

## IndexIQ Advisors LLC

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Rye Brook, New York 10573

Style: Multi-Strategy  
Sub-Style:  
Firm AUM: \$1.4 billion^  
Firm Strategy AUM: \$151,190.8 billion

Year Founded: 2006  
GIMA Status: Approved  
Firm Ownership: No Firm Ownership Selected  
Professional-Staff: 13^^

## PRODUCT OVERVIEW

The investment objective of the IQ Hedge Multi-Strategy SMA is based on the underlying premise that the risk-return characteristics of hedge funds are valuable additions to a diversified portfolio. However, there are structural issues associated with hedge funds that make them less desirable even to those few investors that have access to them. The structural issues include high fees, illiquidity, and a lack of transparency into the investment process and positions. The IQ Hedge Multi-Strategy SMA aims to solve those structural issues while still providing the diversification benefits one would expect from the broad hedge fund market. The IQ Hedge Multi-Strategy SMA allocates to a select number of liquid ETFs across all asset classes and rebalances monthly.

## TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings:	20 to 30
Average dividend yield:	Similar to the S&P 500
P/E ratio:	Similar to the S&P 500
Cash level over market cycle:	0 to 1%
Risk (standard deviation):	Below the S&P 500
Average turnover rate:	150 to 200%
Use ADRs:	No
Capitalization:	—

## PORTFOLIO STATISTICS

	-----09/15-----	03/15	
	IndexIQ	Index***	IndexIQ
Number of stock holdings	—	—	—
Wtd avg dividend yield	—	—	—
Wtd avg P/E ratio <sup>1</sup>	—	—	—
Wtd avg portfolio beta	—	—	—
Mega capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Large capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Medium capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Small capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Micro capitalization <sup>+</sup>	0.0%	0.0%	0.0%

## PORTFOLIO'S EQUITY SECTOR WEIGHTINGS <sup>+</sup>

Sector	-----09/15-----		
	IndexIQ	Index***	IndexIQ

PORTFOLIO'S TOP FIVE EQUITY HOLDINGS		%
Vanguard Total Bond Market Index Fund		19.2
Vanguard Short Term Bond Index Fund ETF		18.8
iShares Core U.S. Aggregate Bond ETF		18.8
iShares 1-3 Year Treasury Bond ETF		13.3
PowerShares Senior Loan Portfolio		11.9

## % PROCESS BASED ON

- 100 Asset allocation - cash vs. stock
- 0 Industry or sector weighting
- 0 Stock Selection

## MANAGER'S INVESTMENT STRATEGY

- Top-down / portfolio structures based on economic trends
- Bottom-up / portfolio structure based on individual securities

<sup>1</sup>As of 06/30/2014. Information as of 09/30/2015 is not yet available.

<sup>+</sup>The P/E used here is calculated by the harmonic mean.

<sup>2</sup>As of 03/31/2013. Information as of 09/30/2015 is not yet available.

<sup>2</sup>Total may not equal 100% due to rounding.

<sup>\*\*\*</sup>Index : HFRX Gbl Hedge Fund

MANAGER'S INVESTMENT PROCESS		RISK CONSIDERATIONS	PORTFOLIO'S ALLOCATION HISTORY (%) <sup>+</sup>			
			09/15	06/15	03/15	12/14
<ul style="list-style-type: none"> <li>• Applying minimum asset constraints and other filters to the universe for all ETFs to eliminate illiquid ETFs. The filtering process is conducted annually.</li> <li>• Mapping relevant ETFs to specific hedge fund styles being replicated based on quantitative calculations as well as a qualitative assessment of the relevance of the selected ETFs to the hedge fund style (mapping is reviewed and adjusted as necessary on an annual basis).</li> <li>• Estimating, via regression, the optimal exposure for each ETF within each hedge fund style being replicated (regression is performed monthly).</li> <li>• Estimating the optimal combination of the hedge fund styles being replicated to allow the SMA to seek to achieve its objective (optimization is performed monthly).</li> <li>• Combining the exposures to each ETF within each hedge fund style being replicated with the optimal allocation across all hedge fund styles (the combining is performed monthly).</li> </ul>		<p>Equity securities' prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.</p>				

<sup>^</sup>As of 06/30/2014. Information as of 09/30/2015 is not yet available.

