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→ The MainStay<sup>®</sup> Funds

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**MainStay<sup>®</sup>**  
**Value Fund**

**Dechert LLP**  
Legal Counsel

**PricewaterhouseCoopers LLP**  
Independent Auditors

1. As of October 31, 2003.

 **Investment  
Management LLC**

**Annual Report**  
**October 31, 2003**

MainStay is a division of New York Life Investment Management LLC, the investment advisor to The MainStay Funds.

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169 Lackawanna Avenue  
Parsippany, New Jersey 07054

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 **Investment  
Management LLC**

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## President's Letter

The first 10 months of 2003 represented a positive period for most investors. Although the stock market struggled from mid-January through early March, it recovered strongly through the end of October. The rally began several days before coalition forces entered Iraq and continued long after the conclusion of major combat operations. Although difficulties in Iraq, the Middle East, and North Korea continued to raise concerns, investors have tended to focus on corporate earnings and the potential for an economic turnaround.

The Federal Reserve remained accommodative throughout the 10-month period, and the Federal Open Market Committee lowered the targeted federal funds rate by 25 basis points on June 25, 2003, to a low 1.0%. Real gross domestic product, which grew at a modest 1.4% in the first quarter of 2003, rose by 3.3% in the second quarter. According to preliminary estimates by the Bureau of Economic Analysis, real gross domestic product grew at a seasonally adjusted annual rate of 8.2% in the third quarter. Much of this increase resulted from robust consumer spending. Although unemployment rates remain high, the figures have declined from their peak in June 2003, and the Federal Reserve recently observed that “the labor market appears to be stabilizing.”

Within the equity market, smaller companies generally outperformed larger ones and growth stocks tended to appreciate more than value equities at all capitalization levels. The bond markets benefited from anticipation of the Federal Reserve's easing move, and while yields on short-term securities continued to decline, yields on longer-term bonds rose to a peak in early September and closed the reporting period higher than where they began. For the 10-month period, corporate bonds generally outpaced Treasury securities, and high-yield bonds and emerging-market debt provided outstanding returns.

At MainStay, each of our Funds seeks to achieve its investment objective with an established process that is consistently applied in all market environments. While markets may shift and results may vary, we believe that our time-tested investment strategies can help you pursue your long-range goals with confidence.

As you may have noted, the date of this report differs from the date of previous annual reports. The MainStay Board of Trustees recently approved making October 31 the end of the fiscal year for most MainStay Funds. The report that follows provides details about the specific market conditions and portfolio management decisions that affected the performance of your MainStay Fund during the first 10 months of 2003. If you have any questions about this report or your MainStay Fund investments, your Registered Representative will be pleased to assist you.

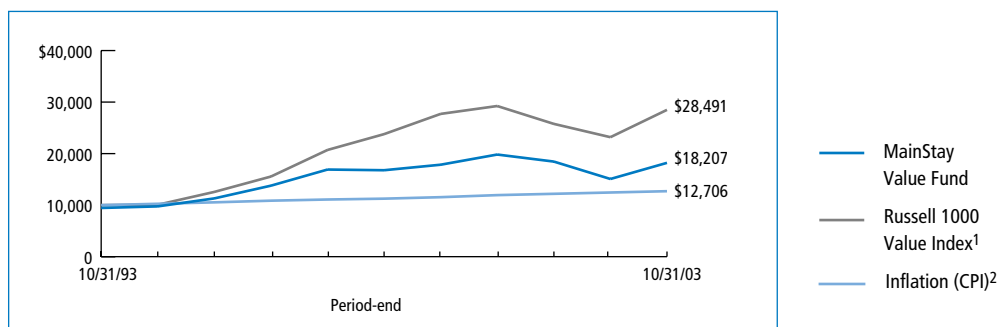
Sincerely,



Stephen C. Roussin  
November 2003

# \$10,000 Invested in MainStay Value Fund versus Russell 1000® Value Index and Inflation

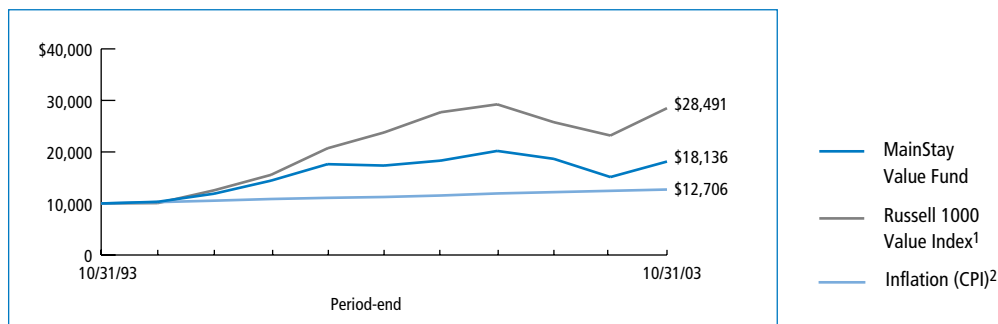
**Class A Shares** Total Returns with Sales Charges: 1 Year 14.14%, 5 Years 0.51%, 10 Years 6.18%



## Class B and Class C Shares

Class B Total Returns with Sales Charges: 1 Year 14.89%, 5 Years 0.56%, 10 Years 6.13%

Class C Total Returns with Sales Charges: 1 Year 18.89%, 5 Years 0.88%, 10 Years 6.13%



Past performance is no guarantee of future results. Due to market volatility, current performance may be less than that shown. Investment return and principal value will fluctuate, and shares, upon redemption, may be worth more or less than their original cost. For more current performance information, please visit [www.mainstayfunds.com](http://www.mainstayfunds.com). Performance tables and graphs do not reflect the deduction of taxes that a shareholder would pay on distributions or Fund-share redemptions. Total returns reflect change in share price, reinvestment of dividend and capital gain distributions, and maximum applicable sales charges explained in this paragraph. The graphs assume an initial investment of \$10,000 and reflect deduction of all sales charges that would have applied for the period of investment. Class A share performance reflects the effect of the maximum 5.5% initial sales charge and includes the historical performance of the Class B shares for periods from the Fund's inception on 5/1/86 through 12/31/94. Performance figures for the two classes vary after 12/31/94, based on differences in their sales charges and expense structures. Class C share performance includes the historical performance of the Class B shares for periods from the Fund's inception on 5/1/86 through 8/31/98. Class B shares would be subject to a contingent deferred sales charge (CDSC) of up to 5% if redeemed within the first six years of purchase, and Class C shares would be subject to a CDSC of 1% if redeemed within one year of purchase.

1. The Russell 1000® Value Index is an unmanaged index that measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest U.S. companies based on total market capitalization. Results assume reinvestment of all income and capital gains. An investment cannot be made directly into an index.
2. Inflation is measured by the Consumer Price Index (CPI), which is a commonly used measure of the rate of inflation and shows the changes in the cost of selected goods. The rate of inflation does not represent an investment return.

## Portfolio Management Discussion and Analysis

The equity markets enjoyed strong performance during the first 10 months of 2003, and the Fund participated in the rally. Although stocks rose during the first two weeks of the year, from mid-January through early March, stocks declined on weak employment and consumer-sentiment trends, general geopolitical uncertainty, and the possibility of a war in Iraq. Investors became increasingly concerned that the economy might again shift into a recession and that corporate profit growth would not materialize.

Investor sentiment shifted in mid-March, and a number of positive developments helped equities post strong gains through the end of October 2003. Investors reacted favorably to the progress of the war in Iraq, interest-rate policy remained accommodative, a tax cut provided fiscal stimulus, most equity valuations were reasonable, and a weakening U.S. dollar provided potential benefits for U.S. exporters and companies traditionally subject to import competition.

The equity rally appeared justified by a solid recovery in the economy and in corporate earnings. Real gross domestic product rose 1.4% in the first quarter of 2003, 3.3% in the second quarter, and according to preliminary estimates from the Bureau of Economic Analysis, at a seasonally adjusted annual rate of 8.2% in the third quarter. Operating earnings for companies in the S&P 500 Index<sup>1</sup> grew 6% in the second quarter of 2003 and an estimated 11% in the third quarter. Investors must now weigh these positive trends—and recent evidence that the stubbornly weak labor markets are improving—against higher stock valuations and a geopolitical landscape that remains unpredictable.

