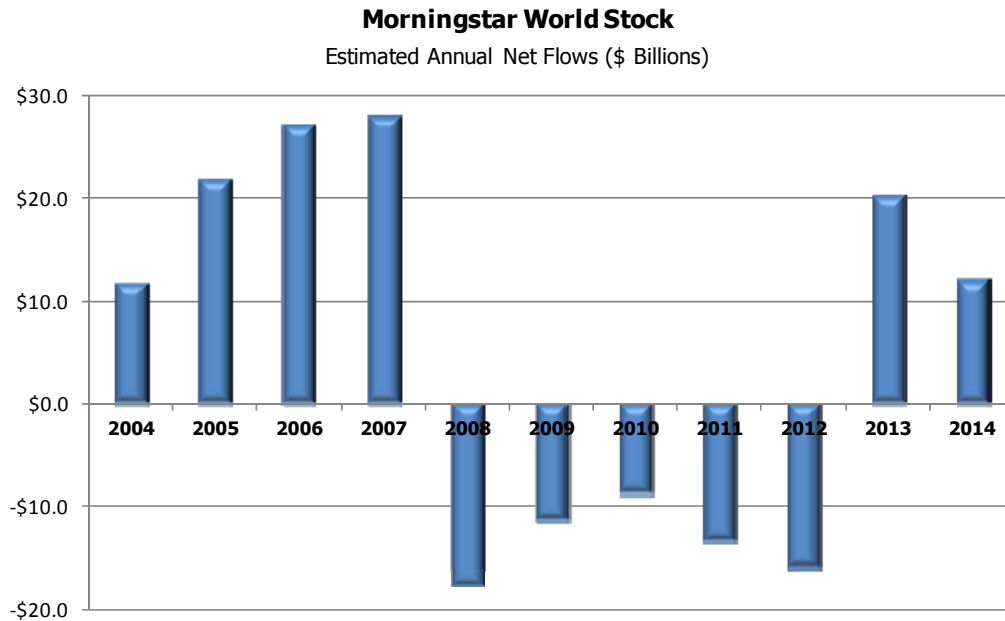
- **Corporate Cash - A Catalyst for Future Growth:** With corporate cash balances at record levels, companies are likely to use their record levels of cash to increase shareholder value through mergers & acquisitions (M&A), capital expenditures (CapEx), share buybacks, dividends, and debt reduction.



Source: FactSet, December 2014

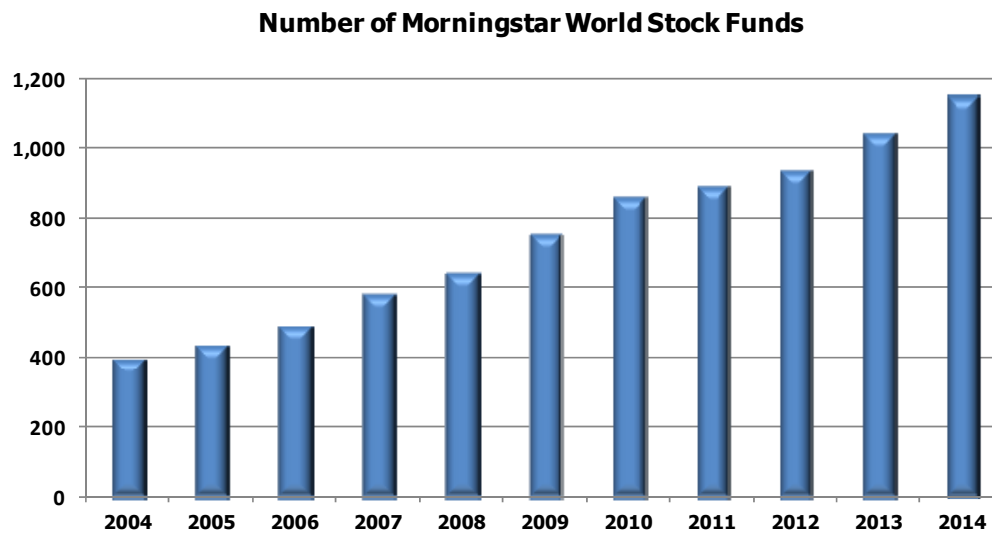
Strong Investor Demand

- **Investor Rotation Back into Global Equities:** After five years of negative fund flows, the Morningstar World Stock Category has seen a robust recovery in net fund flows.



