

IndexIQ[®]

**IQ[®] ARB MERGER ARBITRAGE ETF
(NYSE Arca Ticker: MNA)**

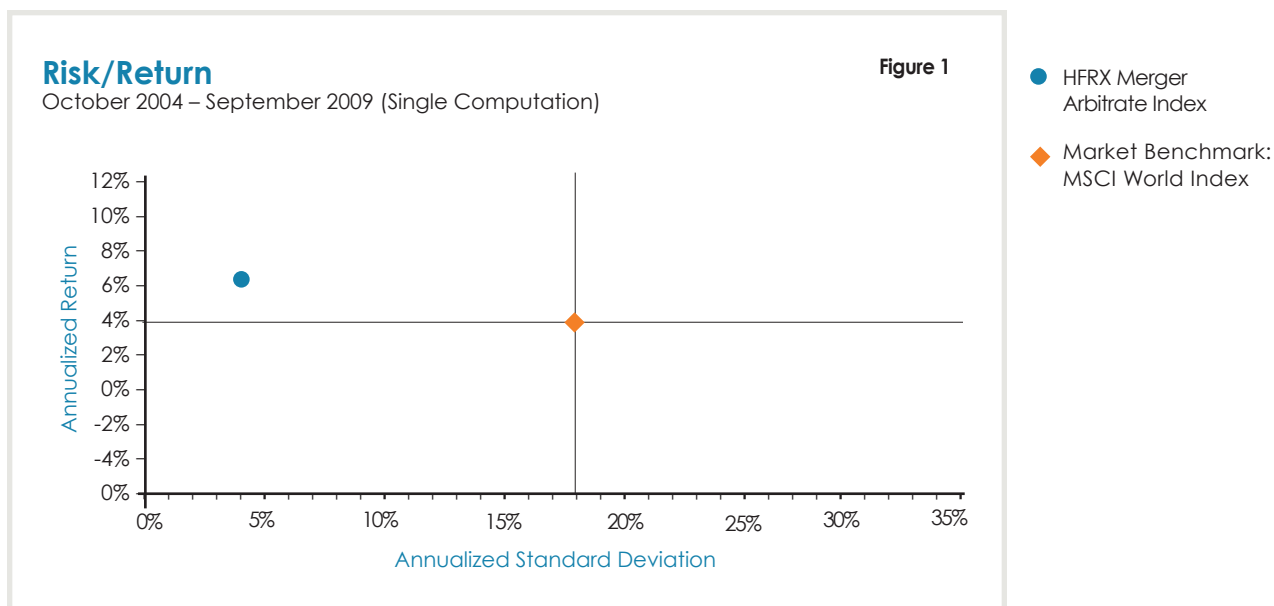


The **alternative**
to alternatives.[™]

What is Merger Arbitrage?

Merger Arbitrage (Merger ARB) is a hedged, alternative investment strategy designed to take advantage of price disparities that exist for companies involved in merger or other related takeover activity. Merger ARB funds typically benefit from buying target companies at prices below the target price. The difference in the target price and the market price is known as the “spread” and can be quite large, especially if there are multiple offers that create a bidding war for the target company. If successful, a Merger ARB fund can make money by buying below the target price and realizing the capital appreciation if the deal closes at or above the target price.

As illustrated in the figure below, the HFRX Merger Arbitrage Index, a merger arbitrage hedge fund index, historically has generated favorable risk/return characteristics relative to the broad global equity markets.



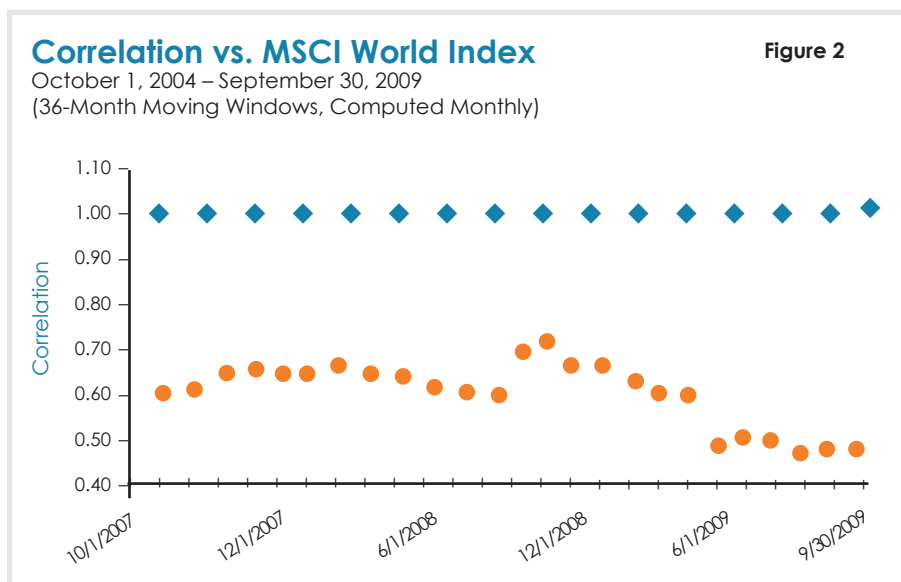
Data Source: IndexIQ, Bloomberg and Zephyr. Data for the period beginning 10/1/2004 and ending 9/30/2009. Past performance is not a guarantee of future results. For illustrative purposes only. One cannot invest in an index. See page 8 for definitions.

