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# IndexIQ Advisors LLC

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**This Brochure provides information about the qualifications and business practices of IndexIQ Advisors LLC (“IndexIQ”). If you have any questions about the contents of this Brochure, please contact Matthew Curtin, Chief Compliance Officer, at (914) 481-8397 or [mcurtin@indexiq.com](mailto:mcurtin@indexiq.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**IndexIQ is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.**

**Additional information about IndexIQ also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## ITEM 2 – MATERIAL CHANGES

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Since our last annual update, filed March 26, 2015, the following material changes were made:

- On April 15, 2015, IndexIQ was acquired by New York Life Investment Management Holdings LLC (“New York Life Investment Management”), a subsidiary of New York Life Insurance Company. We have made changes to reflect the continued integration with New York Life Investment Management and the marketing of funds and accounts managed by IndexIQ through New York Life’s MainStay Investments.
- Effective June 29, 2015, Matthew Curtin was appointed Chief Compliance Officer of IndexIQ.

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### **Advisory Services**

IndexIQ manages \$1,618,868,702 of client assets on a discretionary basis as of February 29, 2016 and \$54,341,914 of client assets on a non-discretionary basis as of February 29, 2016.

IndexIQ Advisors LLC (“IndexIQ”) has been operating since July 2007 and has been registered as an investment adviser with the Securities and Exchange Commission (the “SEC”) since August 9, 2007. IndexIQ was acquired by New York Life Investment Management in April 2015. IndexIQ is wholly-owned by IndexIQ LLC. IndexIQ LLC is the wholly-owned subsidiary of Financial Development LLC. Financial Development LLC is a wholly-owned subsidiary of New York Life Investment Management, a subsidiary of New York Life Insurance Company.

While IndexIQ maintains autonomous investment processes, it leverages the resources and services of New York Life Investment Management and is marketed through New York Life’s MainStay Investments.

IndexIQ LLC develops and maintains proprietary financial indexes (the “IndexIQ Indices”) and other financial products (together with the IndexIQ Indices, the “IndexIQ Products”). For certain IndexIQ Indices, IndexIQ LLC has engaged index consultants to assist IndexIQ LLC with the development, calculation and maintenance of certain IndexIQ Indices. IndexIQ provides investment advisory services to clients, including by utilizing the IndexIQ Products.

IndexIQ offers discretionary investment advisory services to registered investment advisers, broker-dealers, and to open-end Registered Investment Companies (“RICs”) operating as mutual funds (“Mutual Funds”) or exchange-traded funds (“ETFs”), as well as to individuals, trusts, retirement accounts (IRAs, pensions and profit sharing plans), corporations and other institutions. IndexIQ also offers services to Unified Managed Account (“UMA”), Wrap (“Wrap”), Model Portfolio and other advisory programs of third-party sponsors (collectively, “Sponsored Programs”).

IndexIQ has the discretion to retain third-party subadvisors (each, a “Subadvisor”) for portfolio management services. In the event a Subadvisor is retained for a client account, IndexIQ will delegate trading authority to the Subadvisor subject to IndexIQ’s oversight. IndexIQ also may enter into partnerships with third parties to offer IndexIQ Products, or to develop new products.

### **I. Managed Accounts**

IndexIQ will enter into a discretionary Managed Account Agreement (each, an “Account Agreement”) with non-RIC clients or financial institutions that offer Sponsored Programs in

which IndexIQ participates. Generally, all of IndexIQ's managed accounts that are linked to the same IndexIQ Product will hold the same securities positions at the same proportions.

## **II. Sponsored Wrap Fee, Unified Managed Account, and Related Programs**

IndexIQ participates in various Sponsored Programs through which clients of broker-dealers and other financial institutions retain IndexIQ as discretionary adviser under wrap fee or other arrangements offered by the programs' sponsors wherein the client selects IndexIQ from among the investment advisers presented by the broker or financial institution to the client. The broker or financial institution also may evaluate IndexIQ's performance, execute the portfolio transactions, and/or provide custodial services for the client's assets. IndexIQ currently participates in sponsored programs of Morgan Stanley Smith Barney.

IndexIQ also participates in programs pursuant to which it enters into discretionary advisory agreements directly with the client of Wrap programs. In these programs, IndexIQ typically is directed to execute all trades with the Wrap sponsor, consistent with its duty to seek best execution. IndexIQ expects that in such programs a substantial percentage, if not all, of the client's transactions will be executed with the program sponsor, as the client generally does not pay commissions separate from the wrap fee paid to the sponsor. IndexIQ receives a portion of the wrap fee for its services.

A Sponsored Program client may terminate the account arrangement upon a specified period of notice to the broker or other financial institution and upon termination any prepaid fee is refundable on a pro-rata basis for the period unearned.

Although the foregoing describes how these Sponsored Programs operate and IndexIQ's role in these programs, each program's operations may contain certain features or roles of IndexIQ that vary from the description herein. New York Life Investment Management LLC ("New York Life Investments") provides certain trade execution and administrative services to IndexIQ to support IndexIQ's management of Sponsored Program accounts.

For additional information about these Sponsored Programs, please consult the disclosure brochures of the Sponsored Programs.

## **III. Model Portfolios**

From time to time, IndexIQ may enter into agreements to provide model securities portfolios ("Model Portfolios") to other investment advisers in their managed account or similar Sponsored Programs. In such cases, IndexIQ does not have discretion over client accounts in such Sponsored Programs and its responsibilities are generally limited to providing non-discretionary Model Portfolios to such advisers, and certain activities related thereto, and do not include execution or generally the other advisory functions performed by the other adviser or overlay or

implementation manager for Sponsored Program clients. These other advisers, or third-party overlay or implementation managers that they retain, use the Model Portfolios as recommendations for how to trade and invest the program clients' accounts. IndexIQ's Model Portfolio service is impersonal and not tailored to the individual clients of the other advisers or the program. IndexIQ is generally not provided with specific client information such as identity or specific financial circumstance regarding such Sponsored Program clients.

