

IndexIQ[®]

IQ[®] HEDGE SOLUTIONS

Objectives:

- Low correlation to traditional asset classes
- Low volatility relative to equity markets
- Institutional sophistication
- Diversification
- Full transparency

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

About IndexIQ

IndexIQ is a leading developer of index-based alternative investment solutions that combine the benefits of traditional index investing with the risk-adjusted return potential sought by active managers. The company's philosophy is to democratize alternative investments by making our strategies available to investors in low cost, liquid and transparent products.* A pioneer in hedge fund replication, IndexIQ offers ETFs, SMAs and a Mutual Fund that seek to replicate hedge fund performance characteristics.

Consider the Funds' investment objectives, risks, charges and expenses carefully before investing. A prospectus with this and other information about the Funds may be obtained by visiting www.IndexIQ.com or by calling (888) 934-0777. Read the prospectus carefully before investing.

There are risks involved with investing, including the possible loss of principal. The Funds' investment performance, because they are funds of funds, depends on the investment performance of the underlying ETFs in which they invest. There is no guarantee that the Funds themselves, or any of the ETFs in the Funds' portfolios, will perform exactly as their underlying indexes. The Funds are non-diversified and susceptible to greater losses if a single portfolio investment declines than would a diversified mutual fund. **The Funds do not invest in hedge funds and are not suitable for all investors.**

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*Ordinary brokerage commissions apply to ETFs. The ETFs are transparent in that holdings are available daily on IndexIQ's website.

IQ[®] Hedge Solutions

Hedge fund strategies can be extremely powerful tools for portfolio construction. A well-executed hedge fund strategy can deliver two of the most coveted attributes on Wall Street: strong absolute returns and low correlations to other assets. These attributes have fueled exponential growth in the hedge fund industry.

Surging interest in hedge funds has created significant challenges for the industry. As more and more funds chase the same alpha using similar investment strategies, industry-wide returns have lagged. At the same time, some funds have taken on additional leverage and risks in the search for alpha, increasing individual hedge fund manager risk and the threat of “blow-up” scenarios. These problems are complicated by a high fee structure that typically charges 2 percent of assets per year, plus 20 percent of profits.

However, new solutions enable wider access to hedge fund characteristics. Over the past 10 years, the academic community has done substantial research into the tracking and replication of hedge fund results.

IndexIQ, a leading developer of next-generation index and quantitative investment strategies, takes these replication strategies further, bringing transparency into an otherwise opaque process and opening up the field to investors.

Leveraging internal expertise in quantitative product development and exchange-traded funds (ETFs), IndexIQ has created a set of products that seek to capture the risk/return characteristics of popular hedge fund strategies by using portfolios of highly liquid ETFs.

This brochure describes the IQ Hedge[™] family of products, the first-ever suite of hedge fund replication strategies that seek to capture the risk and return performance characteristics of leading hedge fund investment styles.

By seeking to make hedge-fund-like returns broadly available, IndexIQ is democratizing access to this important asset class.

Thinking Beyond the Market

Times change. Markets move. Politics and policies shift.

Stocks, bonds, commodities, real estate: Each has a place in a sophisticated portfolio. Each also goes in and out of favor.

