INVESTMENT INSIGHTS

How ultra-short ETFs can serve as an attractive cash management solution

AUGUST 2021

Overview

Today's fixed income investment landscape is challenging. Once tailwinds are now headwinds and traditional strategies are no longer providing the benefits they have in the past. Active ultra-short ETFs are an ideal alternative. Positioned to generate higher current income potential, seek incremental yield pick-up, and manage interest rate risk through limited duration, they also offer the benefits inherent in an ETF vehicle.

The case for ultra-short ETFs

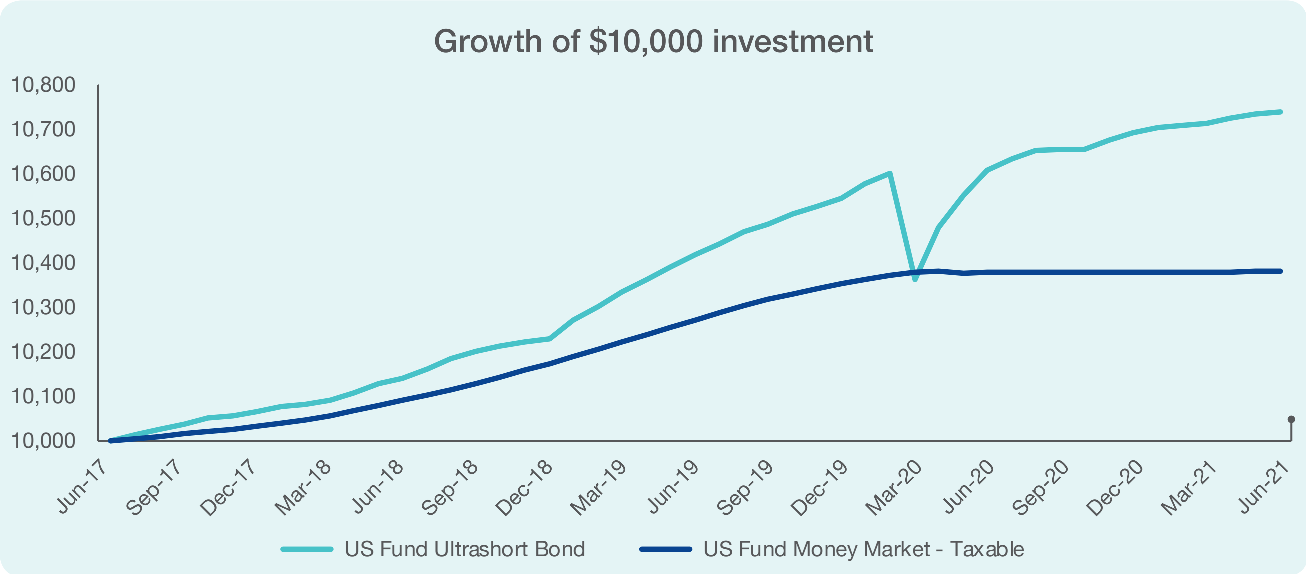
Money market funds have long been considered the go-to solution for a short-term, relatively-safe, cash-adjacent investment, yet extensive monetary stimulus and persistent near-zero interest rates are challenging this traditional strategy. As income investors search for yield amid increasingly complex market dynamics, we believe actively managed ultra-short ETFs – like **IQ Ultra Short Duration ETF (ULTR)*** – are a compelling alternative to money market funds and traditional income strategies given potential for significant yield pick-up and only modestly higher interest rate exposure.

ETFs have become a fixture in core asset allocation models due to liquidity, low cost, and transparency. These features helped lead to an explosion in the growth of passive ETFs, but there is significant opportunity in the active ETF space as well. In particular, we believe active ultra-short ETF strategies can provide these same benefits (liquidity, transparency, etc.) while also generating alpha potential for investors through sector allocation, credit selection, structure, and execution as the market shifts and asset performance evolves.