IndexIQ currently provides model portfolios to the following investment advisers:

- Fortigent, LLC ("Fortigent")

IndexIQ provides a model portfolio for use in Fortigent's unified managed account (UMA) program, which is managed by one or more overlay managers selected by Fortigent. These overlay managers review IndexIQ's purchase and sale recommendations and security rankings and exercise discretion over their clients' accounts. For its Model Portfolio services, IndexIQ receives a fee equal to a specified percent of the net asset value of the accounts to which IndexIQ's model portfolio has been assigned.

- SEI Investment Managements Corporation ("SEI")

IndexIQ provides a model portfolio for use in the SEI Managed Account Program ("MAP"). IndexIQ's model portfolio recommendations are implemented by either SEI or a separate manager, as implementation manager. For its Model Portfolio services, IndexIQ receives a quarterly fee based on the average daily market value of the assets that trade using the Model Portfolio.

- Morgan Stanley Select UMA Program

IndexIQ provides a model portfolio for use in the Morgan Stanley Select UMA Program. Morgan Stanley, as Overlay Manager, reviews the portfolio recommendations made by IndexIQ and implements trades for its clients. For its Model Portfolio services, IndexIQ receives a quarterly fee based on (i) the target percentage asset allocation to the model portfolio selected by Morgan Stanley for each Morgan Stanley client, times (ii) the fair market value of the assets invested in each Morgan Stanley client account, times (iii) a quarterly basis point fee.

For additional information about the foregoing Sponsored Programs, please consult the disclosure brochures of such Sponsored Programs.

In addition, IndexIQ also may provide model portfolios pursuant to license or similar agreements to other investment advisers for use by them in proprietary programs sponsored by such other advisers.

#### **IV. Registered Investment Companies**

IndexIQ provides investment advisory services to open-end RICs operating as Mutual Funds or ETFs (collectively with Mutual Funds, the “Registered Funds” and, each, a “Registered Fund”) in accordance with Investment Advisory Agreements with the Registered Fund as approved by the applicable Registered Fund’s Board of Trustees (“Board”). For its Registered Fund clients, IndexIQ has the overall responsibility for the general management and administration of the Registered Funds, subject to the supervision of the applicable Board. In accordance with the applicable Investment Advisory Agreements, IndexIQ provides an investment program for each Registered Fund and manages the investment of each Registered Fund’s assets in conformity with the stated investment policies of such Registered Fund or retains Subadvisors to manage a Registered Fund’s assets if IndexIQ determines not to provide these services directly. IndexIQ or a Subadvisor is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of each of the Registered Funds. IndexIQ is also generally responsible for arranging for third-party administration, transfer, custodial, and all other non-distribution related services for the Registered Funds to operate. IndexIQ does not provide custodial or other administrative services to the Registered Funds. At no time will IndexIQ accept or maintain custody with respect to a Registered Fund’s assets. Information about each Registered Fund, including information about strategies, fees, risks and other material information, is contained in its prospectus.

#### **Termination of Accounts, Advisory Agreements and Program Agreements**

Non-Sponsored Managed Accounts: Account Agreements in non-Sponsored Programs generally may be terminated by either the client or IndexIQ upon a specified period of prior written notice, generally 10 days. IndexIQ may assign the Account Agreements upon a specified period of written notice.

Sponsored Programs: Agreements with sponsors of UMA, Wrap and other similar programs generally may be terminated by the parties upon a specified period of prior written notice, generally 90 days.

Model Portfolios: Agreements between IndexIQ and other advisers relating to IndexIQ’s provision of Model Portfolios generally may be terminated upon a specified period of prior written notice set forth in the relevant program agreement, generally ranging from 30 days to 90 days.

Registered Funds: Investment Advisory Agreements with Registered Funds terminate immediately upon assignment or IndexIQ may terminate upon 60 days’ prior written notice. Investment Advisory Agreements must be renewed by the applicable Registered Fund’s Board on an annual basis after their initial two-year term.

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## ITEM 5 – FEES AND COMPENSATION

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### **I. Managed Accounts**

As compensation for IndexIQ's management of client managed accounts (each, an "Account"), clients generally pay IndexIQ a Management Fee (defined below) and/or a fixed fee. IndexIQ's fees generally will be deducted directly from the client's custodial accounts. Clients should be aware of their responsibility to verify the accuracy of the fee calculation submitted to the custodian by IndexIQ, as the custodian will not determine whether the fee has been properly calculated.

Generally, fees are negotiated on a case by case basis with the client, and are determined based upon a number of factors, including the amount of work involved, the assets placed under management and the attention needed to manage the Account. Actual fees may be higher or lower than the range provided below based on individual client negotiations.

Generally, a management fee (the "Management Fee") for managed accounts in non-Sponsored Programs may range between 50 and 70 basis points based on the amount of assets under management, and is generally negotiable for accounts with \$100 million or more of assets under management. The Management Fee typically will be paid quarterly in advance, as of the last day of each calendar quarter, based on the average assets under management for the quarter, before reduction for the Management Fee as of such date. The Management Fee shall be appropriately pro-rated for any termination of the Account Agreement as of a date other than a calendar quarter-end.

In certain cases, IndexIQ may agree with a client to a fixed fee to be paid on a monthly or quarterly basis. The rate of a fixed fee will depend on, among other things, the size of the Account, whether the client has other assets managed by IndexIQ, and the other terms agreed upon by the client and IndexIQ. The fee typically will be paid monthly or quarterly in advance, as of the last day of each calendar month or quarter, based on the average assets under management for the month or quarter, before reduction for the Management Fee as of such date. The Management Fee shall be appropriately pro-rated for any termination of the Account Agreement as of a date other than a calendar month-end or quarter-end.