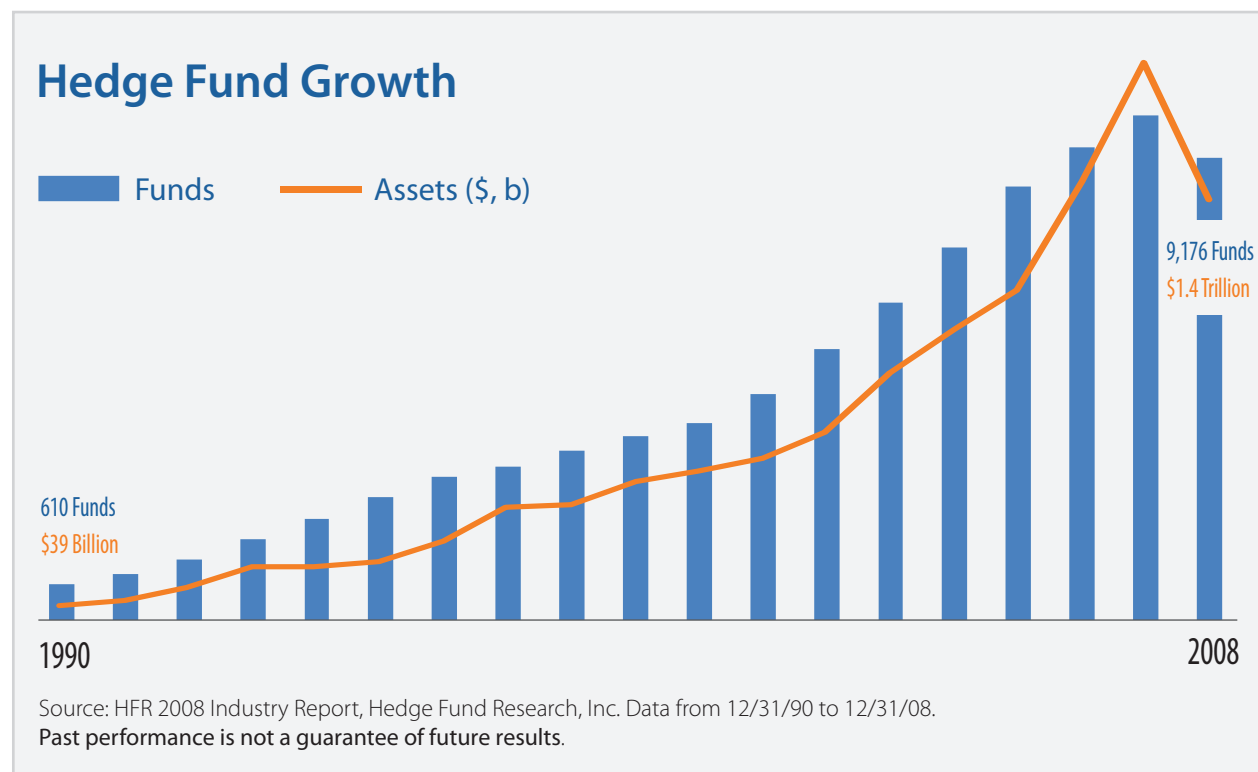
But one thing remains constant: the value of alternatives. Over the past decade, the most sophisticated investors in the world—large pension funds, university endowments, ultra high net worth investors—increasingly have relied on hedge funds to add low-correlation returns to their portfolios. As of December 31, 2010, there were

more than 9,000 different hedge funds, with more than \$1.6 trillion in total assets.

Why are they so popular? Because when implemented properly, hedge funds are a unique and powerful tool for the sophisticated investor.

Historically, hedge funds generally have delivered strong returns, with low volatility. Importantly, these returns are different from those of other asset classes. Properly used, hedge funds provide critical diversification benefits and can improve a portfolio's risk/return profile.

In today's market, this is more important than ever.



The Case for Alternative Investments

Hedge fund investors look to their managers to provide more than just returns—they look for *different* returns.

What typically makes a hedge fund different from a traditional mutual fund or separately managed account (SMA) is the underlying investments it has at its disposal. A hedge fund can go long, or short. It can buy stocks, bonds, commodities, currencies or derivatives. It can sit on cash, or use leverage to increase the buying power of its portfolios.

While certain other investment vehicles also can use those investments, mutual funds and SMAs generally are more restricted both in *how* they invest and in *what* they invest ... whereas hedge funds can use all the investments on Wall Street to achieve their desired returns.

This ability to both think and act differently has created the means to deliver on the promise: low-correlation returns.

