IQ FTSE International Equity Currency Neutral ETF **(HFXI)**

A Neutral Approach to Smooth International Equity Exposure

AUGUST 2022

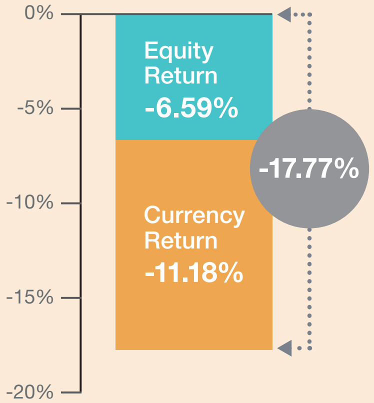
EXECUTIVE SUMMARY

- **Currency movement has the potential to significantly impact the net returns of an international equity exposure**, for better or worse.
- **Currency strength and weakness can vary** over short, mid, and long terms, making it difficult to determine the direction foreign currencies may take.
- **Near-zero correlation has been observed between foreign currency movement and foreign equity movement**, making it difficult to replicate the same view across equities and currencies.[1]
- There are pros and cons for both **including and excluding** currency exposure.
- **A neutral level of 50% exposure to currencies can be an efficient way to implement a low-cost, passive exposure to international developed market equities**, providing some supplemental performance benefits by incorporating currencies while lowering potential negative impacts.

INHERENT CURRENCY EXPOSURE

International investing can be both positively and negatively influenced by the effects of relative currency movements. A U.S.-based investor in foreign-domiciled equities using mutual funds or ETFs sees the net effect of both the equity and currency movement in the fund price and often underestimates the significant impact currencies have on that investment. For example, the 1-year return of the MSCI EAFE Index, or EAFE, (a market-cap weighted international developed markets index based in U.S. dollars) was -17.77% for the period ending June 30, 2022. Excluding currencies, the local equity version of the same index had a 1-year return of -6.59%, meaning that including currency exposure nearly tripled an already significant downside performance in just one year.

1-Year Return
Includes Currency and Equity



Source: Morningstar, as of 6/30/2022. Past performance is no guarantee of future results.

U.S. DOLLAR STRENGTH

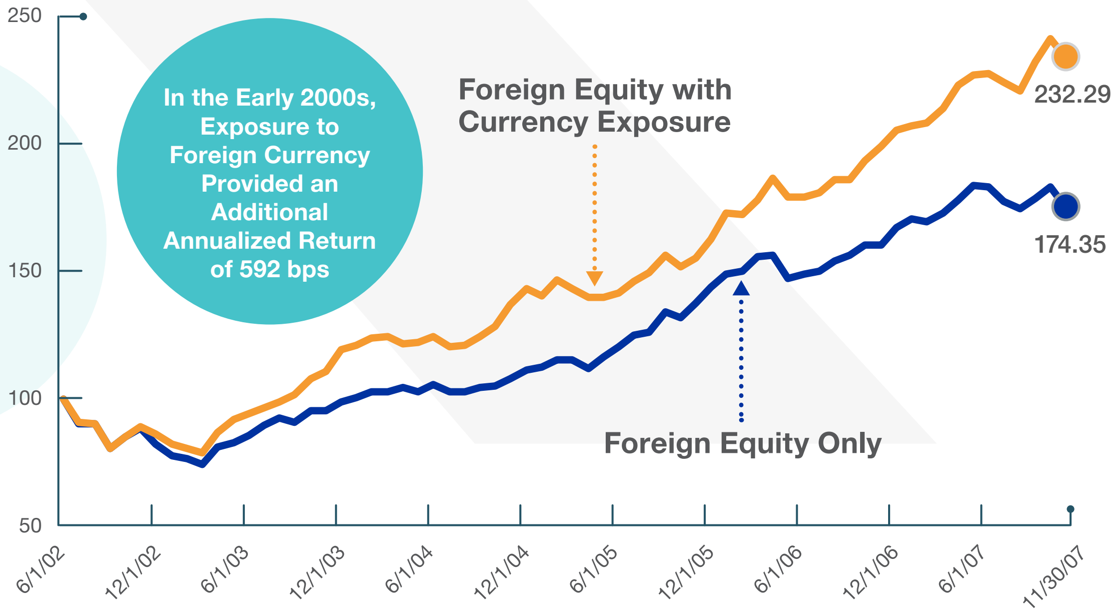
Foreign currency drag on equity performance is not new. Since the end of 2011, the U.S. dollar has strengthened compared to developed market foreign currencies, suggesting that exposure to currencies impacts not only short-term investing but also longer periods of more than ten years. The early-2000s witnessed an even more significant move in the opposite direction with foreign currency strength that would have been additive to the equity returns overseas.