### Performance Review

For the 10 months ended October 31, 2003, MainStay Value Fund returned 18.02% for Class A shares and 17.26% for Class B and Class C shares, excluding all sales charges. All share classes underperformed the 19.22% return of the average Lipper<sup>2</sup> large-cap value fund over the same period. All share classes also underperformed the 20.84% return of the Russell 1000<sup>®</sup> Value Index<sup>3</sup> for the 10 months ended October 31, 2003.

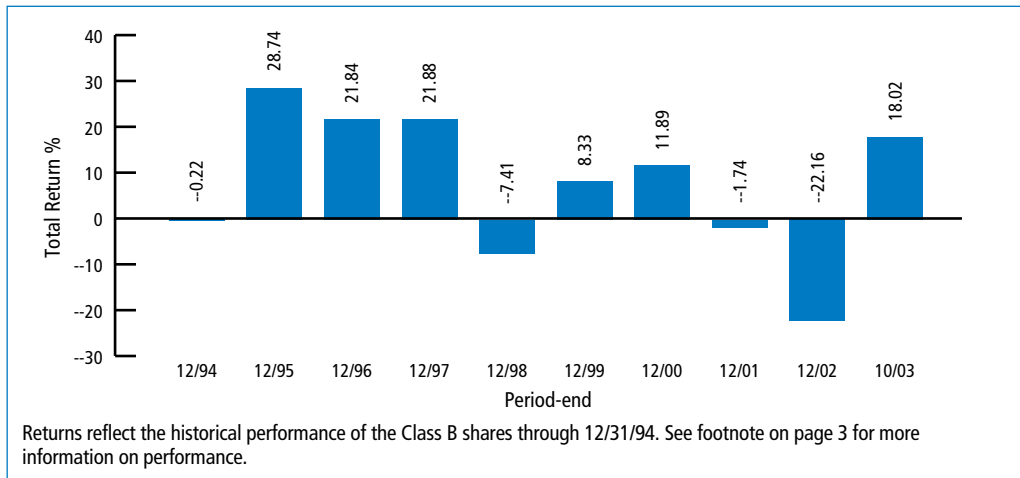
### Strong and Weak Performers

Good stock selection in the industrials sector was a major positive contributor to the Fund's performance. Shares of truck manufacturer Navistar International advanced 66.31%<sup>4</sup> as signs of a recovery in the heavy-duty truck market emerged. Investors were attracted to Navistar International's low-end valuation and significant earnings leverage in such a recovery. Electrical-components maker Cooper Industries was up 48.78%, helped by a cyclical recovery in the company's end-markets and strong free cash flow.

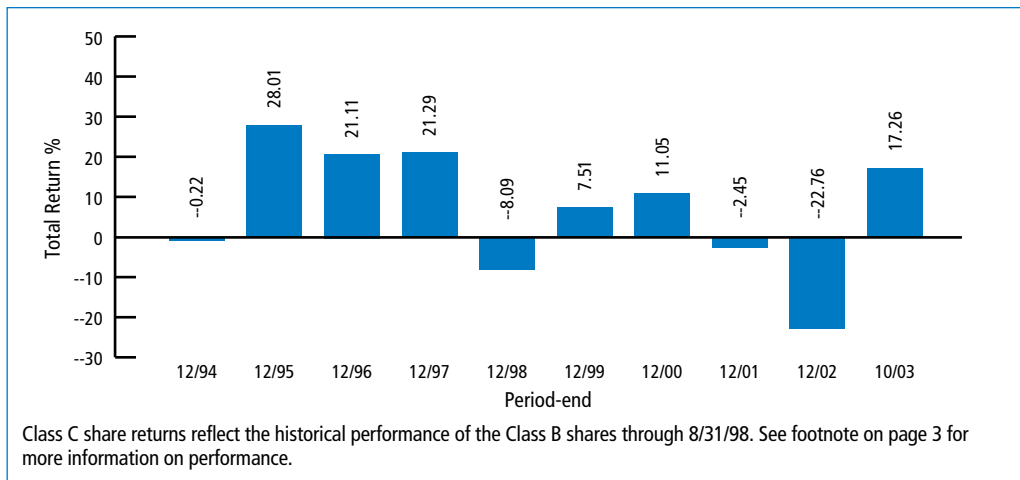
1. "S&P 500<sup>®</sup>" is a trademark of The McGraw-Hill Companies, Inc. The S&P 500 is an unmanaged index and is widely regarded as the standard for measuring large-cap U.S. stock-market performance. Results assume reinvestment of all income and capital gains. An investment cannot be made directly into an index.
2. Lipper Inc. is an independent fund performance monitor. Results are based on total returns with all dividend and capital gain distributions reinvested.
3. See footnote on page 3 for more information about the Russell 1000<sup>®</sup> Value Index.
4. Performance percentages reflect the price performance of the securities mentioned for the 10 months ended October 31, 2003, or for the portion of the reporting period shares were held in the Fund, if shorter. Performance percentages do not reflect the impact of dividends received, if any. Due to purchases and sales, the performance of Fund holdings may differ from that of the securities themselves.

## Year-by-Year and 10-Month Performance (without Sales Charges)

### Class A Shares



### Class B and Class C Shares



The Fund's holdings in the semiconductors & semiconductor equipment industry performed well as demand for microprocessors rebounded while pricing held firm. We took advantage of low valuations in Advanced Micro Devices and Intel. The price of Advanced Micro Devices shares rose 135.29% as optimism surrounding the launch of a new high-performance chip grew. The improving semiconductor cycle also benefited Intel, which saw its stock price rise 112.29% from the beginning of the year through the time we sold the Fund's entire position in October. Intel shares had reached our price target.

In the information technology sector, shares of Apple Computer detracted from the Fund's performance. The stock declined from the beginning of the year

until we sold the Fund's position in mid-April. We were concerned about published reports that Apple was interested in buying a large music company—reports that the company would not refute. Our concern was that a large acquisition outside the company's area of core competence would present considerable downside risk. No deal has yet been announced, and Apple Computer shares have risen since the Fund sold its position.

In the financials sector, FleetBoston Financial was up 72.60%, helped by an acquisition bid from Bank of America late in the reporting period. The Fund's capital-markets-sensitive holdings rebounded with the rally in the equity markets. Merrill Lynch led the way with a 57.80% gain, Goldman Sachs advanced 39.14%, and Citigroup gained 38.25%. Washington Mutual, which rose 31.23%, also added value to the Fund. The mortgage lender benefited from a strong housing market.

The consumer discretionary sector as a whole proved to be the biggest detractor from the Fund's performance for the reporting period. Shares of McDonald's suffered from a series of earnings-shortfall announcements and store closings. In February, after determining that the company's fundamentals had deteriorated, the Fund's entire position in the stock was sold. McDonald's shares were down from the beginning of the reporting period through the time of our last sale.

A shifting competitive landscape continues to affect the Fund's telecommunication services sector holdings. Local telecommunications providers BellSouth (+5.21%), SBC Communications (-6.42%), and Verizon (-9.58%) had disappointing results for the Fund.

Cash flow remains strong and dividend yields are high for the local incumbent carriers. We have, however, tilted the Fund's holdings in this sector to an underweighted position. It is our view that a new round of competitive pressure is likely to come from cable operators in the form of voice services.

### Sector Weightings

At the end of October 2003, the Fund was overweighted in the industrials, materials, and energy sectors and underweighted in the consumer discretionary, financials, telecommunications services, and utilities sectors.

### Looking Ahead

Steadily improving GDP and employment trends continue to be the main drivers of the stock market. Corporate earnings growth has also been steadily improving, but we believe that the assumption of continued good growth may already be embedded in most stock prices. Investors have been willing to give stocks the benefit of the doubt, but continued economic growth and positive employment trends will need to be maintained if the market is to sustain its current rally into next year. These improving economic trends are very favorable for our investment discipline, which has led us to many names that may benefit

from increased economic activity. We still find many attractive stocks in the industrials, materials, and energy sectors that we believe may benefit from an improving industrial economy.