What does this mean for you? As with other low-correlation assets, the addition of hedge fund exposure can potentially reduce the risk and enhance the return of a traditional stock-and-bond portfolio, moving your portfolio further out on the efficient frontier.

Real Investors Face Real Challenges

As useful as hedge funds can be in theory, they present problems for the majority of investors.

Hidden Risks:

- The lack of transparency and absence of information about the performance, investment strategies and holdings of most hedge funds make evaluating potential investments extremely problematic.
- Fund strategy and holdings are reported infrequently—if at all—creating a “black box syndrome,” where investors can rarely be certain what their funds are holding. Pricing and valuations are often stale and can be misleading.
- The excessive use of leverage and derivatives can create unforeseen “blow-up” risk in individual funds.
- Once invested, liquidity is typically highly restricted due to fund-specific lockup periods. Investors may find withdrawing money when needed impossible, and rebalancing their total portfolio around hedge fund investments can be difficult.

Difficult to Access:

- SEC rules make it impossible for most investors to access hedge funds at all; hedge fund investments are available only to accredited investors—fewer than 10 percent of the investors in the United States.
- The most successful hedge funds are often closed to new investors, and those that are open typically have high minimum investment requirements and other restrictions.
- Since hedge funds are not allowed to advertise, simply finding and comparing hedge funds is difficult.

High Costs and Tax Impact:

- Fees are often extraordinarily high—typically 2 percent of assets and 20 percent of profits per year.
- Profit fees are levied on the upside ... but not returned if the fund falters.
- Tax management is difficult to control and involves complex, inflexible K-1 tax reporting.

The IQ Hedge™ Alternative

IndexIQ believes there's a better way.

There's a myth on Wall Street—the brilliant hedge fund manager delivering sky-high returns using a highly proprietary trading system. It's this myth that allows hedge funds to charge such high fees, and creates their aura of exclusivity and intrigue.

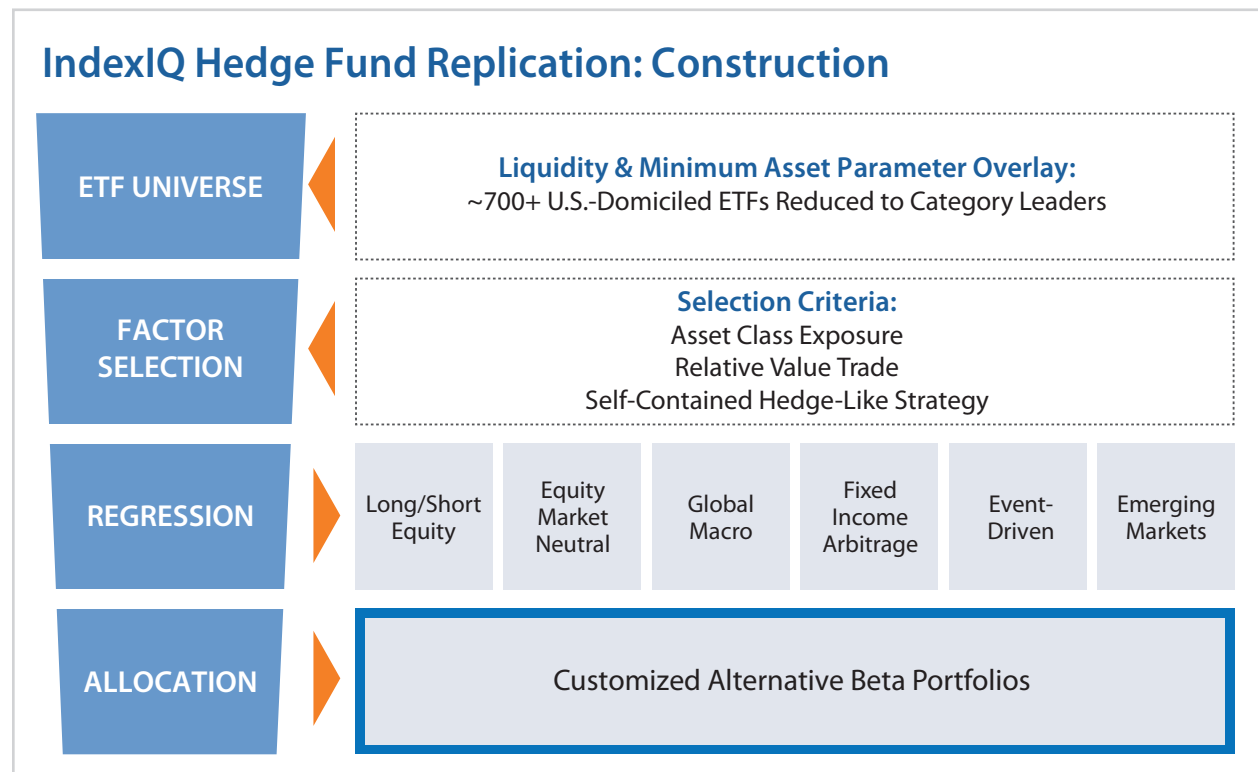
But large institutional investors know that the value of hedge funds isn't just in the distinctive performance of one hot manager. Rather, it also lies in their ability to seek to provide steady returns that exhibit low correlation to the broader market—a truly alternative investment.