Source: Morningstar, December 2014

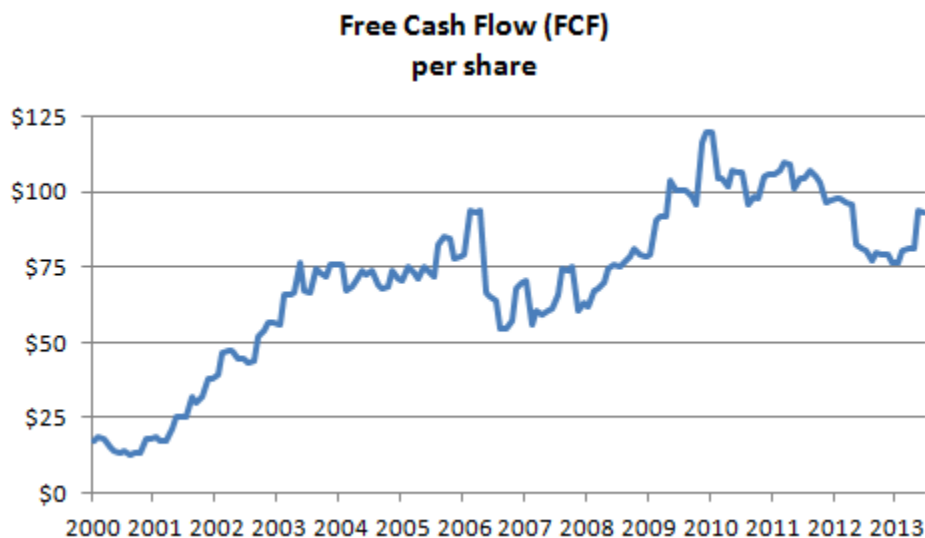
- **Supplying Increased Demand:** The number of mutual funds in the Morningstar World Stock Category has seen impressive growth over the past 10 years, nearly tripling in size.



Source: Morningstar, December 2014

The Formula for Success - Key Considerations

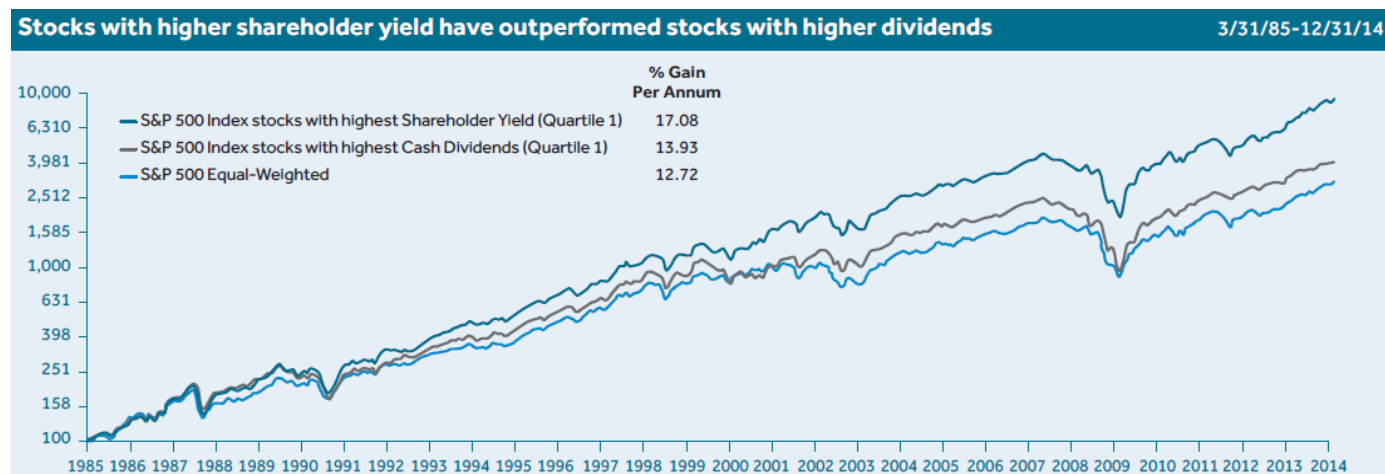
- “Cash is King” – The Importance of Free Cash Flow:** Free cash flow is considered to be a more transparent measure of a company's profitability, and it helps investors to evaluate management's ability to increase shareholder value. Specifically, free cash flow increases a company's ability to invest for future growth and is essential for paying dividends and conducting share repurchases. It also gives high-quality companies increased flexibility to pursue these corporate initiatives without becoming overly dependent on access to the capital markets.