The yield pick-up is calling

In fixed income, income matters. While money market funds are facing downward pressure on yield, they are also limited in the types of securities in which they can invest. Comparatively, actively managed ultra-short ETFs are able to access a broader universe of investment opportunities. By allocating capital across sectors such as corporate credit, agency mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, and CLOs, ultra-short ETFs are positioned to generate an attractive yield profile. In addition to the potential for higher yield, ultra-short bonds have also appreciated in value faster than money market funds (*Figure 1*).

Figure 1: Ultra-short have outperformed money market funds

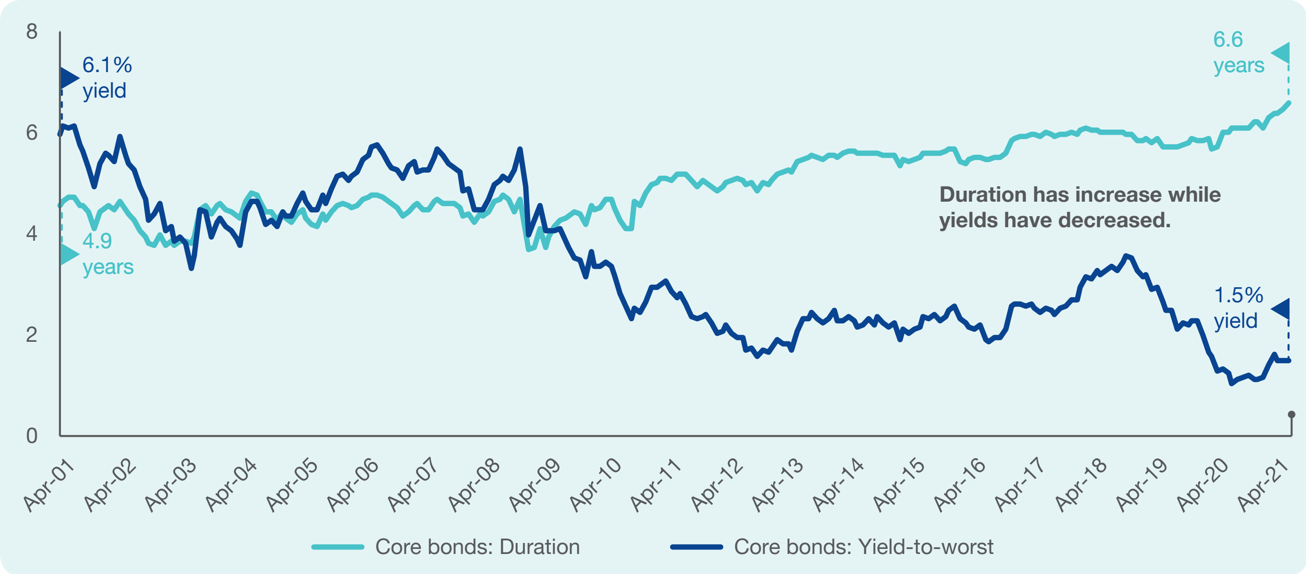


Source: Morningstar, as of 6/30/21 for 3-year time period 7/1/2017 – 6/30/21. Past performance is not indicative of future results. An investment cannot be made in an index.

Why now? The downside to duration

Following the Global Financial Crisis, the “lower-for-longer” interest rate environment acted as a tailwind for income investors who maintained a longer duration profile, leading to outsized total returns. More recently, these traditional fixed income strategies have endured an ever-declining yield profile combined with extended duration. In other words, today’s income investor is being compensated with historically ***low*** current income while also being exposed to historically ***high*** amounts of interest rate risk in the form of duration (*Figure 2*).