Why Would You Use a Merger ARB Strategy?

Risk-Return Improvement: As the data in Figure 1 illustrates, a small allocation to Merger ARB historically has been shown to improve the overall risk/return characteristics of a well-diversified portfolio.

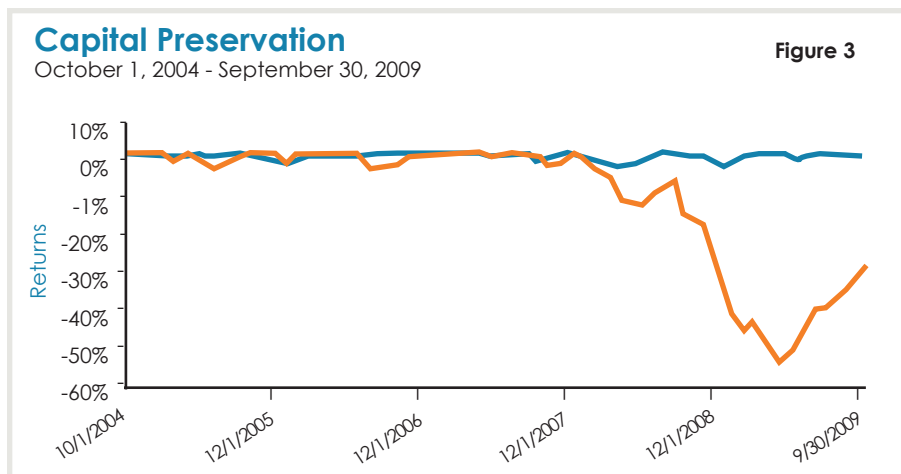
Generation of Consistent, Low-Correlated Returns: Merger ARB historically has exhibited low correlation* to overall equity markets, making it an important portfolio diversification tool, as illustrated by Figure 2.

Capital Preservation: Merger ARB historically has provided significant downside protection in tumultuous markets and served to hedge market volatility by shorting out broad market exposure. See Figure 3.



- HFRX Merger Arbitrage Index
- ◆ MSCI World Index

*Correlation indicates the strength and direction of a linear relationship between two random variables. A value of -1.0 indicates a perfect negative relationship (i.e. the two variables move in opposite directions) and a value of +1.0 indicates a perfect positive relationship (i.e. the two variables move in the same direction). Volatility is the measure of standard deviation of the range of a portfolio's performance, meaning the degree to which it rises above and falls below its average return.