Source: FactSet, March 2014. Monthly data on the companies that make up the MSCI World Index. Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

- The Power of Shareholder Yield:** Shareholder yield is a combination of cash dividends, share repurchases, and debt reduction. The key to capturing shareholder yield is to invest in high-quality companies with earnings growth, strong free cash flows, sustainable dividend policies, and disciplined capital allocation. The below chart depicts the potential long-term benefits of investing in an actively managed portfolio designed to capture shareholder yield.

Note: In the below chart, we present the S&P 500 Index as an approximation for global equities, since similar data is not available for the MSCI World Index.



Source: S&P Capital IQ Compustat. Monthly Data 3/31/1985 – 12/31/2014 (Log Scale). 3/31/1985 = 100. Shareholder yield reflects cash dividends paid, net repurchases, and net debt reductions. Ned Davis Research, Inc. Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

Concluding Thoughts

Globalization continues to transform the way companies do business. To remain competitive and to capitalize on new opportunities, many companies have shifted their local industry knowledge into a more global perspective that extends beyond regional borders. Evolving business complexity requires skilled investment managers with deep-rooted industry knowledge and the ability to capitalize on global trends as they occur.

The global economic and corporate earnings recovery presents a perfect opportunity for investors to review their allocation to global equities. Traditional U.S. developed and international equity allocations, as represented by mandates benchmarked to the S&P 500 Index and MSCI EAFE Index, often lack exposure to a host of companies that are key contributors to the global economy. In the current environment where growth is scarce, investors may find it challenging to identify companies with attractive growth potential and the ability to consistently create value for shareholders. Given these considerations, investors may find greater risk/reward potential by investing with an active manager versus broad index exposure. Active managers can use their investment flexibility to manage risk and to uncover new opportunities as they emerge. They may also shift portfolio weights to and from regions in real time, based on their top-bottom observations and bottom-up fundamental analysis. Global equity managers, who focus on industry-leading companies with a history of strong cash flow growth and efficient capital allocation, also provide a distinct perspective on the long-term drivers of shareholder return.

About risk: All mutual funds are subject to market risk and will fluctuate in value. Foreign securities may be subject to greater risks than U.S. investments, including currency fluctuations, less liquid trading markets, greater price volatility, political and economic instability, less publicly available information, and changes in tax or currency laws or monetary policy. These risks are likely to be greater for emerging markets than for developed markets. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions and the nationalization of foreign deposits or assets.

The Morgan Stanley Capital International World Index (MSCI World Index) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all capital gain and dividend distributions. The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE Index) is recognized as a measure of international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East. The Standard & Poor's 500 Index (S&P 500 Index) is an unmanaged index and is widely regarded as the standard for measuring large-cap U.S. stock market performance. An investment cannot be made directly into an index.

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