Many companies in the industrials and materials sectors have spent much of the past few years restructuring their manufacturing facilities, reducing their break-even levels, and positioning themselves for what some believe to be an inevitable economic recovery. Companies that took this bold action should experience unprecedented efficiency and profitability once overall demand rebounds. Despite this favorable outlook, many stocks in these sectors still command valuation metrics at the lower end of their historical ranges. We have taken meaningful positions in the shares of such companies and believe that they many offer excellent prospects for capital appreciation over the next 12 to 18 months.

We continue to believe that since consumer balance sheets are stretched, incremental consumer spending trends may be less encouraging when the mortgage-refinancing boom begins to wane. For these reasons, we are underweighted in many consumer discretionary and consumer lending stocks. We are also concerned that improved commercial-loan growth could be offset by very low historical net interest margins and low investment yields at many banks, and we continue to underweight the commercial banks industry in the Fund's portfolio. The Fund's weighting in information technology has diminished throughout the 10-months as the sector rallied and many of the Fund's holdings reached our price targets. We will continue to use our disciplined value-investing approach to seize opportunities in quality companies with value-enhancing attributes when they arise.

Whatever the markets or the economy may bring, the Fund will continue to seek maximum long-term total return from a combination of capital growth and income.

Richard A. Rosen  
*Portfolio Manager*  
MacKay Shields LLC

Information on this page and the preceding pages has not been audited.

# MainStay Value Fund

	Shares	Value
<b>Common Stocks (92.5%)†</b>		
<b>AEROSPACE &amp; DEFENSE (4.9%)</b>		
Boeing Co. (The) (b) .....	248,200	\$ 9,553,218
Northrop Grumman Corp. ....	129,800	11,604,120
Raytheon Co. ....	441,800	11,698,864
		<u>32,856,202</u>
<b>BUILDING PRODUCTS (1.5%)</b>		
American Standard Cos., Inc. (a)(b) .....	106,200	10,163,340
<b>CAPITAL MARKETS (4.8%)</b>		
Goldman Sachs Group, Inc. (The).....	223,000	20,939,700
Merrill Lynch & Co., Inc. (a)(b) ...	196,600	11,638,720
		<u>32,578,420</u>
<b>COMMERCIAL BANKS (10.1%)</b>		
Bank of America Corp. ....	226,800	17,175,564
Bank One Corp. ....	223,100	9,470,595
FleetBoston Financial Corp. ....	329,810	13,321,026
PNC Financial Services Group, Inc. (The).....	266,300	14,265,691
Wachovia Corp. ....	310,300	14,233,461
		<u>68,466,337</u>
<b>COMMUNICATIONS EQUIPMENT (1.3%)</b>		
Motorola, Inc. ....	676,400	9,151,692
<b>COMPUTERS &amp; PERIPHERALS (2.1%)</b>		
International Business Machines Corp. ....	162,600	14,549,448
<b>CONTAINERS &amp; PACKAGING (2.4%)</b>		
Smurfit-Stone Container Corp. (a)(b).....	1,032,900	16,009,950
<b>DIVERSIFIED FINANCIAL SERVICES (3.7%)</b>		
Citigroup, Inc. ....	528,466	25,049,288
<b>DIVERSIFIED TELECOMMUNICATION SERVICES (4.9%)</b>		
ALLTEL Corp. ....	215,100	10,167,777
BellSouth Corp. ....	329,400	8,666,514
SBC Communications, Inc. ....	150,400	3,606,592
Verizon Communications, Inc. ....	309,000	10,382,400
		<u>32,823,283</u>
<b>ELECTRIC UTILITIES (0.6%)</b>		
FirstEnergy Corp. ....	117,300	4,033,947

† Percentages indicated are based on Fund net assets.

	Shares	Value
<b>ELECTRICAL EQUIPMENT (2.8%)</b>		
Cooper Industries Ltd. Class A .....	357,700	\$ 18,922,330
<b>ENERGY EQUIPMENT &amp; SERVICES (1.0%)</b>		
Transocean, Inc. (a).....	365,900	7,021,621
<b>FOOD &amp; STAPLES RETAILING (5.4%)</b>		
CVS Corp. ....	593,000	20,861,740
Kroger Co. (The) (a)(b) .....	899,900	15,739,251
		<u>36,600,991</u>
<b>FOOD PRODUCTS (1.2%)</b>		
Kraft Foods, Inc. Class A (b) .....	275,600	8,019,960
<b>HEALTH CARE PROVIDERS &amp; SERVICES (1.7%)</b>		
HCA, Inc. ....	298,000	11,398,500
<b>HOUSEHOLD PRODUCTS (0.6%)</b>		
Kimberly-Clark Corp. ....	75,500	3,987,155
<b>INSURANCE (8.7%)</b>		
Allstate Corp. (The).....	374,500	14,792,750
Hartford Financial Services Group, Inc. (The).....	313,700	17,222,130
Prudential Financial, Inc. ....	368,500	14,238,840
Travelers Property Casualty Corp. Class B.....	785,224	12,854,117
		<u>59,107,837</u>
<b>IT SERVICES (2.5%)</b>		
Computer Sciences Corp. (a)(b)	424,700	16,826,614
<b>MACHINERY (3.5%)</b>		
Navistar International Corp. (a)(b).....	580,900	23,485,787
<b>METALS &amp; MINING (3.3%)</b>		
Alcoa, Inc. ....	712,456	22,492,236
<b>MULTILINE RETAIL (0.5%)</b>		
Target Corp. ....	89,200	3,544,808
<b>OIL &amp; GAS (9.7%)</b>		
ChevronTexaco Corp. ....	250,152	18,586,294
ConocoPhillips .....	352,100	20,122,515
ExxonMobil Corp. ....	471,700	17,254,786
Kerr-McGee Corp. ....	232,800	9,661,200
		<u>65,624,795</u>

# Portfolio of Investments October 31, 2003

	Shares	Value
<b>Common Stocks (Continued)</b>		
<b>PAPER &amp; FOREST PRODUCTS (5.2%)</b>		
Bowater, Inc. ....	258,400	\$ 10,550,472
International Paper Co. ....	454,200	17,872,770
MeadWestvaco Corp. ....	254,637	6,600,191
		<u>35,023,433</u>
<b>PHARMACEUTICALS (3.6%)</b>		
Bristol-Myers Squibb Co. ....	354,100	8,983,517
Merck & Co., Inc. ....	340,900	15,084,825
		<u>24,068,342</u>
<b>ROAD &amp; RAIL (2.2%)</b>		
Burlington Northern Santa Fe Corp. ....	511,000	14,788,340
<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT (1.0%)</b>		
Advanced Micro Devices, Inc. (a)(b) .....	431,300	6,555,760
<b>SPECIALTY RETAIL (1.1%)</b>		
Gap, Inc. (The).....	401,800	7,666,344
<b>THRIFTS &amp; MORTGAGE FINANCE (2.2%)</b>		
Washington Mutual, Inc. (b) ....	336,650	14,728,437
Total Common Stocks (Cost \$576,743,281) .....		<u>625,545,197</u>
<b>Convertible Preferred Stock (0.9%)</b>		
<b>OIL &amp; GAS (0.9%)</b>		
Goldman Sachs Group, Inc. 3.0625%, Series VLO (c) .....	138,800	5,788,099
Total Convertible Preferred Stock (Cost \$5,480,018) .....		<u>5,788,099</u>
	<b>Number of Contracts (d)</b>	
<b>Purchased Call Options (0.2%)</b>		
<b>ENERGY EQUIPMENT &amp; SERVICES (0.1%)</b>		
ENSCO International, Inc. Strike Price @ \$24.00 Expire 3/19/04 (a)(e).....	2,182	825,531

	Number of Contracts (d)	Value
<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT (0.1%)</b>		
Micron Technology, Inc. Strike Price @ \$12.50 Expire 1/17/04 (a)(e).....	3,080	\$ 723,800
Total Purchased Call Options (Cost \$1,387,263) .....		<u>1,549,331</u>
	<b>Principal Amount</b>	
<b>Short-Term Investments (17.6%)</b>		
<b>COMMERCIAL PAPER (6.1%)</b>		
Federal Home Loan Bank 0.95%, due 11/6/03 .....	\$20,000,000	19,997,361
UBS Finance Delaware LLC 1.03%, due 11/3/03 .....	21,530,000	21,528,768
		<u>41,526,129</u>
Total Commercial Paper (Cost \$41,526,129).....		<u>41,526,129</u>
	<b>Shares</b>	
<b>INVESTMENT COMPANY (0.1%)</b>		
AIM Institutional Funds Group (f).....	667,690	667,690
Total Investment Company (Cost \$667,690) .....		<u>667,690</u>
	<b>Principal Amount</b>	
<b>MASTER NOTE (2.4%)</b>		
Banc of America Securities LLC 1.1874%, due 11/3/03 (f) ....	\$15,848,000	15,848,000
Total Master Note (Cost \$15,848,000).....		<u>15,848,000</u>

The notes to the financial statements are an integral part of, and should be read in conjunction with, the financial statements.