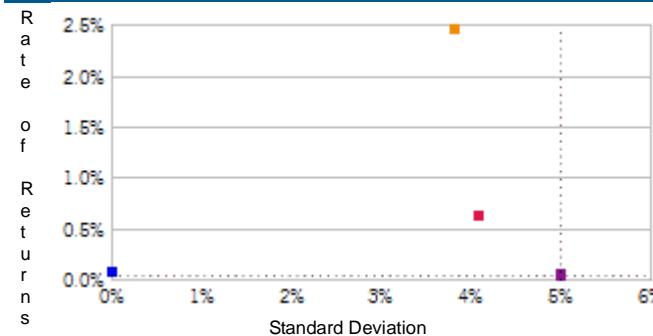
<sup>^^</sup>As of 03/31/2013. Information as of 09/30/2015 is not yet available.

<sup>1</sup>The P/E used here is calculated by the harmonic mean.

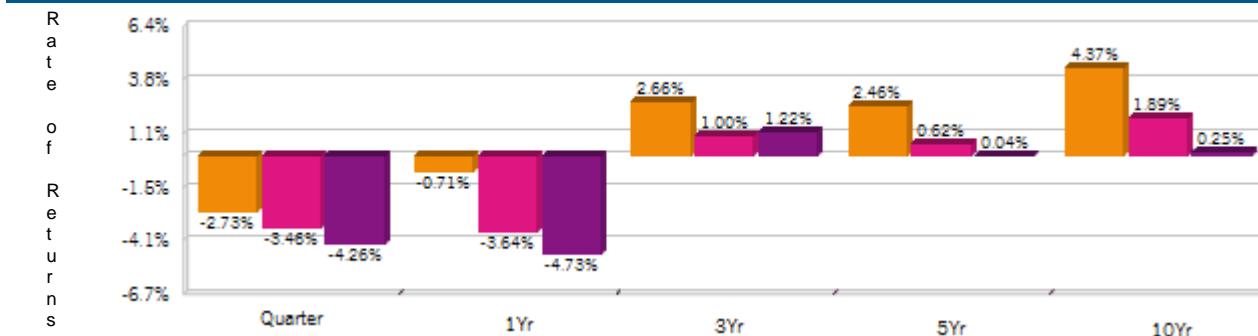
<sup>2</sup>Total may not equal 100% due to rounding.

<sup>3</sup>\*\*Index : HFRX Gbl Hedge Fund

### RISK/RETURN ANALYSIS - 5 YEARS ENDING 09/30/15



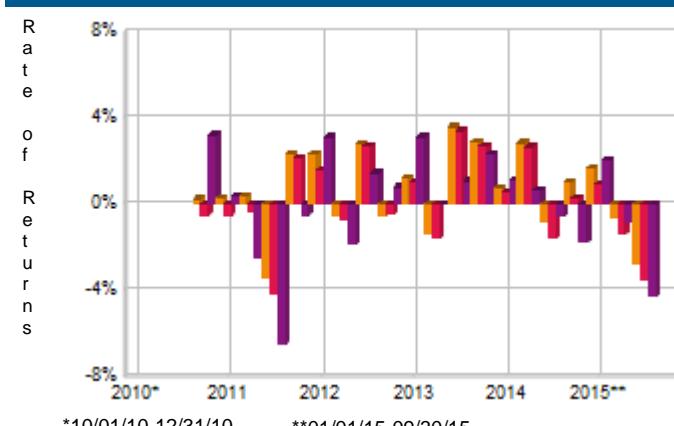
### AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 09/30/15



	STD	ROR
IndexIQ (Gross)	3.83	2.46
IndexIQ (Net)	4.10	0.62
HFRX Gbl Hedge Fund	5.01	0.04
90-Day T-Bills	0.02	0.06

INVESTMENT RESULTS	Annual Rates of Return (%)							10 Year - Ending 09/30/15				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Annual	Std. Dev.
IndexIQ (Gross)	10.49	9.83	11.07	-4.06	12.27	1.74	-0.55	4.18	6.49	3.90	4.37	4.26
IndexIQ (Net)	7.22	6.63	7.82	-6.93	8.97	-1.28	-2.93	3.15	5.66	1.94	1.89	4.31