Where IndexIQ is responsible for pricing a client's portfolio for fee billing, IndexIQ will generally use pricing information provided by an independent pricing service (the "Primary Pricing Source"). Based on our investment style and the types of securities in which we generally invest on behalf of our clients, the Primary Pricing Source is typically able to provide pricing information for securities included within our clients' portfolios. In the event the



Primary Pricing Source is unable to obtain a price, IndexIQ will determine a fair value for that security.

## **II. Sponsored Programs**

### Wrap Accounts

The SMA wrap programs described in Item 4 generally provide for an all-inclusive fee that covers advisory fees, trade execution, reports of activity, custodial services, and the recommendation and monitoring of investment managers. For IndexIQ's services as investment manager in the SMA wrap programs, IndexIQ receives a portion of the total managed account program fee paid to the sponsor by the client.

### Other Sponsored Programs

IndexIQ also participates in Sponsored Programs pursuant to which it enters into advisory agreements directly with the client of a program sponsor. In these programs, IndexIQ typically is directed to execute all trades with the program sponsor, consistent with its duty to seek best execution. IndexIQ expects that in such programs a substantial percentage, if not all, of the client's transactions will be executed with the program sponsor, as the client generally does not pay commissions separate from the program fee paid to the sponsor.

While IndexIQ's compensation in Sponsored Programs may be lower than IndexIQ's standard managed account fee schedule, the overall cost of a Wrap or other sponsored program arrangement may be higher than the client otherwise would experience by paying IndexIQ's standard fees and negotiating transactions with a broker or dealer that are payable on a per transaction basis.

The management fee for managed accounts in Sponsored Programs may range between 40 and 70 basis points based on the amount of assets invested in the strategy. The amount of assets invested in the strategy and the value of those assets is determined by the program sponsor. Fees typically are paid on a quarterly basis, in advance, valued as of the last business day of each calendar quarter.

## **III. Model Portfolios**

IndexIQ's compensation for the provision of Model Portfolios for certain Sponsored Programs typically ranges between 40 and 60 basis points, generally based on a formula that reflects in part the amount of assets in accounts managed using the Model Portfolio. The amount of assets in accounts managed using the Model Portfolio and the value of those assets is determined by the program sponsor. Fees typically are calculated and paid on a quarterly basis, in advance or in arrears, as specified in the relevant program agreement.

#### **IV. Registered Investment Companies**

For its services to a Registered Fund, IndexIQ receives an advisory fee generally ranging from 0.35% to 1.80% of average daily net assets, payable in arrears on a monthly basis. The value of a Registered Fund's assets is determined in accordance with valuation procedures adopted by the Registered Fund's Board of Trustees, and generally involves the use of pricing information provided by an independent pricing service. Additional information regarding fees and the valuation of a Registered Fund's assets is set forth in the applicable Registered Fund's prospectus.

#### **V. General Fee Information**

Generally, all fees to clients other than Registered Funds are subject to negotiation. To the extent a Subadvisor is retained for a client account, the fees of such Subadvisor will be paid from the fees of IndexIQ.

In addition to the above fees, each client is generally responsible for all expenses related to its Account, including brokerage commissions, custodial fees, interest on margin borrowing and the fees or expenses of any mutual funds and/or ETFs in which the account invests. Mutual funds and ETFs also charge internal management fees, which are disclosed in the applicable prospectus. Clients will incur brokerage and other transaction costs. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. Please see Item 12 herein with respect to IndexIQ's brokerage practices.

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

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IndexIQ does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).

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#### **ITEM 7 – TYPES OF CLIENTS**

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IndexIQ offers its services to registered investment advisers, broker-dealers, Registered Funds operating as ETFs and mutual funds, as well as to individuals, trusts, retirement accounts (IRAs, pensions and profit sharing plans), state or municipal government entities, corporations and other institutions. IndexIQ also offers its services to UMA, Wrap, and other advisory programs of third-party sponsors.

Generally, the minimum dollar value of assets required to set up an investment advisory account with IndexIQ is \$10,000,000; however, IndexIQ has discretion to waive the account minimum. IndexIQ may choose to raise the account minimum based on several factors, including, without

limitation, the complexity or capacity of the underlying strategy. The minimums generally may be different in advisory products offered in Sponsored Programs.

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

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There can be no assurances that a client will achieve its investment objective or that the strategies pursued and methods utilized by IndexIQ will be successful under all or any market conditions.

### **I. Investment Strategies for Registered Funds (ETFs and Mutual Funds)**

#### Passive ETF Investment Strategies

IndexIQ's passive ETFs generally seek investment results that correspond (before fees and expenses) generally to the price and yield performance of its underlying index (the "Underlying Index"). The Underlying Indexes used by ETF clients generally seek to track the performance of specific a) alternative investment strategies by tracking, for example, the "beta" portion of hedge fund or mutual fund returns (i.e., that portion of the returns of hedge funds or mutual funds that are non-idiosyncratic, or unrelated to manager skill) of a combination of hedge funds or mutual funds pursuing a particular strategy; b) sectors of publicly traded issuers in specific countries or regions; c) sectors or industries of publicly traded issuers either globally or domestically; d) international equity markets while hedging approximately 50% of the underlying securities' foreign currency exposure; or e) other discrete strategies as disclosed in an ETF's prospectus and statement of additional information.

Certain of IndexIQ's passive ETFs may be funds-of-funds, each of which invests, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in the investments included in its Underlying Index, which includes underlying funds.

Each Underlying Index consists of a number of components ("Underlying Index Components") selected in accordance with the rules-based methodology of such Underlying Index. For IndexIQ ETFs that are a fund-of-funds, Underlying Index Components will include primarily ETFs and/or other exchange-traded vehicles issuing equity securities organized in the U.S., such as exchange traded vehicles ("ETVs", and together with ETFs, "Underlying Funds"). Each IndexIQ ETF may also invest in one or more financial instruments, including but not limited to futures contracts and swap agreements (collectively, "Financial Instruments").