# MainStay Value Fund

	Principal Amount	Value
<b>Short-Term Investments (Continued)</b>		
<b>REPURCHASE AGREEMENTS (9.0%)</b>		
Countrywide Securities Corp. 1.1424%, dated 10/31/03 due 11/3/03 (f) Proceeds at Maturity \$31,088,919 (Collateralized by Various Bonds with a Principal Amount of \$36,695,913 and a Market Value of \$31,855,568).....	\$31,086,000	<u>\$ 31,086,000</u>
CS First Boston LLC 1.1124%, dated 10/31/03 due 11/3/03 (f) Proceeds at Maturity \$2,193,201 (Collateralized by Various Bonds with a Principal Amount of \$2,037,770 and a Market Value of \$2,220,555).....	2,193,000	<u>2,193,000</u>
Lehman Brothers, Inc. 1.1124%, dated 10/31/03 due 11/3/03 (f) Proceeds at Maturity \$5,000,457 (Collateralized by Various Bonds with a Principal Amount of \$5,149,743 and a Market Value of \$5,090,518).....	5,000,000	<u>5,000,000</u>

	Principal Amount	Value
<b>REPURCHASE AGREEMENTS (Continued)</b>		
Merrill Lynch & Co., Inc. 1.1424%, dated 10/31/03 due 11/3/03 (f) Proceeds at Maturity \$22,835,144 (Collateralized by Various Bonds with a Principal Amount of \$22,030,343 and a Market Value of \$23,697,800).....	\$22,833,000	<u>\$ 22,833,000</u>
Total Repurchase Agreements (Cost \$61,112,000).....		<u>61,112,000</u>
Total Short-Term Investments (Cost \$119,153,819).....		<u>119,153,819</u>
Total Investments (Cost \$702,764,381) (g) .....	111.2%	752,036,446(h)
Liabilities in Excess of Cash & Other Assets .....	<u>(11.2)</u>	<u>(75,456,791)</u>
Net Assets .....	<u>100.0%</u>	<u>\$676,579,655</u>

- (a) Non-income producing security.
- (b) Represents a security, or a portion thereof, which is out on loan.
- (c) Synthetic Convertible — an equity linked security issued by an entity other than the issuer of the underlying equity instrument.
- (d) One contract relates to 100 shares.
- (e) Options can be exercised into the underlying common stock.
- (f) Represents a security, or a portion thereof, purchased with cash collateral received for securities on loan.
- (g) The cost for federal income tax purposes is \$704,343,594.
- (h) At October 31, 2003 net unrealized appreciation was \$47,692,852, based on cost for federal income tax purposes. This consisted of aggregate gross unrealized appreciation for all investments on which there was an excess of market value over cost of \$61,067,179 and aggregate gross unrealized depreciation for all investments on which there was an excess of cost over market value of \$13,374,327.

# Statement of Assets and Liabilities as of October 31, 2003

## ASSETS:

Investment in securities, at value (identified cost \$702,764,381) including \$75,276,447	
market value of securities loaned .....	\$752,036,446
Cash .....	493
Deposits with brokers for securities loaned .....	5,038
Receivables:	
Investment securities sold .....	29,011,834
Dividends and interest .....	1,057,543
Fund shares sold .....	278,061
Other assets .....	14,808
Total assets .....	<u>782,404,223</u>

## LIABILITIES:

Securities lending collateral .....	77,632,728
Payables:	
Investment securities purchased .....	25,435,384
Fund shares redeemed .....	1,323,106
NYLIFE Distributors .....	496,230
Transfer agent .....	415,129
Manager .....	367,237
Trustees .....	7,682
Custodian .....	5,776
Accrued expenses .....	141,296
Total liabilities .....	<u>105,824,568</u>
Net assets .....	<u>\$676,579,655</u>

## COMPOSITION OF NET ASSETS:

Shares of beneficial interest outstanding (par value of \$.01 per share) unlimited number of shares authorized:	
Class A .....	\$ 68,102
Class B .....	338,826
Class C .....	1,870
Additional paid-in capital .....	714,903,172
Accumulated undistributed net investment income .....	575,023
Accumulated net realized loss on investments and written option transactions .....	(88,579,403)
Net unrealized appreciation on investments and written option transactions .....	49,272,065
Net assets .....	<u>\$676,579,655</u>

## CLASS A

Net assets applicable to outstanding shares .....	<u>\$112,744,539</u>
Shares of beneficial interest outstanding .....	<u>6,810,246</u>
Net asset value per share outstanding .....	\$ 16.56
Maximum sales charge (5.50% of offering price) .....	0.96
Maximum offering price per share outstanding .....	<u>\$ 17.52</u>

## CLASS B

Net assets applicable to outstanding shares .....	<u>\$560,740,389</u>
Shares of beneficial interest outstanding .....	<u>33,882,579</u>
Net asset value and offering price per share outstanding .....	<u>\$ 16.55</u>

## CLASS C

Net assets applicable to outstanding shares .....	<u>\$ 3,094,727</u>
Shares of beneficial interest outstanding .....	<u>186,995</u>
Net asset value and offering price per share outstanding .....	<u>\$ 16.55</u>

# Statement of Operations for the period January 1, 2003 through October 31, 2003\* and the year ended December 31, 2002

	<u>2003*</u>	<u>2002</u>
<b>INVESTMENT INCOME:</b>		
Income:		
Dividends.....	\$ 11,637,750	\$ 15,310,646
Interest.....	284,225	747,072
Income from securities loaned—net .....	<u>133,762</u>	<u>41,094</u>
Total income.....	<u>12,055,737</u>	<u>16,098,812</u>
Expenses:		
Manager.....	3,352,483	4,696,735
Distribution—Class B.....	3,255,253	4,806,238
Distribution—Class C.....	15,835	15,487
Transfer agent.....	2,097,292	2,683,742
Service—Class A.....	215,249	296,126
Service—Class B.....	1,085,084	1,602,079
Service—Class C.....	5,278	5,162
Shareholder communication .....	127,795	190,314
Professional .....	89,133	120,083
Recordkeeping .....	74,436	102,803
Custodian .....	56,873	81,196
Registration .....	38,991	33,753
Trustees .....	27,442	38,137
Miscellaneous.....	<u>25,585</u>	<u>35,954</u>
Total expenses.....	<u>10,466,729</u>	<u>14,707,809</u>
Net investment income .....	<u>1,589,008</u>	<u>1,391,003</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND WRITTEN OPTION TRANSACTIONS:</b>		
Net realized gain (loss) from:		
Security transactions .....	(13,136,168)	(73,817,266)
Written option transactions.....	<u>646,327</u>	<u>4,307,209</u>
Net realized loss on investments and written option transactions .....	<u>(12,489,841)</u>	<u>(69,510,057)</u>
Net change in unrealized appreciation (depreciation) on:		
Security transactions: .....	111,930,339	(126,481,658)
Written option transactions:.....	<u>(74,311)</u>	<u>146,366</u>
Net unrealized gain (loss) on investments and written option transactions .....	<u>111,856,028</u>	<u>(126,335,292)</u>
Net realized and unrealized gain (loss) on investments and written option transactions ....	<u>99,366,187</u>	<u>(195,845,349)</u>
Net increase (decrease) in net assets resulting from operations.....	<u>\$100,955,195</u>	<u>\$(194,454,346)</u>

\* The Fund changed its fiscal year end from December 31 to October 31.