US Dollar Strength vs EAFE Currencies

Source: Morningstar, as of 6/30/2022. Past performance is no guarantee of future results.

RISK OF FOREIGN CURRENCY EXPOSURE OR THE RISK OF NOT HAVING EXPOSURE

Though the past decade has exhibited significant risks associated with incorporating currency exposure, particularly over the last year, there can be short- and long-term benefits. Looking back 20 years to the early 2000s through the beginning of the Financial Crisis in 2008, currency exposure provided an additional annualized return of 592 bps, encompassing more than a third of the total return of the MSCI EAFE USD Index over that period.

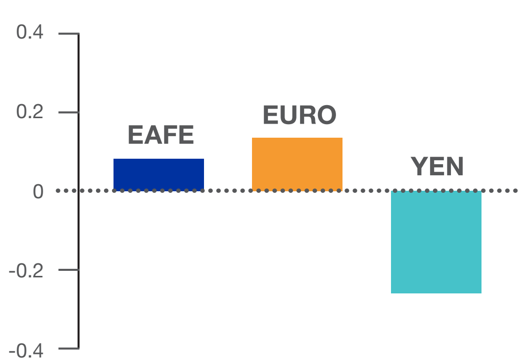


Source: Morningstar, as of 11/30/2007. Past performance is no guarantee of future results.

FOREIGN CURRENCY CORRELATION TO EQUITY RETURNS

While short-term analysis does show periods of foreign currency strength coinciding with positive equity returns, there are many examples of negative correlation. Individual regions (Japan being a typical example) can implement policies that result in stronger correlations between its currency and index. Still, a diversified exposure across international developed countries brings the broad-basket currency correlation relative to equities close to zero. A zero correlation over time suggests that an assessment of foreign currency strength cannot be ascertained based on foreign equity performance outlook.

Currency Correlation to Local Equity Index
2003 to present



Source: Morningstar, as of 8/01/2022. Past performance is no guarantee of future results.

IF THE DOLLAR HAS STRENGTHENED FOR SO LONG, ISN'T IT "DUE" TO WEAKEN?

Many factors play into supporting currency strength. There are two significant observations that support the continued strength of the U.S. dollar:

U.S. government rates relative to sovereign rates attract cash assets, further strengthening the U.S. dollar. As of June 30, 2022, the U.S. Federal Reserve has been aggressively attempting to control inflation through a hawkish rate policy, resulting in rates higher than most developed central banks throughout the world.

Japan, one of the largest regional players in market-cap weighted international developed markets, continues its yield curve control policy as they intentionally weaken the Yen to support their export-oriented economy.