- HFRX Merger Arbitrage Index
- MSCI World Index

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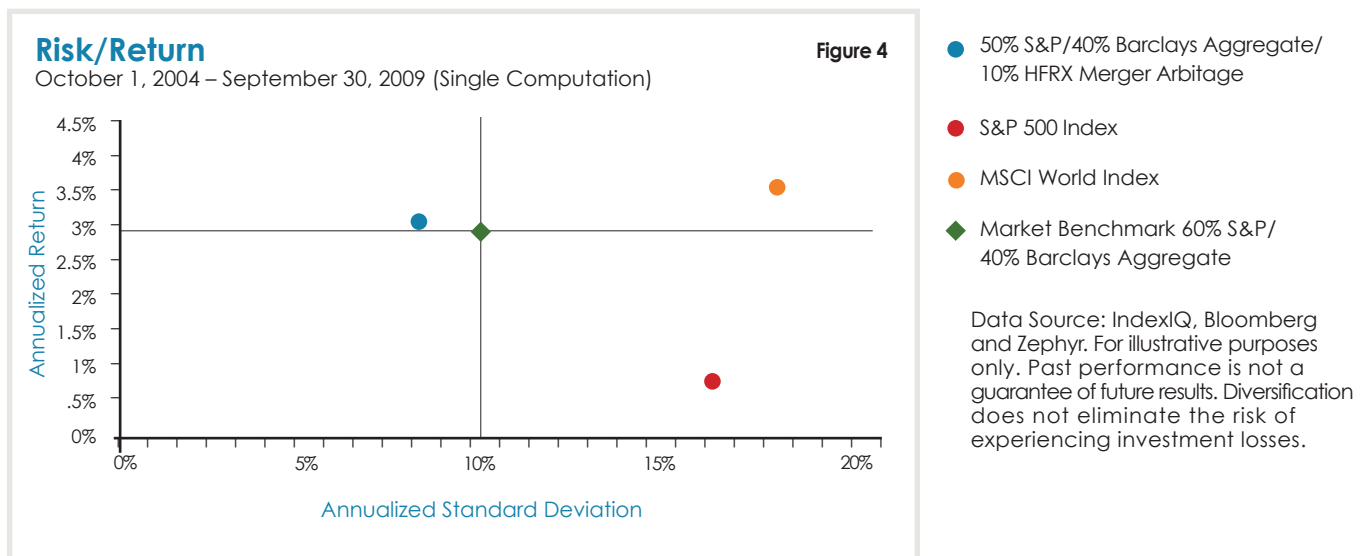
How Do You Position Merger ARB in a Portfolio?

Merger ARB is a directional hedge fund strategy, and typically is regarded as an alpha generating solution.



Investors may choose to consider a Core-Satellite approach capturing both alpha and beta solutions among alternative investments (see diagram). There are strategies designed to offer “Alternative Beta” (i.e., hedge fund market-like results) that can be thought of as a Core alternative holding. A Core-Satellite strategy is an investment strategy that incorporates Alternative Beta investing designed to provide asset class exposure in the “core” portion of the portfolio and alpha-seeking investing designed to generate higher positive returns in the “satellite” portion.

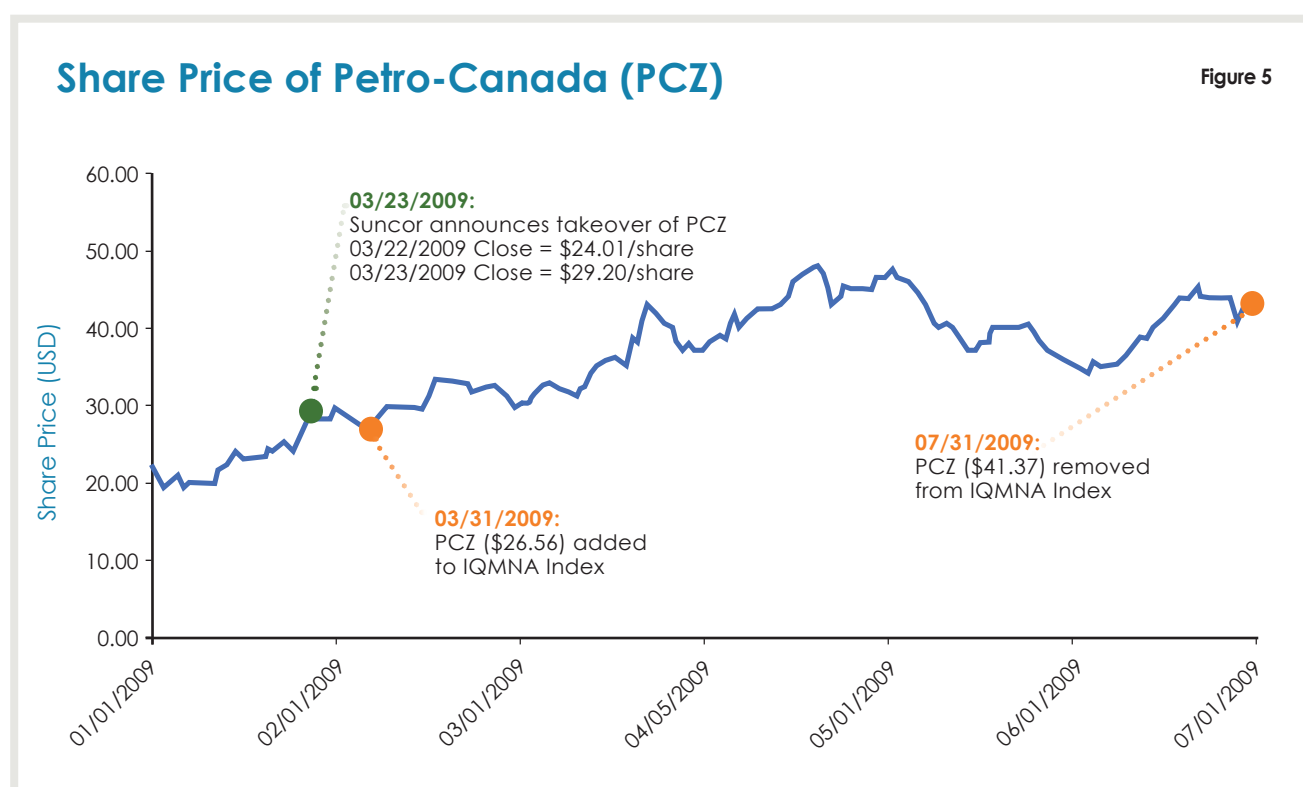
Sophisticated investors, such as the Yale and Harvard endowments, have segmented their exposures to alternative investments by sub-strategy for many years and historically have allocated a healthy exposure to alternative investments.¹