# Statement of Changes in Net Assets for the period January 1, 2003 through October 31, 2003\* and the years ended December 31, 2002 and December 31, 2001

	2003*	2002	2001
<b>INCREASE (DECREASE) IN NET ASSETS:</b>			
Operations:			
Net investment income .....	\$ 1,589,008	\$ 1,391,003	\$ 3,113,997
Net realized gain (loss) on investments and written option transactions .....	(12,489,841)	(69,510,057)	12,792,106
Net change in unrealized appreciation (depreciation) on investments and written option transactions .....	111,856,028	(126,335,292)	(37,116,128)
Net increase (decrease) in net assets resulting from operations .....	<u>100,955,195</u>	<u>(194,454,346)</u>	<u>(21,210,025)</u>
Dividends and distributions to shareholders:			
From net investment income:			
Class A .....	(715,302)	(829,279)	(1,303,048)
Class B .....	(615,014)	(295,185)	(1,753,973)
Class C .....	(3,236)	(1,246)	(3,052)
From net realized gain on investments:			
Class A .....	—	(1,242,187)	(603,636)
Class B .....	—	(6,335,113)	(3,193,706)
Class C .....	—	(28,151)	(6,364)
Total dividends and distributions to shareholders .....	<u>(1,333,552)</u>	<u>(8,731,161)</u>	<u>(6,863,779)</u>
Capital share transactions:			
Net proceeds from sale of shares:			
Class A .....	32,974,027	105,753,757	123,490,233
Class B .....	26,713,170	45,457,546	61,834,698
Class C .....	2,004,101	2,710,624	1,217,119
Net asset value of shares issued to shareholders in reinvestment of dividends and distributions:			
Class A .....	699,669	2,019,522	1,900,229
Class B .....	594,905	6,434,917	4,810,706
Class C .....	2,445	21,560	2,628
	<u>62,988,317</u>	<u>162,397,926</u>	<u>193,255,613</u>
Cost of shares redeemed:			
Class A .....	(39,146,443)	(115,637,418)	(93,834,605)
Class B .....	(66,610,376)	(117,411,603)	(107,272,547)
Class C .....	(1,658,503)	(1,412,165)	(328,843)
Decrease in net assets derived from capital share transactions .....	<u>(44,427,005)</u>	<u>(72,063,260)</u>	<u>(8,180,382)</u>
Net increase (decrease) in net assets .....	55,194,638	(275,248,767)	(36,254,186)
<b>NET ASSETS:</b>			
Beginning of period .....	<u>621,385,017</u>	<u>896,633,784</u>	<u>932,887,970</u>
End of period .....	<u>\$676,579,655</u>	<u>\$ 621,385,017</u>	<u>\$ 896,633,784</u>
Accumulated undistributed net investment income at end of period .....	<u>\$ 575,023</u>	<u>\$ 319,567</u>	<u>\$ 53,924</u>

\* The Fund changed its fiscal year end from December 31 to October 31.

## Financial Highlights selected per share data and ratios

	Class A					
	January 1, 2003 through October 31, 2003*	Year ended December 31,				
		2002	2001	2000	1999	1998
Net asset value at beginning of period .....	\$ 14.13	\$ 18.52	\$ 19.12	\$ 18.18	\$ 17.16	\$ 21.76
Net investment income (loss) .....	0.11	0.12	0.19	0.15	0.12	0.23
Net realized and unrealized gain (loss) on investments .....	2.42	(4.23)	(0.52)	1.96	1.29	(1.92)
Total from investment operations.....	2.53	(4.11)	(0.33)	2.11	1.41	(1.69)
Less dividends and distributions:						
From net investment income .....	(0.10)	(0.11)	(0.19)	(0.15)	(0.00)(b)	(0.23)
From net realized gain on investments.....	—	(0.17)	(0.08)	(0.91)	(0.32)	(2.68)
Return of capital.....	—	—	—	(0.11)	(0.07)	—
Total dividends and distributions .....	(0.10)	(0.28)	(0.27)	(1.17)	(0.39)	(2.91)
Net asset value at end of period .....	\$ 16.56	\$ 14.13	\$ 18.52	\$ 19.12	\$ 18.18	\$ 17.16
Total investment return (a).....	18.02%	(22.16%)	(1.74%)	11.89%	8.33%	(7.41%)
Ratios (to average net assets)/						
Supplemental Data:						
Net investment income (loss) .....	0.93%†	0.82%	0.99%	0.73%	0.70%	1.03%
Expenses.....	1.38%†	1.30%	1.20%	1.20%	1.13%	1.09%
Portfolio turnover rate .....	47%	66%	88%	92%	61%	83%
Net assets at end of period (in 000's) .....	\$ 112,745	\$ 101,999	\$ 141,703	\$ 113,111	\$ 117,036	\$ 114,925

\* The Fund changed its fiscal year end from December 31 to October 31.

\*\* Class C shares were first offered on September 1, 1998.

† Annualized.

(a) Total return is calculated exclusive of sales charges and is not annualized.

(b) Less than one cent per share.

Class B						Class C					
January 1, 2003 through October 31, 2003*	Year ended December 31,					January 1, 2003 through October 31, 2003*	Year ended December 31,				September 1,** through December 31, 1998
	2002	2001	2000	1999	1998		2002	2001	2000	1999	
\$ 14.13	\$ 18.53	\$ 19.12	\$ 18.09	\$ 17.15	\$ 21.74	\$ 14.13	\$ 18.53	\$ 19.12	\$ 18.09	\$ 17.15	\$ 18.16
0.02	0.01	0.04	0.01	(0.01)	0.06	0.02	0.01	0.04	0.01	(0.01)	0.03
2.42	(4.23)	(0.51)	1.95	1.28	(1.91)	2.42	(4.23)	(0.51)	1.95	1.28	1.67
2.44	(4.22)	(0.47)	1.96	1.27	(1.85)	2.44	(4.22)	(0.47)	1.96	1.27	1.70
(0.02)	(0.01)	(0.04)	(0.01)	(0.00)(b)	(0.06)	(0.02)	(0.01)	(0.04)	(0.01)	(0.00)(b)	(0.03)
—	(0.17)	(0.08)	(0.91)	(0.32)	(2.68)	—	(0.17)	(0.08)	(0.91)	(0.32)	(2.68)
—	—	—	(0.01)	(0.01)	—	—	—	—	(0.01)	(0.01)	—
(0.02)	(0.18)	(0.12)	(0.93)	(0.33)	(2.74)	(0.02)	(0.18)	(0.12)	(0.93)	(0.33)	(2.71)
\$ 16.55	\$ 14.13	\$ 18.53	\$ 19.12	\$ 18.09	\$ 17.15	\$ 16.55	\$ 14.13	\$ 18.53	\$ 19.12	\$ 18.09	\$ 17.15
17.26%	(22.76%)	(2.45%)	11.05%	7.51%	(8.09%)	17.26%	(22.76%)	(2.45%)	11.05%	7.51%	9.88%
0.18%†	0.07%	0.24%	(0.02%)	(0.05%)	0.28%	0.18%†	0.07%	0.24%	(0.02%)	(0.05%)	0.28%†
2.13%†	2.05%	1.95%	1.95%	1.88%	1.84%	2.13%†	2.05%	1.95%	1.95%	1.88%	1.84%†
47%	66%	88%	92%	61%	83%	47%	66%	88%	92%	61%	83%
\$ 560,740	\$ 517,050	\$ 753,299	\$ 819,003	\$ 1,012,767	\$ 1,174,554	\$ 3,095	\$ 2,336	\$ 1,631	\$ 774	\$ 631	\$ 80

The notes to the financial statements are an integral part of, and should be read in conjunction with, the financial statements.

# MainStay Value Fund

## Note 1—Organization and Business:

The MainStay Funds (the “Trust”) was organized on January 9, 1986 as a Massachusetts business trust. The Trust is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company and comprises twenty-four funds (collectively referred to as the “Funds”). These financial statements and notes relate only to MainStay Value Fund (the “Fund”), a diversified fund.