Each passive ETF may employ a "passive management" — or indexing — investment approach designed to track the performance of the Underlying Index. Certain Registered Funds track the performance of IndexIQ Indices, which have been developed IndexIQ LLC, the parent company of IndexIQ. With regard to Registered Fund clients that track an IndexIQ Index, IndexIQ pays IndexIQ LLC a licensing fee on a per product basis of 0.15% of assets under management. Similar licensing fees may apply for managed account clients and IndexIQ offerings through Sponsored Programs that track IndexIQ Indices. Certain Registered Funds track the performance of Underlying Indices developed by independent third-party index firms. IndexIQ pays a

licensing fee to such third-party firms to license the use of an Underlying Index developed by the firm.

### Actively Managed ETF Investment Strategies

IndexIQ may provide actively managed ETFs (“Active ETFs”), which generally seek investment results that do not seek to replicate the performance of a specific index. Instead, these funds will use an active management strategy to meet their investment objectives. Consequently, investors should not expect these fund returns to track the returns of any market.

The Active ETFs may have long or short positions in equity or debt securities, which is a common way to seek to generate returns that are independent of market moves. Active ETFs may invest in domestic or international securities for which exposure may be obtained through exchange-traded products and/or other financial instruments.

Active ETFs also may seek to achieve their investment objectives through a multi-manager approach by which the assets of the Active ETFs are allocated among a number of underlying managers that are sub-advisors to the Active ETFs (“Underlying Managers”) and that employ a variety of alternative investment strategies. In making these allocations, the strategies of the Underlying Managers are sought to be combined efficiently and systematically so that the Active ETFs seek to generate, through a diversified set of investment strategies, a potential positive total return with relatively low volatility and low sensitivity or correlation to market indices. The investment of Active ETF assets not allocated to Underlying Managers may be directly managed by IndexIQ.

### Mutual Fund Investment Strategy

IndexIQ’s mutual fund client seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of its underlying index, the IQ Hedge Multi-Strategy Plus Index (the “Index”). The Index seeks to track the performance of specific alternative investment strategies by tracking the “beta” portion of hedge fund returns (i.e., that portion of the returns of hedge funds that are non-idiosyncratic, or unrelated to manager skill) of a combination of hedge funds pursuing particular strategies.

The mutual fund client is a fund-of-funds which means it invests, under normal circumstances, a significant portion of its assets in Underlying Funds. The mutual fund client will take both long and short positions in the Underlying Funds in which it invests. The mutual fund also invests in Financial Instruments. The mutual fund client uses total return swaps as a principal investment strategy to increase the overall exposure of the mutual fund client to replicate the leveraged exposures of its Underlying Index and may also use total return swaps to effect certain short positions reflected in its Underlying Index. The exposure of the mutual fund client will vary but in any event will be no more than 200% of net assets as of each monthly rebalance date.

The mutual fund employs a “passive management” — or indexing — investment approach designed to track the performance of its Underlying Index, which was developed by IndexIQ LLC, the parent company of IndexIQ. The Underlying Index consists of a number of Underlying Index Components selected in accordance with the Underlying Index’ rules-based methodology.

Such Underlying Index Components include long and short positions primarily in ETFs, but may also include ETVs.

## **II. Investment Strategies for Managed Accounts, Sponsored Programs and Model Portfolios**

For managed account and Sponsored Program clients and the creation and maintenance of Model Portfolios, IndexIQ seeks to track the investment results that correspond (before fees and expenses) generally to the price and yield performance of an underlying index that seeks to track the performance of specific alternative investment strategies by tracking the “beta” portion of hedge fund returns (i.e., that portion of the returns of hedge funds that are non-idiosyncratic, or unrelated to manager skill) of a combination of hedge funds pursuing particular strategies.

These accounts and portfolios invest a significant portion of their assets in Underlying Funds. For these accounts and portfolios, IndexIQ employs a “passive management” — or indexing — investment approach designed to track the performance of the Underlying Index, which was developed by IndexIQ LLC, the parent company of IndexIQ. The Underlying Index consists of a number of Underlying Index Components selected in accordance with the Underlying Index’s rules-based methodology. Such Underlying Index Components include positions primarily in ETFs, but may also include ETVs. Underlying Index Components include ETFs and ETVs that seek to provide inverse exposure to market indices.

## **III. Risk Factors**

Investing in securities involves risk of loss that clients should be prepared to bear. A brief explanation of the material risks associated with IndexIQ’s principal investment strategies and methods of analysis follows.

### **Investment Strategy Risk Factors**

#### ***Equity Securities & Fixed Income***

Equity securities investments will include positions in common stocks, including preferred stocks and convertible securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, and general economic environments.

Fixed-income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security’s value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed-income securities held long can be expected to increase when prevailing interest rates fall and decline when interest rates rise, while the values of fixed-income securities sold short can be expected to decline when prevailing interest rates fall and increase when interest rates rise. Due to the resetting of interest rates, adjustable-rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall

or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

#### *Long/Short Risk*

There is no guarantee that the returns on an account's long or short, if any, positions will produce positive returns, and an account could lose money if either or both positions produce negative returns.

#### *Short Sales*

IndexIQ may make short sales for client accounts, in which the client account sells a security that it does not own. A short sale involves the theoretically unlimited risk of an increase in the market price of the securities sold short.

#### *Underlying Funds Risk*

An investment in Underlying Funds is subject to the risks associated with such Underlying Funds.

#### *Exchange Traded Vehicle Risk*

The value of an investment in ETFs and ETVs is based on stock market prices and an ETF could lose money due to stock market developments, the failure of an active trading market to develop or exchange trading halts or de-listings.

#### *Index Risk*

The performance of the Underlying Index and the account may deviate from that of the markets the Underlying Index seeks to track due to changes that are reflected in the sector more quickly than the periodic rebalancing process can track. Securities in the Underlying Index or in an account's portfolio may also underperform in comparison to the general securities markets.