### RISK VOLATILITY (%)



### PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2005	0.44	-0.32	2.58	1.81	5.29	4.51	1.86	1.08
2006	2.78	2.04	0.24	-0.50	2.36	1.61	4.14	3.37
2007	1.78	1.02	2.94	2.18	3.46	2.69	2.47	1.72
2008	-0.52	-1.27	0.16	-0.58	-3.61	-4.33	-0.12	-0.89
2009	1.62	0.85	5.91	5.13	3.38	2.62	0.91	0.15
2010	-0.14	-0.91	-2.22	-2.95	3.94	3.17	0.24	-0.50
2011	0.27	-0.49	0.39	-0.35	-3.43	-4.15	2.32	2.13
2012	2.36	1.59	-0.51	-0.69	2.83	2.70	-0.51	-0.45
2013	1.24	1.06	-1.35	-1.59	3.59	3.40	2.93	2.74
2014	0.78	0.56	2.86	2.68	-0.79	-1.54	1.03	0.28
2015	1.69	0.93	-0.63	-1.37	-2.73	-3.46		

Related Fiduciary Services

### PORTFOLIO'S RISK STATISTICS - PERIODS ENDING 09/30/15<sup>1,2</sup>

	3 Year	5 Year
Standard Deviation	3.85%	3.83%
Standard Deviation of Primary Benchmark	3.99%	5.01%
Sharpe Ratio	0.68	0.63
Sharpe Ratio of Primary Benchmark	0.30	0.00
Alpha	1.86%	2.42%
Beta	0.65	0.54
Downside Risk	1.65%	1.90%
R-Squared	0.46	0.49
Tracking Error	3.16%	3.57%
Information Ratio	0.45	0.68

\*10/01/10-12/31/10

\*\*01/01/15-09/30/15

Number Of Up Qtrs. Down Qtrs.

IndexIQ (Gross)	13	7
IndexIQ (Net)	10	10
HFRX Gbl Hedge Fund	12	8

### PORTFOLIO DIVERSIFICATION - R<sup>2</sup>(INCEPTION THROUGH 12/14)+

R<sup>2</sup>  
IndexIQ vs. HFRX Gbl Hedge Fund 0.44

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.

2. HFRX Gbl Hedge Fund was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

*Past performance is no guarantee of future results. This profile is not complete without the pages, which contain important notes, including disclosures about the composite, index descriptions and a glossary of terms. Information shown is as of September 30, 2015, unless otherwise noted. All data are subject to change.*

## IMPORTANT NOTES AND DISCLOSURES

### COMPOSITE DISCLOSURES

**Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.**

#### Related Performance (Manager's Composite):

For periods before the date on which Morgan Stanley begins to calculate an applicable performance composite for actual Morgan Stanley program accounts, the performance composite and certain other information for this strategy (including the data on page 1 of this profile) are based on the investment manager's own composite and data. This composite includes accounts managed by the investment manager according to the same or a substantially similar investment strategy. To provide maximum information to you, the investment manager's own composite is linked to the Morgan Stanley composite to create a simulated continuous track record of performance information for the investment strategy. The investment manager's composite may include separately managed accounts, institutional accounts and/or mutual funds. Performance and other data for the investment manager's composite may vary from that of Morgan Stanley accounts due to differences such as the availability and weighting of securities, trading implementation or client objectives. Morgan Stanley does not verify composite and other data provided by the investment manager and therefore does not guarantee its accuracy. Some of the accounts in the investment manager's composite may have invested in the initial public offering ("IPO") market, whereas accounts held in Morgan Stanley programs do not do so. Since investment managers may use different methods of selecting accounts to be included in their composites and for calculating performance, returns of different investment managers may not be comparable.

#### Related Performance:

The SMA's investment performance, because it is a fund of funds, depends on the investment performance of the underlying ETFs in which it invests. There is no guarantee that the SMA itself, or any of the ETFs in the SMA's portfolio, will perform exactly as its underlying index. The SMA is non-diversified and is susceptible to greater losses if a single portfolio investment declines than would a diversified mutual fund. The SMA's underlying ETFs invest in: foreign securities, which subject them to risk of loss not typically associated with domestic markets, such as currency fluctuations and political uncertainty; commodities markets, which subject them to greater volatility than investments in traditional securities, such as stocks and bonds; and fixed income securities, which subject them to credit risk – the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt – and interest rate risk – changes in the value of a fixed-income security resulting from changes in interest rates. The returns presented in this report are for the Index underlying the SMA only, not the SMA itself. Index performance is for illustrative purposes only and does not represent actual SMA performance. One cannot invest directly in an index. Index performance information prior to December 31, 2007 (the date on which the Index began calculating) is based on a hypothetical back test based on calculations of what would have been the exposure and returns of the Index had it existed at that time, which has inherent limitations. Performance 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 the SMA directly. Results prior to an Index component's existence as an ETF are based on its underlying index, which do not reflect underlying management fees. No representation is being made that any investment will achieve performance similar to that shown.