Through the use of proprietary, rules-based, quantitative techniques known as

IQ Hedge™, IndexIQ offers a way to capture the core benefits of hedge funds with greater transparency, liquidity and lower cost. IndexIQ analyzes the risk/return characteristics of several common hedge fund styles, and synthesizes those into indexes composed of highly transparent (daily holdings are published) and liquid ETFs.

This fundamental structure is designed to be simple: analyze, replicate and rebalance. But the underlying analytical process is based on years of academic research, led in part by members of IndexIQ's investment management team, Professor Robert F. Whitelaw and Salvatore J. Bruno.*

*The academic foundation of the IQ Hedge strategies is the subject of a whitepaper series available at www.IndexIQ.com.



Comprehensive Strategies

Each strategy in the IQ Hedge family is itself a unique index, providing specific risk/return characteristics that fit in various ways into different portfolios. All of them, however, share a common goal: to deliver alternative asset class returns.

They seek a pattern of returns and volatility that are similar to that of the hedge fund strategies that underlie the IQ Hedge indexes, with correspondingly low correlations to the S&P 500 index.

The IQ Hedge Alternative		
IQ Hedge Index Strategy	Hedge Fund Strategy Targeted for Replication	Hedge Fund Strategy Description
IQ Hedge Multi-Strategy Composite	Hedge Fund of Funds	Provides access to a broad range of hedge fund investment strategies by investing in multiple hedge fund managers.
IQ Hedge Global Macro	Global Macro	Uses macro analysis (e.g., political trends, macroeconomics, etc.) in order to profit from dislocations in equity, fixed income, currency and commodity markets.
IQ Hedge Long/Short	Long/Short	Invests both long and short in equity markets and diversifies risk by limiting the net exposure to particular sectors, regions or market capitalizations. Focuses on company-specific anomalies and other trading opportunities.
IQ Hedge Market Neutral	Market Neutral	Invests both long and short in equity markets while capturing inefficiencies in relative valuations.
IQ Hedge Event Driven	Event-Driven	Invests in a combination of credit opportunities, such as high-yield, leveraged loans, capital structure arbitrage and event-driven equities (risk arbitrage, holding company arbitrage and special situations).
IQ Hedge Fixed Income Arbitrage	Fixed Income Arbitrage	Employs strategies that seek to take advantage of price differentials and inefficiencies between related fixed income securities.
IQ Hedge Emerging Markets	Emerging Markets	Invests in financial assets (e.g., equities, sovereign and corporate debt issues, currencies and other instruments) of countries in “emerging” markets (i.e., countries that are in a transitional state from developing to developed).