#### *Tracking Error Risk*

Although an account may attempt to track the performance of an Underlying Index, the account may not be able to duplicate its exact composition or return for any number of reasons.

#### *Market Risk*

The market price of investments owned by an account may go up or down, sometimes rapidly or unpredictably.

### *Foreign Securities Risk*

A Registered Fund may invest in the securities of non-U.S. issuers, which securities involve risks beyond those associated with investments in U.S. securities.

### Principal Risks of ETFs and Mutual Funds

Investors in Registered Funds should be willing to accept a high degree of volatility in the price of a Registered Fund's shares and the possibility of significant losses. As with all investments, an investor may lose money in a Registered Fund. An investment in a Registered Fund involves a substantial degree of risk and a Registered Fund does not represent a complete investment program. As with all investments, an investor may lose money in a Registered Fund. Therefore, an investor should consider carefully the following risks before investing in a Registered Fund. Additional risk factors for the Registered Funds are set forth in the prospectus of each Registered Fund.

### *Fund of Funds Risk*

The investment performance of a Registered Fund that operates as a fund of funds depends on the investment performance of the Underlying Funds in which the Registered Fund invests.

### *Trading Price Risk*

Although it is expected that generally the market price of the shares will approximate an ETF's net asset value ("NAV"), there may be times when the market price in the secondary market and the NAV vary significantly.

### *Foreign Securities Valuation Risk*

To the extent a Registered Fund calculates its NAV based on fair value prices and the value of the Underlying Index is based on the securities' closing price on a non-U.S. market (i.e., the value of the Underlying Index is not based on fair value prices), the valuation of the Registered Fund's NAV may deviate from the calculation of the Underlying Index.

### *Currency Hedging Risk*

Certain Registered Fund use various strategies to attempt to reduce the impact of changes in the value of a foreign currency against the U.S. dollar. These strategies may not be successful. Currency exchange rates can be very volatile and can change quickly and unpredictably. Therefore, the value of an investment in a Registered Fund may also go up or down quickly and unpredictably and investors may lose money.

### *Geographic Risk*

A natural or other disaster could occur in a geographic region in which a Registered Fund invests, which could affect the economy or particular business operations of companies in the specific geographic region, causing an adverse impact on the Fund's investments in the affected region.

### *Geopolitical Risk*

Some countries and regions in which a Registered Fund invests have experienced security concerns, war or threats of war and aggression, terrorism, economic uncertainty, natural and environmental disasters and/or systemic market dislocations that have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on the U.S. and world economies and markets generally, each of which may negatively impact the Registered Fund's investments.

### *Custody Risk*

Registered Funds may invest in securities markets that are less developed than those in the U.S., which may expose a Registered Fund to risks in the process of clearing and settling trades and the holding of securities by local banks, agents and depositories. The less developed a country's securities market is, the greater the likelihood of custody problems. The risks above are not a complete list of all risks involved in investing in a Registered Fund. Additional risk information can be found in the prospectus for a Registered Fund.

### *Volatility Risk*

Although an Underlying Index may seek lower volatility than the equity markets in which a Registered Fund invests, there is no guarantee that this strategy will be successful. The Underlying Index may not be successful in reducing volatility, and there is a risk that the Registered Fund may experience greater volatility than the markets in which the Registered Fund invests. Securities in the Registered Fund's portfolio may be subject to price volatility and the prices may not be less volatile than the market as a whole, and could be more volatile.

Significant short-term price movements could adversely impact the performance of the Registered Fund. Market conditions in which significant price and volatility trends develop, but then repeatedly reverse, could cause substantial losses due to prices moving against the Registered Fund's long or short positions, which are determined based on projected market trends.

### *Active Management Risk*

A Registered Fund may employ an active management strategy to meet its investment objective. Consequently, investors should not expect such Registered Fund's returns to track the returns of any index over any period of time as the variability of returns is inherent to active management.

### *Cash Transactions Risk*

Some of the Registered Funds may effect all creations and redemptions entirely for cash, rather than in-kind securities, thereby potentially subjecting shareholders to tax on gains they would not otherwise be subject to, or at an earlier date than, if they had made an investment in a different fund.



### *Compounding Risk*

The effect of compounding on positions a Registered Fund may take may be detrimental to or compromise the ability of the Registered Fund to meet its objective. Compounding affects all investments, but has a more significant impact on leveraged or inverse positions. Particularly during periods of higher market volatility, compounding of a Registered Fund's returns will cause results for periods over time to vary from the returns of the U.S. Market, U.S. Small Cap Market, International Market or Emerging Market, as applicable, or the inverse or multiple (two times or otherwise) thereof. This effect becomes more pronounced as volatility increases and may even cause the return of a Registered Fund to move in the opposite direction from what one would expect for a leveraged or inverse fund. For example, in a volatile market, compounding can result in longer-term (i) leveraged returns that are less than two times the return of the unleveraged investment or (ii) inverse returns that are less than the inverse return of the unleveraged investment.

### *Leverage Risk*

A Registered Fund's use of swap agreements allows it to obtain investment exposures greater than it could otherwise obtain and specifically to effectively increase, or leverage, its total long investment exposures to more than its net asset value by a significant amount. The use of such leverage could result in the total loss of an investor's investment more quickly than would be the case in an un-leveraged fund.

### *Derivatives Risk*

Derivatives, including swap agreements and futures contracts, may involve risks different from, or greater than, those associated with more traditional investments. As a result of investing in derivatives, a Registered Fund could lose more than the amount it invests. Derivatives may be highly illiquid, and a Registered Fund may not be able to close out or sell a derivative position at a particular time or at an anticipated price. Derivatives also may be subject to interest rate risk, currency risk and counterparty risk, which includes the risk that a loss may be sustained by a Registered Fund as a result of the insolvency or bankruptcy of, or other non-compliance by, the other party to the transaction.