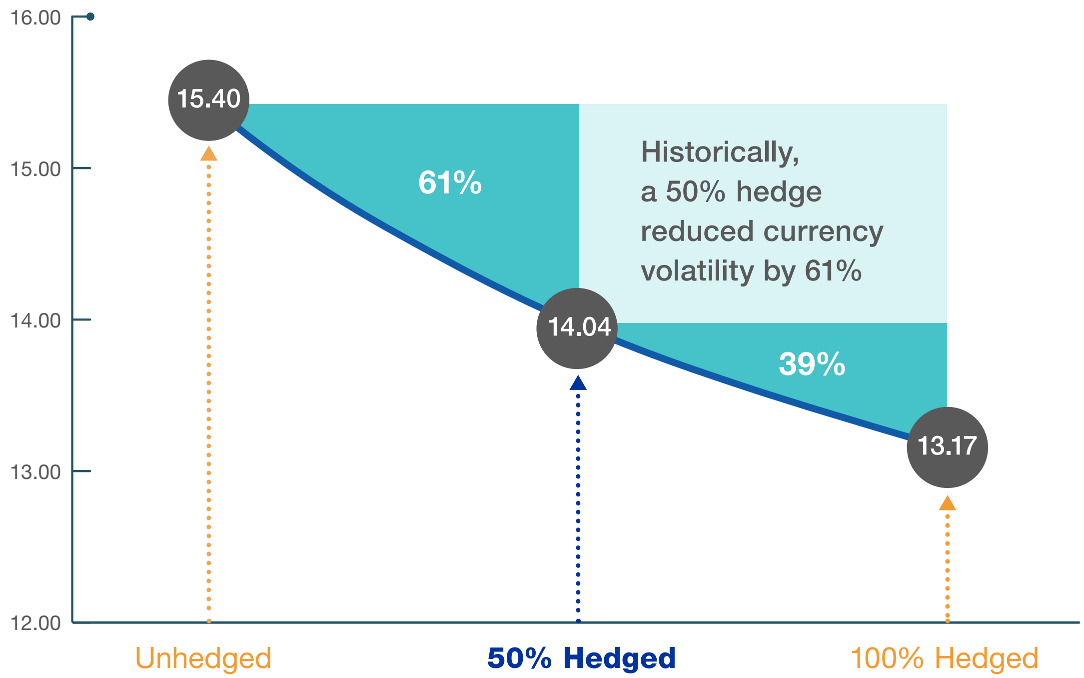
THE NEUTRAL APPROACH TO THE CURRENCY CONUNDRUM

Confused about whether to include foreign currency or not? There is a neutral option. As mentioned earlier, exposure to foreign currency can supplement returns but has historically increased volatility and can detract from foreign equity returns. Hedging foreign currency exposure can remove foreign currency weakness headwinds but may, at times, sacrifice the supplemental return benefits.

Implementing a neutral hedge of 50% of the inherent currency exposure in a portfolio can lower volatility and mitigate the impact of foreign currency weakness while providing some exposure to supplemental returns when foreign currencies strengthen. For those who ascribe to passive equity weighting, a 50% exposure can be a passive way to resolve the dilemma of whether to include or exclude currency exposure, making it an effective way to implement a long-term solution for foreign equity exposure in a portfolio. It can also be a tactical approach for those who want to try to time currency exposure but find themselves in a period of low-conviction outlook for a particular direction of foreign currency movement. Additionally, a 50% neutral hedge could appeal to those who want to up-weight international equity exposure but are unsure of which direction currencies might go for the investment period.

By providing the benefits of partial currency exposure during foreign currency strength and limited exposure to currency weakness, a 50% hedge can also be efficient in reducing more than 50% of the volatility attributed to currency movements:

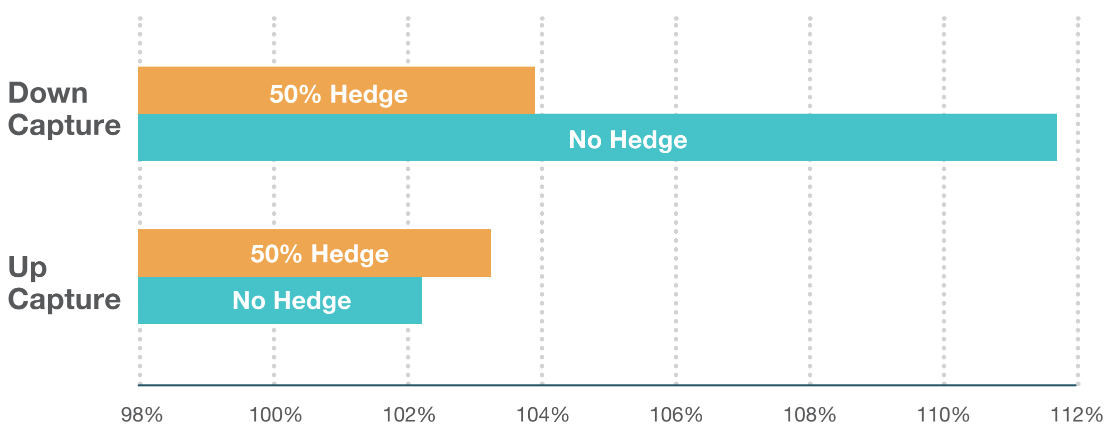
Standard Deviation Reduction and Percent Currency Hedge



Source: Morningstar, as of 6/30/2022. Past performance is no guarantee of future results.

The up-and-down capture relative to international developed market equities local return can be significantly more stable when implementing a 50% hedge. This offers higher up capture potential compared to bearing the full brunt of currency movements and significantly less down capture potential. This observation exhibits the possible benefits of including some of the currency exposure (higher than 100% up capture to local equity returns) in addition to the benefits of limiting exposure to currency (lower down capture).

Up and Down Capture to International Developed Local Equity Returns



Source: Morningstar, as of 8/01/2022. Past performance is no guarantee of future results.

IQ FTSE INTERNATIONAL EQUITY CURRENCY NEUTRAL ETF (HFXI): A FIVE-STAR RATED SOLUTION

★★★★★ **Overall Morningstar Rating™, based on the risk-adjusted returns from among 690 Foreign Large Blend funds, as of 7/31/2022.**

As of June 30, 2022

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception*	Inception Date	Expense Ratio*
HFXI Share Price	-7.35	-9.98	-15.12	-12.85	3.70	4.02	3.86	7/22/15	0.20
HFXI NAV	-7.97	-11.19	-15.48	-13.00	3.60	4.04	3.79	7/22/15	–

*IndexIQ Advisors LLC has contractually agreed to waive or reduce its management fee and/or reimburse expenses of the Fund in an amount that limits "Total Annual Fund Operating Expenses" (exclusive of interest, taxes, brokerage fees and commissions, dividends paid on short sales, acquired fund fees and expenses, and extraordinary expenses) to not more than 0.36% for HFXI of the average daily net assets of the Fund. The agreement will remain in effect until August 31, 2022, unless terminated by the Board of Trustees of the Fund.