Merger Arbitrage should be considered a complement to both fixed income and equity portfolio allocations. As the data above illustrates, adding a 10% allocation of Merger ARB to a well diversified portfolio has resulted in both improved returns and reduced volatility.

Example of Merger Arbitrage

On March 23, 2009, Suncor announced a takeover of Petro-Canada at a price of \$32.49 per share. On March 31, 2009, IndexIQ added Petro-Canada to the IQ ARB Merger Arbitrage Index at \$26.58 per share. The value of the Suncor offer subsequently increased as the stock price rose, and the transaction closed on July 31st at \$41.37 per share. Not all deals work out as well as the Petro-Canada transaction, but this illustration should be helpful in understanding how the Merger ARB strategy works.



Data Source: IndexIQ, Bloomberg and Zephyr. For illustrative purposes only. Past performance is not a guarantee of future results. One cannot invest in an index. See page 8 for index definitions.

To reduce the risk associated with merger activity, Merger ARB funds may short, or sell, the acquiring company. The acquiring company may incur additional debt and liabilities in the transaction and its stock price often falls. Additionally, Merger ARB funds may include short exposure to the U.S. and non-U.S. equity markets to help reduce broad equity risk.

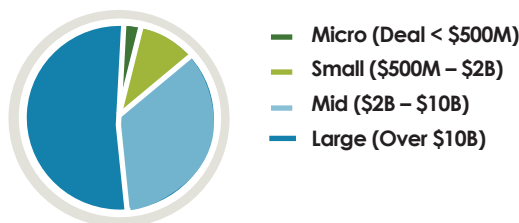
IQ ARB Merger Arbitrage ETF (NYSE Arca: MNA)

The IQ ARB Merger Arbitrage ETF seeks to track, before fees and expenses, the performance of the IQ ARB Merger Arbitrage Index and, thereby, seeks to identify investment opportunities in the mergers and acquisitions market segment globally through a systematic investment process. The Index seeks to achieve capital appreciation by investing in global companies for which there has been a public announcement of a takeover by an acquirer. This approach is based on a passive strategy of owning certain announced takeover targets with the goal of generating returns that are representative of global merger arbitrage activity. The Index also includes short exposure to global equities as a partial equity market hedge.

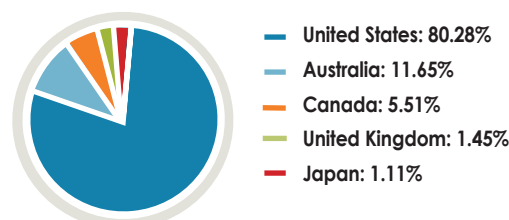
Characteristics of the IQ ARB Merger Arbitrage Index

(portfolio composition based on % of assets)

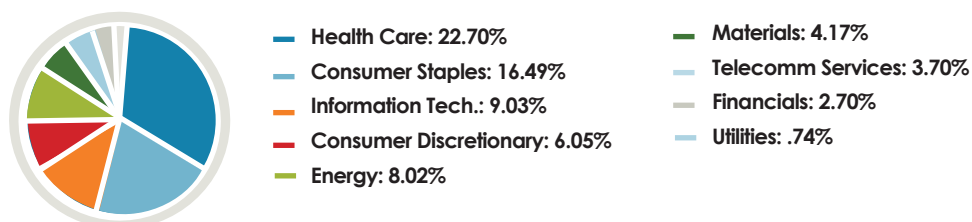
Deal Values



Deal Regions



Deal Sectors



The source of data in the charts above is Factset, Bloomberg and IndexIQ. Data reflects composition of the IQ ARB Merger Arbitrage Index as of September 30, 2009 and is subject to change. Data represents equity deals in the portfolio.