### *Credit/Default Risk*

An issuer or guarantor of fixed income securities or instruments held by a Registered Fund may default on its obligation to pay interest and repay principal or default on any other obligation, which may impair the Registered Fund's liquidity and cause significant NAV deterioration.

### *Investment Style Risk*

Different investment styles (e.g., "growth", "value" or "quantitative") tend to shift in and out of favor depending upon market and economic conditions and investor sentiment. The Registered Funds may employ various non-traditional and alternative investment styles, and may outperform or underperform other funds that invest in similar asset classes but employ different investment styles.

### *Liquidity Risk*

The Registered Funds may make investments that may be illiquid or that may become less liquid in response to market developments or adverse investor perceptions. Illiquid investments may be more difficult to value and more difficult to sell in response to redemption requests.

### *Market Capitalization Risk (Small-, Mid- and Large-Cap Stocks Risk)*

To the extent the Registered Funds emphasize small-, mid-, or large-cap stocks, they take on the associated risks. At any given time, any of these market capitalizations may be out of favor with investors.

### *Multi-Manager Risk*

The success of a Registered Fund's investment strategy may depend on, among other things, the ability to select underlying managers to implement the Registered Fund's investment objective and the success in allocating assets to those underlying managers.

### *Non-Diversification Risk*

The Registered Funds may be non-diversified and may be susceptible to greater losses if a single portfolio investment declines than would a diversified mutual fund.

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## **ITEM 9 – DISCIPLINARY INFORMATION**

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IndexIQ does not have any disciplinary or legal events to report.

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

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IndexIQ does not engage in any other business activity other than providing investment advice. However, as described above, the principals of IndexIQ also serve as principals of IndexIQ LLC, an affiliate of IndexIQ which engages in the business of developing indexes and other financial products that are utilized by IndexIQ in providing investment supervisory services to clients, as well as by select other third-party index licensees. See Item 4.

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

### **Broker-Dealer**

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"). NYLIFE Distributors is our affiliate and is registered as a broker-dealer with the SEC. NYLIFE Distributors serves as the principal underwriter and distributor of IndexIQ Trust and has entered into a services agreement with ALPS Distributors, Inc., the distributor of IndexIQ ETF Trust, to distribute shares of IndexIQ ETF Trust. By virtue of their FINRA registrations, certain of our employees may promote the

sale of the IndexIQ Funds to registered representatives of other broker-dealers who may recommend that their clients purchase these products.

NYLIFE Distributors may compensate registered employees who promote the sale of the IndexIQ Funds for their efforts, and IndexIQ 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.

### **Investment Advisers**

New York Life Investments is our affiliate and provides certain services to support IndexIQ's management of Sponsored Program accounts. New York Life Investments has also designated certain officers to serve on IndexIQ's Board of Managers. IndexIQ also receives certain accounting, finance, operations, compliance, legal and other support services from New York Life Investments.

IndexIQ LLC has engaged Cornerstone Capital Management ("Cornerstone") and Candriam Belgium S.A. ("Candriam") as index consultants to assist IndexIQ LLC with the development, calculation and maintenance of certain IndexIQ Indices. Cornerstone and Candriam are wholly owned by New York Life Insurance Company and are affiliates of IndexIQ. As index consultants, Cornerstone and Candriam assist IndexIQ LLC with the identification, formulation and construction of potential IndexIQ Indices, the testing of potential IndexIQ Indices, documentation of index methodologies, and ongoing calculation and maintenance of certain IndexIQ Indices.

### **Banking Institution**

IndexIQ may in the future provide investment advisory services or personnel to New York Life Trust Company, a related person and a New York State chartered trust company, for a collective investment trust.

### **Insurance Company**

IndexIQ is affiliated with New York Life Insurance Company and may in the future provide investment advice to certain New York Life Insurance Company accounts.

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

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

IndexIQ has adopted a Code of Ethics (the "Code") which sets forth the ethical and fiduciary principles and related compliance requirements under which IndexIQ operates and the procedures for implementing those principles. The Code includes provisions which govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality. To avoid any potential conflicts of interest involving personal trades, IndexIQ Code specifies and prohibits certain types

of transactions deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts, and establishes reporting requirements and enforcement procedures.

IndexIQ's Code generally: 1) requires employees to report personal securities transactions on at least a quarterly basis; 2) requires employees to provide IndexIQ with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest; and 3) requires employees to obtain pre-clearance prior to investing in securities deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts.

A copy of IndexIQ's Code is available to any client or prospective client upon request by contacting IndexIQ's Chief Compliance Officer at (888) 934-0777.

### **Participation or Interest in Client Transactions**

IndexIQ, consistent with clients' investment objectives and in accordance with applicable law, may cause accounts it manages to effect, and will recommend to clients or prospective clients, the purchase or sale of securities in which IndexIQ, other New York Life affiliates, other IndexIQ advisory accounts, or separately managed accounts in which IndexIQ or its affiliates or their respective officers and employees have a direct or indirect ownership interest. For example, IndexIQ may suggest that a managed account client invest in a Registered Fund for which IndexIQ serves as investment adviser.

IndexIQ may also invest, on behalf of its advisory clients, in the same or different securities or instruments of issuers in which these same entities have a financial interest as a holder of the securities or instruments of the issuers.

IndexIQ has a conflict of interest in connection with these transactions since investments by its advisory clients may benefit IndexIQ and its affiliates, officers and employees by potentially increasing the value of the investments held in the issuer. In addition, if the value of such assets increases, the asset based fees charged by IndexIQ will also increase.

IndexIQ seeks to ensure that any investment it makes on behalf of an advisory client is consistent with applicable law, IndexIQ's fiduciary obligations to act in the best interests of the client, and such client's investment objectives.