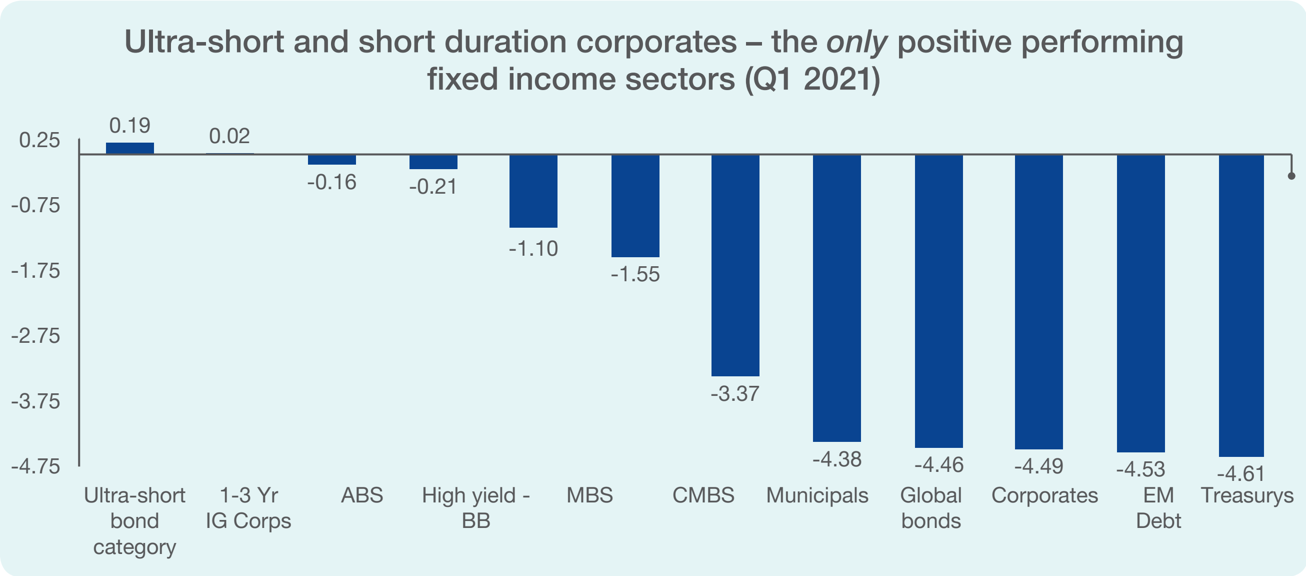
Figure 2: Core bonds have become riskier and less efficient over time



Source: Bloomberg Barclays, as of 6/30/21. Core Bonds represented by the Bloomberg Barclays US Aggregate Bond Index. Duration measures how long it takes, in years, for an investor to be repaid the bond’s price by the bond’s total cash flows. Duration is a measure of sensitivity of a bond’s or fixed income portfolio’s price to changes in interest rates. Yield-to-worst is computed by using the lower of either the yield to maturity or the yield to call on every possible call date.

This is especially significant in the current environment. As economic growth in the U.S. continues to rebound, rates on the longer end of the yield curve are expected to rise alongside inflation concerns. This puts longer duration assets at risk and may expose investors to possible negative total return profiles, very similar to what we witnessed in Q1 of 2021 (***Figure 3***). In fact, a small increase in longer-term yields can depreciate enough principal from longer duration bonds, to offset a full year's worth of income.

Figure 3: Defend against duration with ultra-short ETFs



Source: Morningstar and FactSet, as of 3/31/21.[1] See footnote for representative indices. Past performance is not indicative of future results. An investment cannot be made in an index.

Actively managed ultra-short ETFs have limited duration exposure (less than one year), thereby offering an ideal alternative to traditional strategies and only modestly increasing interest rate risk compared to money market funds. As demonstrated, playing defense against duration when the curve is steepening is just as important as playing offense when the Fed raises short-term rates.

Portfolio-in-action: Ultra-short ETFs as a re-allocation and transition management tool

As income investors battle challenging market dynamics, ultra-short ETFs can help re-allocate risk across portfolio exposure or manage inflow activity, essentially acting as a short-term alternative while mitigating extended cash drag on portfolio performance. Investors looking to adjust exposure may be inclined to find a "parking spot" before their final asset allocation is identified or achieved. Instead of turning to cash or more traditional strategies – like money market funds – take a closer look at ultra-short ETFs for higher current income potential, limited interest rate risk exposure, stable NAV, daily liquidity, and low-cost.

We believe an active ultra-short ETF benefits from an experienced portfolio management team that can be proactive while navigating challenges and uncovering potential investment opportunities.

For more information about IQ Ultra Short Duration ETF (ULTR) and the experts at New York Life Investors, visit newyorkifeinvestments.com.