Disclosure:

Certain of the proposed takeover transactions in which the Fund invests may be renegotiated, terminated or involve a longer time frame than originally contemplated, which may negatively impact the Fund's returns. The Fund's investment strategy may result in high portfolio turnover, which, in turn, will result in increased transaction costs to the Fund and lower total returns. The Fund may invest its assets in a relatively small number of issuers, thus making an investment in the Fund potentially more risky than an investment in a diversified fund which is otherwise similar to the Fund. The Fund is susceptible to foreign securities risk – since the Fund invests in foreign markets, it will be subject to risk of loss not typically associated with domestic markets, including currency transaction risk. Stock prices of mid and small capitalization companies may be more volatile than those of larger companies. The Fund is new and has limited operating history.

MNA Strategy Features

Provides broad global exposure to merger and acquisition market segment

Accesses broad market-cap spectrum

- Identifies merger arbitrage opportunities from all developed countries
- Targets all industry sectors
- Can include companies across large, mid and small market cap ranges

Disciplined rules-based process

- Systematic investment process removes manager subjectivity
- Liquidity-based weighting helps ensure tradability and access to all cap sizes

Significant evergreen equity hedge

- Seeks to reduce a broad range of equity market risk factors

Rules-Based Investment Process

Using our proprietary Rules-Based Approach, IndexIQ has developed a methodology to invest in target companies that meet pre-determined criteria that incorporate the terms of the deal, as well as the market price (both current and before the offer was made), and the time elapsed since the offer. MNA is rebalanced monthly and the criteria are applied to existing holdings, as well as to all announced deals. Not all announced deals will meet our inclusion criteria.

IndexIQ's rules-based process follows specific criteria for selling positions based on holding period and stock performance. We do not short the acquirer, but in fact hedge market exposure through futures contracts. The addition of this short market component is designed to isolate the risk premia tied to the target companies and to reduce the portfolio's overall volatility and correlation to the equity markets. MNA offers a unique way of participating in Merger

ARB, typically the exclusive domain of savvy investors, hedge funds and proprietary trading desks, without incurring the costs and individual deal risk if one were to conduct this strategy on their own. Because MNA is being offered in an ETF structure, it enjoys certain tax benefits relative to Merger ARB mutual funds (limited or no pass-through capital gains on account of shareholder redemptions) and hedge funds (no K-1s).

MNA Investment Process


Universe Definition

- 
- 3rd party database of all announced deals
 - Global in scope (Developed Markets)

Deal Criteria

- 
- % of target sought > 50%
 - Merger, Acquisition, Leveraged Buyouts, Private Equity
 - Stock and cash deals

Eligible Criteria

- 
- Time elapsed since deal announced
 - Relationship of offer price to market price (current and prior to announcement)

Portfolio Construction

- 
- **Portfolio updated Monthly**
 - Consider new deals
 - Evaluate existing holdings
 - **Short-term liquidity-based weighting**
 - **Use controlled short exposure to global equity markets as portfolio hedge**

Trading

- 
- Portfolio updates monthly to match index weights
 - Direct trading on major developed market exchanges

Profit / Reinvest

- Remove closed deals from portfolio as required
- Hold proceeds in cash/cash equivalents until next rebalance

Additional Disclosures

1) Yale Endowment Annual Report, 2008; Harvard Management Company Annual Report, 2008-2009.

The MSCI World Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed market (performance data assumes reinvestment of dividends, but it does not reflect management fees, transaction costs or other expenses). The Barclays Capital U.S. Aggregate Index covers the U.S. dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The HFRX Merger Arbitrage Index seeks to represent performance of a universe of merger arbitrage hedge fund strategies. The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market (performance data assumes reinvestment of dividends, but it does not reflect management fees, transaction costs or other expenses).

Alpha is a measure of a portfolio's actual excess returns and expected performance, given its level of risk (as measured by Beta). Beta reflects the sensitivity of a portfolio's return to fluctuations in the market (in this case, as measured by the S&P500 Index). Sharpe Ratio is a measure of a portfolio's risk-adjusted performance (return per unit of risk). Correlation is a measure of the relationship between two variables (e.g., portfolio returns and the S&P 500

Index). R-Squared is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. Standard Deviation is a measure of historical volatility and is used by investors as a measurement of the amount of expected volatility. Downside Risk is an estimation of a security's potential to suffer a decline in price if the market conditions turn bad.

The ETFs should be considered speculative investments with a high degree of risk and are not suitable for all investors.

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