The Fund currently offers three classes of shares. Class A shares, whose distribution commenced on January 3, 1995, are offered at net asset value per share plus an initial sales charge. No sales charge applies on investments of \$1 million or more (and certain other qualified purchases) in Class A shares, but a contingent deferred sales charge is imposed on certain redemptions of such shares within one year of the date of purchase. Class B shares and Class C shares are offered without an initial sales charge, although a declining contingent deferred sales charge may be imposed on redemptions made within six years of purchase of Class B shares and within one year of purchase of Class C shares. Distribution of Class B shares and Class C shares commenced on May 1, 1986 and September 1, 1998, respectively. Class A shares, Class B shares and Class C shares bear the same voting (except for issues that relate solely to one class), dividend, liquidation and other rights and conditions except that the Class B shares and Class C shares are subject to higher distribution fee rates. Each class of shares bears distribution and/or service fee payments under a distribution plan pursuant to Rule 12b-1 under the 1940 Act.

The Fund’s investment objective is to realize maximum long-term total return from a combination of capital growth and income.

## Note 2—Significant Accounting Policies:

The Fund prepares its financial statements in accordance with generally accepted accounting principles and follows the significant accounting policies described below.

**(A) Securities Valuation.** Equity securities are valued at the latest quoted sales prices as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Prices are taken from the primary market in which each security trades. Options contracts are valued at the last posted settlement price on the market where any such options are principally traded. Temporary cash investments acquired over 60 days to maturity are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services. Other temporary cash investments are valued at amortized cost, which approximates market value. Securities

## Notes to Financial Statements

for which market quotations are not readily available are valued by methods deemed by the Board of Trustees to represent fair value.

**(B) Securities Lending.** The Fund may lend its securities to broker-dealers and financial institutions. The loans are collateralized by cash or securities at least equal at all times to the market value of the securities loaned. The Fund may bear the risk of delay in recovery of, or loss of rights in, the securities loaned should the borrower of the securities experience financial difficulty. The Fund receives compensation for lending its securities in the form of fees or it retains a portion of interest on the investment of any cash received as collateral. The Fund also continues to receive interest and dividends on the securities loaned and any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Fund.

**(C) Purchased and Written Options.** The Fund may write covered call and put options on its portfolio securities or foreign currencies. Premiums are received and are recorded as liabilities. The liabilities are subsequently adjusted to reflect the current value of the options written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or are canceled in closing purchase transactions are added to the proceeds or netted against the amount paid on the transaction to determine the realized gain or loss. By writing a covered call option, the Fund foregoes in exchange for the premium the opportunity for capital appreciation above the exercise price should the market price of the underlying security or foreign currency increase. By writing a covered put option, the Fund, in exchange for the premium, accepts the risk of a decline in the market value of the underlying security or foreign currency below the exercise price. A call option may be covered by the call writer's owning the underlying security throughout the option period. A call option may also be covered by the call writer's maintaining liquid assets valued at greater than the exercise price of the call written, in a segregated account with its custodian.

The Fund may purchase call and put options on its portfolio securities. The Fund may purchase call options to protect against an increase in the price of the security it anticipates purchasing. The Fund may purchase put options on its securities to protect against a decline in the value of the security or to close out covered written put positions. The Fund may also purchase options to seek to enhance returns. Risks may arise from an imperfect correlation between the change in market value of the securities held by the Fund and the prices of options relating to the securities purchased or sold by the Fund and from the possible lack of a liquid secondary market for an option. The maximum exposure to loss for any purchased option is limited to the premium initially paid for the option.

## MainStay Value Fund

Written option activity for the ten months ended October 31, 2003 was as follows:

	<u>Number of Contracts</u>	<u>Premium</u>
Options outstanding at December 31, 2002.....	(3,552)	\$ (415,571)
Options—written .....	(7,631)	(1,476,841)
Options—buybacks.....	10,035	1,697,958
Options—exercised.....	562	67,296
Options—expired .....	<u>586</u>	<u>127,158</u>
Options outstanding at October 31, 2003.....	<u>—</u>	<u>—</u>

**(D) Federal Income Taxes.** The Fund's policy is to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to the shareholders of the Fund within the allowable time limits. Therefore, no federal income or excise tax provision is required.

Investment income received by the Fund from foreign sources may be subject to foreign income taxes. These foreign income taxes are withheld at the source.

**(E) Dividends and Distributions to Shareholders.** Dividends and distributions are recorded on the ex-dividend date. The Fund intends to declare and pay any dividends quarterly and capital gain distributions, if any, annually. Income dividends and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These "book/tax differences" are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax basis treatment; temporary differences do not require reclassification.

**(F) Security Transactions and Investment Income.** The Fund records security transactions on the trade date. Realized gains and losses on security transactions are determined using the identified cost method. Dividend income is recognized on the ex-dividend date and interest income is accrued as earned. Discounts and premiums on short-term securities are accreted and amortized, respectively, on the straight line method.

Investment income and realized and unrealized gains and losses on investments of the Fund are allocated to separate classes of shares based upon their relative net assets on the date the income is earned or realized and unrealized gains and losses are incurred.

## Notes to Financial Statements (continued)

**(G) Expenses.** Expenses of the Trust are allocated to the individual Funds in proportion to the net assets of the respective Funds when the expenses are incurred except where direct allocations of expenses can be made. Expenses (other than expenses incurred under the distribution plans) are allocated to separate classes of shares based upon their relative net asset value on the date the expenses are incurred. The expenses borne by the Fund, including those of related parties to the Fund, are shown in the Statement of Operations.

**(H) Use of Estimates.** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### Note 3—Fees and Related Party Transactions:

**(A) Manager and Subadvisor.** New York Life Investment Management LLC (“NYLIM” or the “Manager”), an indirect wholly-owned subsidiary of New York Life Insurance Company (“New York Life”), serves as the Fund’s manager. The Manager provides offices, conducts clerical, recordkeeping and bookkeeping services, and keeps the financial and accounting records required for the Fund. The Manager also pays the salaries and expenses of all personnel affiliated with the Fund and all the operational expenses that are not the responsibility of the Fund. MacKay Shields LLC (the “Subadvisor”), a registered investment advisor and indirect wholly-owned subsidiary of New York Life, is responsible for the day-to-day portfolio management of the Fund.

The Trust, on behalf of the Fund, paid the Manager a monthly fee for services performed and the facilities furnished at an annual rate of 0.72% of the Fund’s average daily net assets on assets up to \$200 million, 0.65% on assets from \$200 million to \$500 million and 0.50% on assets in excess of \$500 million. For the ten months ended October 31, 2003 the Manager earned from the Fund \$3,352,483. For the year ended December 31, 2002 the Manager earned from the Fund \$4,696,735.

Pursuant to the terms of a Sub-Advisory Agreement between NYLIM and MacKay Shields, the Manager pays the Subadvisor a monthly fee at an annual rate of 0.36% of the Fund’s average daily net assets up to \$200 million, 0.325% on assets from \$200 million to \$500 million and 0.25% on assets in excess of \$500 million.

**(B) Distribution and Service Fees.** The Trust, on behalf of the Fund, has a Distribution Agreement with NYLIFE Distributors LLC (the “Distributor”), an indirect wholly-owned subsidiary of New York Life. The Fund, with respect to each class of shares, has adopted distribution plans (the “Plans”) in accordance with the provisions of Rule 12b-1 under the 1940 Act. Pursuant to the Class A Plan, the Distributor receives a monthly fee from the Fund at an annual rate of 0.25% of the average daily net assets of the Fund’s Class A shares, which is an expense of the Class A shares of the Fund for

## MainStay Value Fund

distribution or service activities as designated by the Distributor. Pursuant to the Class B and Class C Plans, the Fund pays the Distributor a monthly fee, which is an expense of the Class B and Class C shares of the Fund, at the annual rate of 0.75% of the average daily net assets of the Fund's Class B and Class C shares. The Distribution Plans provide that the Class B and Class C shares of the Fund also incur a service fee at the annual rate of 0.25% of the average daily net asset value of the Class B or Class C shares of the Fund.