From time to time, it may be appropriate for more than one of the accounts managed by IndexIQ to trade in the same securities at the same time. IndexIQ may bunch orders where it deems this to be appropriate, in the best interests of clients and consistent with IndexIQ's fiduciary duties. IndexIQ will not aggregate trades unless it believes that doing so is consistent with our duty to seek best execution for clients. When orders are bunched, allocations among IndexIQ's clients acquiring the same securities on the same day are effected on a pro rata basis, based on the relative value of the accounts, or otherwise in an allocation amount determined at the time of the order. If the orders are bunched, each of the accounts will have their same day orders filled on an average price basis (such that each receives the same price). While IndexIQ's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that

on an overall or trade-by-trade basis that any particular client will not be treated more favorably than another.

IndexIQ does not engage in principal transactions with client accounts and if it did so, it would secure applicable client consent.

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## **ITEM 12 – BROKERAGE PRACTICES**

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IndexIQ's policy is to obtain the best execution of client transactions over the long term, taking into account the full range and quality of services offered by executing brokers.

IndexIQ recommends and effects transactions through various brokerage firms (collectively, "Brokers"), which are considered reputable and financially secure to execute its trades, and which it believes can offer best execution, on an overall or transaction basis. In selecting Brokers to execute transactions, while trade price is often a significant quantitative factor, a number of factors are considered including, among others, financial strength, stability and responsibility, reputation, quality and depth of services (including back office and processing capabilities), nature and frequency of sales coverage, price, reliability, ability to execute trades, commission rate, research capabilities, success of prior research recommendations, the value of research and brokerage products and services provided and responsiveness to IndexIQ. The determinative factor is not the lowest possible commission cost alone.

The commissions and/or fees charged by Brokers are exclusive of, and in addition to, IndexIQ's fees. In selecting Brokers to execute transactions, IndexIQ need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost to be charged by the Brokers it selects.

As permitted under applicable law, IndexIQ may cause client accounts to pay a Broker a commission for effecting a securities transaction that is in excess of the commission which another Broker would have charged for effecting the transaction, if IndexIQ makes a good faith determination that the Broker's commission paid by clients is reasonable in relation to the value of the brokerage and research services provided by the Broker, viewed in terms of either the particular transaction or the firm's overall responsibilities to the clients and the accounts.

Research products and services may include, but are not limited to, general economic, political, business and market information and reviews, industry and company information and reviews, evaluations of securities and recommendations as to the purchase and sale of securities, financial data on a company or companies, performance and risk measuring services and analysis, stock price quotation services, computerized historical financial databases and related software, credit rating services, analysis of corporate responsibility issues, brokerage analysts' earnings estimates, computerized links to current market data, software dedicated to research, and portfolio modeling. Research services may be provided in the form of reports, computer-generated data feeds and other services, telephone contacts, and personal meetings with securities analysts, as well as in the form of meetings arranged with corporate officers and industry spokespersons, economists, academics and governmental representatives. Brokerage products and services assist in the execution, clearance and settlement of securities transactions, as well as functions incidental thereto, including but not limited to related communication and

connectivity services and equipment, software related to order routing, market access, algorithmic trading, and other trading activities. On occasion, a Broker may furnish IndexIQ with a service that has a mixed use (that is, the service is used both for brokerage and research activities that are within the safe harbor and for other activities). In this case, IndexIQ is required to reasonably allocate the cost of the service, so that any portion of the service that does not qualify for the safe harbor is paid for by IndexIQ from its own funds, and not by portfolio commissions paid by clients.

IndexIQ does not consider client referrals when selecting or recommending Brokers, and typically does not engage in directed brokerage arrangements. IndexIQ does not participate in any directed brokerage programs unless directed to do so by a client. In the event that IndexIQ would participate in a direct brokerage arrangement, such direction must be in writing from the client and approved by IndexIQ's POC. Each directed brokerage arrangement will be evaluated to determine whether IndexIQ has any discretion in the investment or order entry process that may still require a best execution analysis. Any client requesting a directed brokerage arrangement will be informed that, among other information, the conflicts of interest involved and the fact that the client may give up benefits of better pricing or lower commissions that might otherwise be available through participation in bunched orders.

When a Subadvisor is selected by IndexIQ, unless otherwise directed in writing by the client, the Subadvisor has absolute discretion to select Brokers to be used for each account, notwithstanding the fact that such selection may inure to the benefit of IndexIQ or other clients of IndexIQ. The Subadvisor is authorized by IndexIQ to combine purchase or sale orders on behalf of each client together with orders for any other accounts for which IndexIQ may act as an investment manager or any other capacity. The Subadvisor is further authorized to allocate the securities or other assets so purchased or sold, on an average price basis, among each client's Account and such other accounts. Generally, the Subadvisor will select a Broker based on its ability to obtain the best overall terms available. In assessing the best overall terms available for any transaction, the Subadvisor will consider all relevant factors in line with current industry standards.

The services furnished by a Broker may benefit IndexIQ in rendering investment management services to all of its clients. Certain of the services and information received by IndexIQ attributable to a transaction executed on behalf of one client may benefit other accounts or clients over which investment discretion is or may, in the future, be exercised by IndexIQ or its affiliates. IndexIQ has no obligation to deal with any Broker or group of Brokers in executing transactions in portfolio securities on behalf of clients.

Investment decisions are made consistent with the investment objectives, guidelines and restrictions of clients and trades are allocated fairly and equitably among accounts participating in each transaction, taking into consideration the objectives, restrictions, investment strategy, asset allocation and benchmarks of each client.

IndexIQ's policy is to ensure that no individual client account or account type (e.g., Registered Fund, Model Portfolio or managed account) is benefited or harmed by virtue of trade allocations and transactions across client accounts and account types.

From time to time, it may be appropriate for more than one of the accounts managed by IndexIQ to trade in the same securities at the same time. As a general rule, such orders are combined (or bunched) and allocations among IndexIQ's clients acquiring the same securities on the same day are effected on a pro rata basis, based on the relative value of the accounts, or otherwise in an allocation amount determined at the time of the order. If the orders are combined (or bunched), each of the accounts will have their same day orders filled on an average price basis (such that each receives the same price). While IndexIQ's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that on an overall or trade-by-trade basis that any particular client will not be treated more favorably than another.