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#### Fiduciary Services Performance:

In this profile, the performance from 7/1/2010 through June 2012 consists of accounts in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. From July 2012, performance consists of all Fiduciary Services accounts managed by the investment manager in the strategy, subject to any other limitations stated in this profile. Performance composites calculated by Morgan Stanley include all fee-paying portfolios with no investment restrictions. New accounts are included upon the first full quarter of performance. Terminated accounts are removed in the quarter in which they terminate. Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

**Equity Account (Gross):** IndexIQ's gross results do not reflect a deduction of the investment advisory fees charged by IndexIQ, or program fees, if any, but are net of commissions charged on securities transactions.

Document approval date February 2013.

Fiduciary Services is a separately managed account program sponsored by Morgan Stanley. For periods for which sufficient data is available, the profile shows a composite of client accounts managed by the investment manager in the Fiduciary Services program. Through June 2012, Morgan Stanley offered the Fiduciary Services program through two channels - the Morgan Stanley channel and the Smith Barney channel. For periods through June 2012, any composite based on Fiduciary Services accounts consists of Fiduciary Services accounts managed by the manager in the strategy in either the Morgan Stanley channel or the Smith Barney channel. If the strategy or similar strategies were available in both the Morgan Stanley and Smith Barney forms of the program, through June 2012 this profile presents the composite for the strategy that is closest to the strategy currently offered in the Fiduciary Series program. If both strategies were equally close, this profile shows through June 2012 the longer of the two composites. From July 2012, any composite based on Fiduciary Services accounts consists of all Fiduciary Services accounts managed by the manager in the strategy, subject to any other limitations stated in this profile. Performance and other data for Fiduciary Services composites may differ from composites in other Morgan Stanley programs, and performance and data for composites in one channel may differ from composites in the other channel, due to differences such as the availability and weighting of securities, trading implementation or client objectives.

#### **Focus List, Approved List, and Watch Status:**

Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure ([www.ms.com/adv](http://www.ms.com/adv)). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance".

#### **ADDITIONAL DISCLOSURES**

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley or elsewhere, and may cost an investor more or less than this strategy in the Morgan Stanley Fiduciary Services program.

Morgan Stanley investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement. The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney LLC. Diversification does not guarantee a profit or protect against a loss.

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#### **INDEX DESCRIPTIONS**

##### **90-Day T-Bills**

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.

## HFRX Gbl Hedge Fund

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of eight strategies; convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

## S&P 500

The S&P 500 has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

**Indices are unmanaged and have no expenses. You cannot invest directly in an index.**

## GLOSSARY OF TERMS

**Alpha** is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

**American Depository Receipts (ADRs)** are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

**Average Portfolio Beta** is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Beta** is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Bottom-Up Stock Selection** Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

**Capitalization** is defined as the following: Mega (Above \$100 billion), Large (\$12 to \$100 billion), Medium (\$2.5 - \$12 billion), Small (\$.50 - \$2.5 billion) and Micro (below \$.50 billion).

**Dividend** a portion of a company's profit paid to common and preferred shareholders.

**Downside Risk** is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

**Duration** is a measure of price sensitivity expressed in years.

**High Grade Corporate Bonds** corporate bonds from issuers with credit ratings of AA or AAA.

**Information Ratio** is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

**Investment Grade Bonds** are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

**Price/Book Ratio (P/B)** weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

**Price/Cash Flow Ratio** a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company's operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

**Price/Earnings Ratio (P/E Ratio)** shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

**Price/Sales Ratio** determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

**R2 (R-Squared)/Portfolio Diversification** indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

**Sharpe Ratio** measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

**Standard Deviation** is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

**Top-Down/Economic Analysis** Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

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**Tracking Error** represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

**U.S. Treasury Bonds** a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

**Volatility** a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.