The Plans provide that the distribution and service fees are payable to the Distributor regardless of the amounts actually expended by the Distributor for distribution of the Fund's shares and service activities.

**(C) Sales Charges.** The Fund was advised by the Distributor that the amount of sales charges retained on sales of Class A shares was \$1,794 for the ten months ended October 31, 2003. The Fund was also advised that the Distributor retained contingent deferred sales charges on redemptions of Class A, Class B and Class C shares of \$29,058, \$198,446 and \$807, respectively, for the ten months ended October 31, 2003.

**(D) Transfer, Dividend Disbursing and Shareholder Servicing Agent.** NYLIM Service Company LLC, ("NYLIM Service"), an affiliate of NYLIM, is the Fund's transfer, dividend disbursing and shareholder servicing agent. NYLIM Service has entered into an agreement with Boston Financial Data Services ("BFDS") pursuant to which BFDS will perform certain of the services for which NYLIM Service is responsible. Transfer agent expenses accrued to NYLIM Service for the ten months ended October 31, 2003 and year ended December 31, 2002, amounted to \$2,097,292 and \$2,683,742, respectively.

**(E) Trustees Fees.** Trustees, other than those currently affiliated with NYLIM, are paid an annual fee of \$45,000, \$2,000 for each Board meeting, \$1,000 for each Committee meeting and \$500 for each Valuation Subcommittee telephonic meeting attended plus reimbursement for travel and out-of-pocket expenses. The Lead Non-Interested Trustee is also paid an annual fee of \$20,000. Beginning January 1, 2003, the Audit Committee Chairman receives an additional \$2,000 for each meeting of the Audit Committee attended. Also, beginning January 1, 2003, the Chairpersons of the Brokerage Committee and the Operations Committee each receive an additional \$1,000 for each meeting of the Brokerage Committee and Operations Committee attended, respectively. The Trust allocates trustees fees in proportion to the net assets of the respective Funds. Thus the Value Fund only pays a portion of the fees identified above.

**(F) Other.** Fees for the cost of legal services, included in Professional fees as shown on the Statement of Operations, provided to the Fund by the Office of the General Counsel of NYLIM amounted to \$13,041 for the ten months ended October 31, 2003 and \$14,703 for the year ended December 31, 2002.

The Fund pays the Manager a monthly fee for recordkeeping services provided under the Accounting Agreement at the annual rate of 1/20 of 1% for the first \$20 million of average monthly net assets, 1/30

## Notes to Financial Statements (continued)

of 1% of the next \$80 million of average monthly net assets and 1/100 of 1% of any amount in excess of \$100 million of average monthly net assets. Fees for recordkeeping services provided to the Fund by the Manager amounted to \$74,436 for the ten months ended October 31, 2003 and \$102,803 for the year ended December 31, 2002.

### Note 4—Federal Income Tax:

As of October 31, 2003, the components of accumulated loss on a tax basis were as follows:

<u>Accumulated Undistributed Net Investment Income</u>	<u>Accumulated Capital and Other Losses</u>	<u>Unrealized Appreciation</u>	<u>Total Accumulated Loss</u>
\$575,023	\$(87,000,190)	\$47,692,852	\$(38,732,315)

The difference between book-basis and tax-basis unrealized appreciation is primarily due to wash sales deferrals.

At October 31, 2003, for federal income tax purposes, capital loss carryforwards of \$87,000,190 were available as shown in the table below, to the extent provided by the regulations to offset future realized gains of the Fund through the years indicated. To the extent that these loss carryforwards are used to offset future capital gains, it is probable that the capital gains so offset will not be distributed to shareholders.

<u>Capital Loss Available Through</u>	<u>Amount (000's)</u>
2010.....	\$64,572
2011.....	<u>22,428</u>
	<u>\$87,000</u>

The tax character of distributions paid during the ten months ended October 31, 2003 and years ended December 31, 2002 and 2001, shown in the Statement of Changes in Net Assets, was as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Distributions paid from:			
Ordinary Income	\$1,333,552	\$1,125,710	\$3,060,073
Long-Term Gains	—	7,605,451	3,803,706
	<u>\$1,333,552</u>	<u>\$8,731,161</u>	<u>\$6,863,779</u>

### Note 5—Purchases and Sales of Securities (in 000's):

During the ten months ended October 31, 2003, purchases and sales of securities, other than short-term securities, were \$278,298 and \$322,895, respectively.

## MainStay Value Fund

As of October 31, 2003, the Fund had securities on loan with an aggregate market value of \$75,276,447. The Fund received \$77,632,728 in cash as collateral for securities on loan which was used to purchase highly liquid short-term investments in accordance with the Fund's securities lending procedures.

### Note 6—Line of Credit:

The Fund and certain affiliated funds maintain a line of credit of \$160,000,000 with a syndicate of banks in order to secure a source of funds for temporary purposes to meet unanticipated or excessive shareholder redemption requests. The funds pay a commitment fee, at an annual rate of .075% of the average commitment amount, regardless of usage, to The Bank of New York, which acts as agent to the syndicate. Such commitment fees are allocated among the funds based upon net assets and other factors. Interest on any revolving credit loan is charged based upon the Federal Funds Advances rate. There were no borrowings on the line of credit during the ten months ended October 31, 2003.

### Note 7—Capital Share Transactions (in 000's):

	January 1, through October 31, 2003*			Year ended December 31,					
				2002			2001		
	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
Shares sold .....	2,226	1,797	139	6,321	2,723	169	6,636	3,288	66
Shares issued in reinvestment of dividends and distributions.....	47	39	—(a)	141	456	1	103	261	—(a)
	<u>2,273</u>	<u>1,836</u>	<u>139</u>	<u>6,462</u>	<u>3,179</u>	<u>170</u>	<u>6,739</u>	<u>3,549</u>	<u>66</u>
Shares redeemed .....	(2,683)	(4,545)	(117)	(6,894)	(7,250)	(93)	(5,003)	(5,722)	(18)
Net increase (decrease).....	<u>(410)</u>	<u>(2,709)</u>	<u>22</u>	<u>(432)</u>	<u>(4,071)</u>	<u>77</u>	<u>1,736</u>	<u>(2,173)</u>	<u>48</u>

\* The Fund changed its fiscal year end from December 31 to October 31.

(a) Less than one-thousand.

### Note 8—Other Matters:

New York Life Investment Management LLC (NYLIM) and mutual funds that NYLIM advises, including The MainStay Funds, have received requests for information from various government authorities and regulatory bodies regarding market timing, late trading and other matters. We are cooperating fully in responding to these requests. We have no reason to believe that NYLIM or any of the mutual funds NYLIM advises has been targeted as the subject of any governmental or regulatory enforcement action.

# Report of Independent Auditors

To the Trustees of The MainStay Funds and Shareholders of  
MainStay Value Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of MainStay Value Fund (one of the funds constituting The MainStay Funds, hereafter referred to as the “Fund”) at October 31, 2003, the results of its operations for the ten months ended October 31, 2003 and the year ended December 31, 2002, the changes in its net assets for the ten months ended October 31, 2003 and each of the two years in the period ended December 31, 2002 and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, New York  
December 18, 2003

## Tax Information (unaudited)

MainStay Value Fund designates 100% of the dividends it paid during 2003 from net investment company taxable income as qualifying for the reduced tax rate under the Jobs and Growth Tax Relief and Reconciliation Act of 2003.

In addition, 100% of the ordinary income dividends paid during the ten months ended October 31, 2003 qualify for the corporate dividends received deduction under Section 243 of the Internal Revenue Code.

## The MainStay Funds—Trustees and Officers

Following are the Trustees and Officers of The MainStay Funds, along with a brief description of their principal occupations during the past five years.

Each Trustee serves until his/her successor is elected and qualified or until his/her resignation, death, or removal. Officers serve a term of one year and are elected annually by the Trustees.

The business address of each Trustee and Officer is 51 Madison Avenue, New York, New York 10010.