Total annual fund operating expenses: 0.36%. Total annual fund operating expenses after waiver/ reimbursement: 0.20%.

Returns represent past performance which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Performance reflects a contractual fee waiver and/ or expense limitation agreement in effect through 8/31/22, without which total returns may have been lower. Visit newyorklifeinvestments.com for the most recent month-end performance. Expenses stated are as of the fund's most recent prospectus.

Morningstar is an independent fund performance monitor. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star. The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. For the period ended 07/31/22, IQ FTSE International Equity Currency Neutral ETF was rated 5 stars overall, 5 stars for the 3-and 5-year periods among 690 and 604 funds in the Foreign Large Blend funds.

The **MSCI EAFE Index** is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

Standard deviation is the statistical measure of market volatility, measuring how widely prices are dispersed from the average price. If prices trade in a narrow trading range, the standard deviation will return a low value that indicates low volatility.

1. Source: Morningstar, as of 8/01/2022. Past performance is no guarantee of future results.

Click on the fund names for the most current fund page, which includes the prospectus, investment objectives, performance, risk, and other important information.

ABOUT RISK

IQ FTSE INTERNATIONAL EQUITY CURRENCY NEUTRAL ETF (HFXI): Before considering an investment in the Fund, you should understand that you could lose money.

The Fund will invest in securities denominated in currencies other than U.S. dollars (foreign currencies) and much of the income received by the Fund will be in foreign currencies, but the underlying index and the Fund's NAV will be calculated in U.S. dollars. Furthermore, the Fund may convert cash in U.S. dollars to foreign currencies to purchase securities. Both the Fund's ability to track the underlying index and Fund returns, in general, may be adversely impacted by changes in currency exchange rates, which can occur quickly and without warning. The Fund uses 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. Derivatives are investments whose value depends on (or is derived from) the value of an underlying instrument, such as a security, asset, reference rate, or index. Derivatives may be difficult to sell, unwind, or value. The use of a derivative may be more volatile than the underlying direct investment. The Fund invests in the securities of non-U.S. issuers, which securities involve risks beyond those associated with investments in U.S. securities. The performance of the underlying index and the Fund 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 quarterly rebalancing process can track. Securities in the underlying index or in the Fund's portfolio may also underperform in comparison to the general securities markets. The strategy used by the Advisor to match the performance of the underlying index may fail to produce the intended results. Mid-capitalization companies are generally less established, and their stocks may be more volatile and less liquid than the securities of larger companies.

All rights in the FTSE Developed ex North America 50% Hedged to the USD Index (the "Index") vest in FTSE International Limited ("FTSE"). "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under license. The IQ FTSE International Equity Currency Neutral ETF (the "Fund") has been developed solely by IndexIQ Advisors LLC. The Index is calculated by FTSE or its agent. FTSE and its licensors are not connected to and do not sponsor, advise, recommend, endorse, or promote the Fund and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on, or any error in the Index or (b) investment in or operation of the Fund. FTSE makes no claim, prediction, warranty, or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purposes to which it is being put by the Fund. The underlying index is sponsored by an organization (the "Index Provider") that is independent of the Fund and Advisor. The Index Provider determines the composition and relative weightings of the securities in the underlying index and publishes information regarding the market value of the underlying index. The Fund's Index Provider is FTSE, a widely known global index provider that currently manages and calculates more than 120,000 indexes daily.

The FTSE Developed ex North America 50% Hedged to USD Index is the FTSE Developed ex North America Index with 50% of its exposure hedged to U.S. dollars. The FTSE Developed ex North America Index is comprised of large- and mid-cap stocks in Developed markets, excluding the US and Canada. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. The FTSE currency hedging methodology allows exposure to the returns of the foreign assets in the index without being exposed.

Click on the fund names for the most current fund page, which includes the prospectus, investment objectives, performance, risk, and other important information.

Consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus and the statement of additional information include this and other relevant information about the Fund and are available by visiting newyorklifeinvestments.com or calling 888-474-7725. Read the prospectus carefully before investing.

Fund shares are not individually redeemable and will be issued and redeemed at their NAV only through certain authorized broker-dealers in large, specified blocks of shares called "creation units" and, otherwise, can be bought and sold only through exchange trading. Creation units are issued and redeemed principally in kind.

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