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## **ITEM 13 – REVIEW OF ACCOUNTS**

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### **Monitoring**

IndexIQ continuously monitors all managed accounts in an effort to ensure that client objectives are being achieved. The portfolio managers of an account have primary responsibility for reviewing each account managed, including reviewing the appropriateness of portfolio holdings and transactions in light of each account's investment objectives, guidelines and restrictions.

To supervise performance of IndexIQ's accounts, IndexIQ's POC, which is comprised of senior executives of IndexIQ, meets quarterly and reviews the implementation of portfolios, broker execution, compliance, costs of strategy implementation, portfolio-index tracking error where the portfolio is managed to replicate the returns of an index-based IndexIQ Product, and other aspects of portfolio management.

### **Client Reporting**

The content and frequency of client reports varies by client. IndexIQ typically discusses a client's reporting requirements as part of the contract negotiations. Quarterly performance reports are generally provided by IndexIQ to separately managed account clients, unless otherwise agreed. In addition, separately managed account clients will receive at least quarterly account statements from their custodian.

The Board of Trustees of Registered Fund clients will receive quarterly performance reports as well as other account information as determined by the Registered Fund's compliance policies and procedures. Generally, reports include rolling performance data, index comparisons and general fund information.

Performance reports relating to IndexIQ offerings through Sponsored Programs are provided by the respective sponsor. Clients are urged to carefully review all statements and contact IndexIQ if you have any questions.

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

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IndexIQ does not compensate third parties for client referrals and does not receive an economic benefit for providing advice to its clients from anyone other than its clients.

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**ITEM 15 – CUSTODY**

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IndexIQ does not have custody of client funds or securities.

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**ITEM 16 – INVESTMENT DISCRETION**

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With respect to its discretionary accounts, IndexIQ has full discretionary authority to manage the investment and re-investment of the cash, securities, investments and other property in each account and all earnings on the assets in the account not otherwise withdrawn by the client, with power on behalf of and in the name of the client all without prior consultation with the client. IndexIQ has absolute discretion over each account's trading strategy, including the allocation of the account's assets between different types or classes of investments in which IndexIQ may invest from time to time and the securities and other instruments which may be purchased or sold. IndexIQ will share this discretionary authority with any Subadvisor that IndexIQ hires to assist in client portfolio management.

When a Subadvisor is selected by IndexIQ, unless otherwise directed in writing by the client, the Subadvisor has absolute discretion with respect to the investment of a client's assets.

Limitations on IndexIQ's and any Subadvisor's authority (and generally the authority of a manager or adviser) are guided by (1) its responsibility to act as a fiduciary when handling clients' accounts, (2) the prospectus and statement of additional information of a Registered Fund and (3) the obligation (subject to the conditions specified herein) to seek best execution for client trades.

IndexIQ abides by the investment guidelines and restrictions set forth in each client's investment advisory agreement or prospectus, as applicable. IndexIQ is not obligated to acquire for any account any security that IndexIQ's officers, partners, members or employees may acquire for their own accounts or for the account of any other client, if in IndexIQ's absolute discretion it is not practical or desirable to acquire a position in such security.

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**ITEM 17 – VOTING CLIENT SECURITIES**

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IndexIQ has retained a third-party proxy services vendor (the "Proxy Vendor") for voting proxies on behalf of its clients. Generally, IndexIQ is not responsible for voting, and does not vote, proxies for clients in Sponsored Programs for which IndexIQ provides a Model Portfolio, nor does IndexIQ receive proxy solicitations for such clients; however, in circumstances when Program clients authorize IndexIQ to vote proxies for such Program client accounts, IndexIQ will use the Proxy Vendor for voting proxies.



IndexIQ seeks to avoid material conflicts of interest through its use of a Proxy Vendor, which applies detailed, pre-determined proxy voting guidelines (the “Voting Guidelines”) in an objective and consistent manner across client accounts, based on research and recommendations provided by a third party vendor, and without consideration of any client relationship factors.

IndexIQ exercises its proxy voting rights with the goal of maximizing the value of the client’s investments. All proxy voting proposals are reviewed, categorized, analyzed and voted in accordance with the Voting Guidelines. These guidelines are reviewed periodically and updated as necessary to reflect new issues and any changes in policies on specific issues. Items that can be categorized under the Voting Guidelines will be voted in accordance with any applicable guidelines. Proposals that cannot be categorized under the Voting Guidelines will be referred to the POC for discussion and vote. Additionally, the POC may review any proposal where it has identified a particular company, industry or issue for special scrutiny. With regard to voting proxies of foreign companies, IndexIQ weighs the cost of voting, and potential inability to sell the securities (which may occur during the voting process) against the benefit of voting the proxies to determine whether or not to vote.

IndexIQ ensures that (1) the client’s custodian is instructed to send the client’s proxy ballots to the Proxy Vendor for voting, and (2) the Proxy Vendor is notified that it should begin receiving proxy ballots. IndexIQ will review on a quarterly basis (a) a votes summary report, which includes a list of meetings and proposals that were voted and how the votes were cast, and (b) an exceptions report showing any votes cast contrary to IndexIQ’s stated voting policy, which is to vote consistent with the Proxy Vendor’s recommendations. The Proxy Vendor maintains proxy voting records on behalf of IndexIQ and provides the data necessary for IndexIQ to make timely N-PX filings. IndexIQ’s proxy voting policy and procedures are available upon request. A client may obtain IndexIQ’s proxy voting policy and procedures or a record of IndexIQ’s proxy voting for such client by contacting IndexIQ’s Chief Compliance Officer at (888) 934-0777.

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#### **ITEM 18 – FINANCIAL INFORMATION**

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IndexIQ has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.