Name and Date of Birth	Position(s) Held with Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<i>Interested Trustees*</i>				
Gary E. Wendlandt 10/8/50	Chairman since 2002 and Trustee since 2000	Chief Executive Officer, Chairman, and Manager, New York Life Investment Management LLC (including predecessor advisory organizations) and New York Life Investment Management Holdings LLC; Executive Vice President, New York Life Insurance Company; Executive Vice President and Manager, NYLIFE LLC; Manager, NYLIFE Distributors LLC; Vice Chairman, McMorgan & Company LLC; Manager, MacKay Shields LLC; Executive Vice President, New York Life Insurance and Annuity Corporation; Chairman, Chief Executive Officer, and Director, MainStay VP Series Fund, Inc. (19 portfolios); Executive Vice President and Chief Investment Officer, MassMutual Life Insurance Company (1993 to 1999).	43	None
Stephen C. Roussin 7/12/63	President, Chief Executive Officer, and Trustee since 1997	President, Chief Operating Officer, and Manager, New York Life Investment Management LLC (including predecessor advisory organizations) and New York Life Investment Management Holdings LLC; Senior Vice President, New York Life Insurance Company; Senior Vice President, NYLIFE LLC; Director, NYLIFE Securities, Inc.; Chairman, President, and Manager, NYLIFE Distributors LLC; Manager, McMorgan & Company LLC; Chairman, Trustee, and President, Eclipse Funds, (4 portfolios); Chairman and Director, Eclipse Funds Inc. (13 portfolios); Senior Vice President, Smith Barney (1994 to 1997).	41	None

\* Certain Trustees are considered to be interested persons of the Trust within the meaning of the 1940 Act because of their affiliation with New York Life Insurance Company, New York Life Investment Management LLC, MacKay Shields LLC, McMorgan & Company LLC, Eclipse Funds, Eclipse Funds Inc., MainStay VP Series Fund, Inc., NYLIFE Securities Inc., and/or NYLIFE Distributors LLC, as described in detail in the column "Principal Occupation(s) During Past 5 Years."

Name and Date of Birth	Position(s) Held with Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Harry G. Hohn 3/1/32	Trustee since 1996	Retired. Chairman and Chief Executive Officer, New York Life Insurance Company (1990 to 1997); Chairman of the Board, Life Insurance Council of New York (1996 to 1997); Director, Million Dollar Roundtable Foundation (1996 to 1997).	24	None
Donald K. Ross 7/1/25	Trustee since 1991	Retired. Manager, MacKay Shields LLC; Chairman, Chief Executive Officer, and President, New York Life Insurance Company (1981 to 1990).	24	None
<b><i>Non-Interested Trustees</i></b>				
Charlynn Goins 9/15/42	Trustee since 2001	Retired. Consultant to U.S. Commerce Department, Washington, DC (1998 to 2000); Senior Vice President and Director of International Marketing, Prudential Mutual Funds and Annuities (1990 to 1997).	24	None
Edward J. Hogan 8/17/32	Trustee since 1996	Rear Admiral U.S. Navy (Retired); Independent Management Consultant.	24	None
Terry L. Lierman 1/4/48	Trustee since 1991	Partner, Health Ventures LLC; Vice Chair, Employee Health Programs; Partner, TheraCom (1994 to 2001); President, Capitol Associates, Inc. (1984 to 2001).	24	None
John B. McGuckian 11/13/39	Trustee since 1997	Chairman, Ulster Television Plc; Pro Chancellor, Queen's University (1985 to 2001).	24	Non-Executive Director, Allied Irish Banks Plc; Non-Executive Director, Irish Continental Group, Plc; Non-Executive Director, Unidare Plc.
Donald E. Nickelson 12/9/32	Trustee since 1994 and Lead Non-Interested Trustee	Retired. Vice Chairman, Harbour Group Industries, Inc. (leveraged buyout firm).	24	Director, Adolor Corporation; Director, First Advantage Corporation.
Michael H. Sutton 9/19/40	Trustee since 2003	Retired. Independent Consultant (1999 to present); Special Consultant, Financial Accounting Standards Board (1998 to 1999); Chief Accountant, United States Securities and Exchange Commission (1995 to 1998).	24	None

Name and Date of Birth	Position(s) Held with Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Richard S. Trutanic 2/13/52	Trustee since 1994	Advisor (July 2003 to present) and Managing Director (2001 to June 2003), The Carlyle Group (private investment firm); Chairman and Chief Executive Officer, Somerset Group (financial advisory firm); Senior Managing Director, Groupe Arnault (private investment firm) (1999 to 2001).	24	None

*Officers Who Are Not Trustees*

Jefferson C. Boyce 9/17/57	Senior Vice President since 1995	Senior Managing Director, New York Life Investment Management LLC (including predecessor advisory organizations); Senior Vice President, New York Life Insurance Company; Senior Vice President, Eclipse Funds and Eclipse Funds Inc.; Manager, NYLIFE Distributors LLC.	N/A	None
Patrick J. Farrell 9/27/59	Chief Financial and Accounting Officer, Treasurer, and Vice President since 2001	Managing Director, New York Life Investment Management LLC (including predecessor advisory organizations); Treasurer, Chief Financial and Accounting Officer, Eclipse Funds Inc., Eclipse Funds, and MainStay VP Series Fund, Inc.; Chief Financial Officer and Assistant Treasurer, McMorgan Funds.	N/A	None
Robert A. Anselmi 10/19/46	Secretary since 2001	Senior Managing Director, General Counsel, and Secretary, New York Life Investment Management LLC (including predecessor advisory organizations); Secretary, New York Life Investment Management Holdings LLC; Senior Vice President, New York Life Insurance Company; Vice President and Secretary, McMorgan & Company LLC; Secretary, NYLIFE Distributors LLC; Secretary, MainStay VP Series Fund, Inc., Eclipse Funds Inc., and Eclipse Funds; Managing Director and Senior Counsel, Lehman Brothers Inc., (October 1998 to December 1999); General Counsel and Managing Director, JP Morgan Investment Management Inc. (1986 to September 1998).	N/A	None
Richard W. Zuccaro 12/12/49	Tax Vice President since 1991	Vice President, New York Life Insurance Company; Vice President, New York Life Insurance and Annuity Corporation, NYLIFE Insurance Company of Arizona, NYLIFE LLC, NYLIFE Securities Inc.; Vice President-Financial Operations and Chief Financial Officer, NYLIFE Distributors LLC; Tax Vice President, New York Life International, LLC; Tax Vice President, Eclipse Funds, Eclipse Funds Inc., and MainStay VP Series Fund, Inc.	N/A	None

## The MainStay Funds

### Equity Funds

MainStay Blue Chip Growth Fund  
MainStay Capital Appreciation Fund  
MainStay Equity Index Fund<sup>1</sup>  
MainStay Mid Cap Growth Fund  
MainStay Select 20 Equity Fund<sup>2</sup>  
MainStay Small Cap Growth Fund  
MainStay Small Cap Value Fund<sup>3</sup>  
MainStay U.S. Large Cap Equity Fund

### Equity and Income Funds

MainStay Convertible Fund  
MainStay Equity Income Fund  
MainStay Growth Opportunities Fund  
MainStay MAP Fund  
MainStay Research Value Fund  
MainStay Strategic Value Fund  
MainStay Total Return Fund  
MainStay Value Fund

### Income Funds

MainStay Government Fund  
MainStay High Yield Corporate Bond Fund  
MainStay Money Market Fund  
MainStay Strategic Income Fund  
MainStay Tax Free Bond Fund

### International Funds

MainStay Global High Yield Fund  
MainStay International Bond Fund  
MainStay International Equity Fund

1. Closed to new purchases as of January 1, 2002.

2. Ceased operations as of November 28, 2003.

3. Closed to new investors as of December 1, 2001.

4. An affiliate of New York Life Investment Management LLC.

## Investment Advisor

**New York Life Investment Management LLC**  
Parsippany, New Jersey

### Subadvisors

**MacKay Shields LLC<sup>4</sup>**  
New York, New York

**Dalton, Greiner, Hartman, Maher & Co.**  
New York, New York

**Fund Asset Management, L.P.**  
**d/b/a Mercury Advisors**  
Plainsboro, New Jersey

**Gabelli Asset Management Company**  
Rye, New York

**Jennison Associates LLC**  
New York, New York

**Markston International, LLC**  
White Plains, New York

**McMorgan & Company LLC<sup>4</sup>**  
San Francisco, California