The IQ Hedge Index Strategies seek to replicate the performance characteristics of different hedge fund strategies and, in doing so, include index components with exposures to factors such as emerging markets, real estate, commodities and currencies, which are subject to increased volatility and other risks.

A Sophisticated Solution

	The IQ Hedge Advantage	
	Traditional Hedge Fund	IQ Hedge Strategy*
Alternative Asset Returns	Yes	Yes
Availability	Accredited investors only	Not limited to accredited investors only. Mutual fund and SMAs have investment minimums.
Access	Difficult to access	Easy to access
Fees	Typically “2-and-20” (2% management fee plus 20% performance fee)	No “2-and-20” fees (other fees apply)
Transparency/Holdings	Limited	Holdings available daily (ETFs), quarterly (mutual fund) and upon request (SMAs).
Investment Strategy	Manager-specific	Transparent/Rules-based
Diversification	Varied/Manager-specific risk	Highly diversified (ETF-based). No manager-specific risk
Liquidity	Limited (6–12 months typically)	Avoids typical hedge fund liquidity restrictions; liquidity is intra-day (ETFs) and daily (mutual fund). Termination of SMAs varies by program.
Pricing	Limited	Real Time (ETFs) and Daily (mutual fund and SMAs).
Tax Reporting	Form K-1	No form K-1

The IQ Hedge strategies are designed to be both logical and transparent. Each strategy includes primarily liquid and low-cost publicly traded ETFs as its portfolio holdings. Compared to black-box hedge funds, this simplicity in design allows the power of the underlying strategies to shine through, unfettered by excessive costs, opaque trading practices or long-term lockup periods.

At IndexIQ, we believe that uncertain markets call for carefully constructed portfolios. Hedge funds are a tremendous alternative asset class—a vehicle that unfortunately has been off-limits to the overwhelming majority of investors.

Until now.

The IQ Hedge Objective: Low-correlation returns. Liquidity. Transparency. Tax efficiency. Low cost.

*Unless otherwise noted in the chart above, the advantages stated are applicable to IndexIQ ETFs, mutual fund and SMAs. The nature of the IQ Hedge products allows for these potential benefits, which typically are not associated with traditional hedge funds. There are risks involved with investing in any such products, including the possible loss of principal.

The Funds’ investment performance, because they are funds of funds, depends on the investment performance of the underlying ETFs in which they invests. There is no guarantee that the Funds themselves, or any of the ETFs in the Funds’ portfolios, will perform exactly as their underlying indexes. The Funds are non-diversified and susceptible to greater losses if a single portfolio investment declines than would a diversified mutual fund. The Funds do not invest in hedge funds and are not suitable for all investors.

Disclosures

Index performance is for illustrative purposes only and does not represent actual performance. One cannot invest directly in an index. Performance/correlation data for the Index assumes reinvestment of dividends and is net of the management fees for the Index's components, as applicable, but it does not reflect management fees, transaction costs or other expenses that you would pay if you invested in a portfolio directly.

The S&P 500 Index is the Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices. The Barclays Capital U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Credit Suisse/Tremont family of hedge fund indices is constructed using the Credit Suisse/Tremont database of more than 5,000 hedge funds. The Dow Jones-UBS Commodity Index is a broadly diversified index that allows investors to track commodity futures on physical commodities.

The IQ Hedge Indexes are the exclusive property of IndexIQ which has contracted with Standard & Poor's ("S&P") to maintain and calculate the Indexes. S&P shall have no liability for any errors or omissions in calculating the Indexes.

Alpha is a measure of a portfolio's actual excess returns and expected performance, given its level of risk. Beta is a measure of the volatility or systematic risk in comparison to the market benchmark. Standard Deviation is a measure of the range of a portfolio's performance, meaning the degree to which it rises above and falls below its average return. Correlation is a statistical measure of how two securities move in relation to each other. Efficient frontier is a line created on a risk-reward graph, comprised of optimal portfolios plotted along the curve having the highest expected return possible for the given amount of risk.

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