Click on the fund name for the most current fund page, which includes the prospectus, investment objectives, performance, risk, Morningstar ratings and other important information. 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. Visit nylinvestments.com/funds for the most recent month-end performance.

1. Core bonds represented by Bloomberg Barclays US Aggregate Index; High yield – BB represented by ICE BofA US High Yield (BB) Index; Corporates represented by ICE BofA US Corporate Index; Treasurys represented by ICE BofA US Treasury Index; 1-3 Yr IG Corps represented by ICE BofA US Corporate (1-3 Y) Index; EM debt represented by JP Morgan EMBI Global Diversified Index; CMBS represented by Bloomberg Barclays US CMBS 2.0 Index; ABS represented by Bloomberg Barclays US Aggregate Securitized – ABS Index; MBS represented by Bloomberg Barclays U.S. MBS Agency Fixed Rate MBS Index; Municipals represented by Bloomberg Barclays Taxable Municipal Index; Global bonds represented by Bloomberg Barclays Global Aggregate Index.

About Risk

Before considering an investment in the Fund, you should understand that you could lose money.

Investors should not expect the Fund's returns to track the returns of any index or market for any period of time. The Fund is a new fund. As a new fund, there can be no assurance that it will grow to or maintain an economically viable size, in which case it could ultimately liquidate. The risks of investing in debt or fixed-income securities include (without limitation): credit risk, maturity risk, market risk, interest rate risk and call risk. Interest rates in the United States are near historic lows, and the Fund currently faces a heightened level of interest rate risk. To the extent the Federal Reserve Board continues to raise the federal fund rates, there is a risk that interest rates across the financial system may rise, possibly significantly and/or rapidly. Rising interest rates or lack of market participants may lead to decreased liquidity and increased volatility in the fixed-income or debt markets, making it more difficult for the Fund to sell its fixed-income or debt holdings at a time when the Subadvisor might wish to sell. Decreased liquidity in the fixed-income or debt markets also may make it more difficult to value some or all of the Fund's fixed-income or debt holdings. When the Fund invests in foreign markets, it will be subject to risk of loss not typically associated with domestic markets. Loss may result because of less foreign government regulation, less public information and less economic, political and social stability. Loss may also result from the imposition of exchange controls, confiscations and other governmental restrictions.

Definitions

Bloomberg Barclays US ABS Index is the ABS component of Bloomberg Barclays US Aggregate Bond Index. The ABS index has three sub sectors: credit and charge cards, autos and utility. The index includes pass-through, bullet and controlled amortization structures. The ABS index includes only the senior class of ABS issue and the ERISA-eligible B and C tranche. **Bloomberg Barclays US Aggregate Bond Index** is a broad-based benchmark that measures the Investment Grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities. **Bloomberg Barclays US MBS Index** covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Must have a weighted average maturity (WAM) of at least one year. Must have at least $300 million par amount outstanding. Must be fixed rate. **Bloomberg Barclays Municipal Bond Index** is considered representative of the broad market for investment-grade tax-exempt bonds with a maturity of at least one year. Bonds subject to the alternative minimum tax or with floating or zero coupons are excluded. **Bloomberg Barclays Short Treasury 3-6 Month Index** is a component of the Short Treasury index. The Bloomberg Barclays Short Treasury Index includes aged U.S. Treasury bills, notes and bonds with a remaining maturity from 1 up to (but not including) 12 months. It excludes zero coupon strips. **ICE BofA US Corporate Index** tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. The **ICE BofA US Corporate 1-3 Year US Corporate Index** is a subset of ICE BofA US Corporate Index including all securities with a remaining term to final maturity less than 3 years. **ICE BofA US High Yield Index** tracks the performance of US dollar-denominated below Investment Grade corporate debt publicly issued in the US domestic market. **ICE BofA US Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. **JP Morgan EMBI Global Diversified Index** tracks the traded market for US-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

Effective duration provides a measure of a fund's interest-rate sensitivity. The longer a fund's duration, the more sensitive the fund is to shifts in interest rates.

Consider the Fund's investment objectives, risks, and 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 www.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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