

# **METHODOLOGY FOR IQ<sup>®</sup> 130/30 INDEX – U.S. EQUITY**



## **Introduction**

- This document sets forth the methodology for the IQ<sup>®</sup> 130/30 Index – U.S. Equity (the “Index”).
- The Indexes currently are calculated and disseminated end of day by Standard & Poor’s.

## **Annual Reconstitution**

- The long exposure (“Long Exposure”) of the Index is reconstituted once a year and adjusted intra-year only in connection with certain corporate actions or in the event certain concentration limitations are triggered, as described below.
- The annual reconstitution (the “Annual Reconstitution”) is conducted on the last Friday in March effective at the close of business the following Friday. IndexIQ reserves the right to postpone the Annual Reconstitution date for up to one week with prior public notice of such postponement.

## **Quarterly Reconstitution**

- The short exposure (“Short Exposure”) of the Index is reconstituted quarterly and adjusted intra-quarter only in connection with certain corporate actions.
- The quarterly reconstitution (the “Quarterly Reconstitution”) is conducted on the last Friday of each quarter, effective at the close of business the following Friday. IndexIQ reserves the right to postpone the Quarterly Reconstitution date for up to one week with prior public notice of such postponement.

## **Eligibility Requirements**

- All Index components are headquartered in the United States, as defined by data available through FactSet Research Systems.
- All Index components are comprised of common stock only. Preferred stock, limited partnerships, master limited partnerships (MLPs), real estate investment trusts (REITs), investment companies, and trusts are excluded.
- All Index components are traded on one of the three major U.S. exchanges (NYSE, Amex, Nasdaq).
- All Index components are among the top 1000 highest ranked companies in terms of 52-week average daily dollar trading volume as of Annual Reconstitution and Quarterly Reconstitution.

- All Index components are among the top 1000 highest ranked companies in terms of market capitalization as of the Annual Reconstitution and Quarterly Reconstitution.
- All Index components have had trading commence on their shares at least two (2) full quarters prior to the Annual Reconstitution and Quarterly Reconstitution.

### **Selection Criteria**

- The components of each Index are selected using a proprietary methodology developed and maintained by IndexIQ.
- For each of the two months prior to the Annual and Quarterly Reconstitution, no more than 20% of the Index's components may have average daily trading volume less than \$1 million or average public float value less than \$150 million.
- As of the Annual Reconstitution, the Index has up to 100 components in Long Exposure and, as of the Quarterly Reconstitution, the Index has approximately 60 components within the Short Exposure, although the number of components may vary depending on the results of IndexIQ's screening and weighting systems in connection with a particular Reconstitution.

### **Weighting**

- The weighting of the components within the Index is determined using a proprietary, non-market capitalization methodology developed and maintained by IndexIQ. Once the weightings of the long components and short components are determined, the weights are scaled to 130% and negative 30%, respectively.

### **Index Formula**

- The following formula is used to calculate the Index:

$$\frac{\sum_i (P_i \times IQWF_i)}{D}$$

$P_i$  = Price of security i

$IQWF_i$  = IndexIQ Weight Factor

D = Divisor

## **Concentration Limitations**

- At the time of the Annual Reconstitution, no single component in the Long Exposure may have a weighting greater than 5% of the Index. To the extent one or more components would exceed this limitation at the time of the Annual Reconstitution, the 5% cap is applied and the excess weight is allocated proportionately among the other Index components.
- At the end of each quarter, no single component in the Long Exposure may have a weighting greater than 10% of the Index. To the extent one or more components would exceed this limitation as of the end of each quarter, the 10% cap is applied and the excess weight is allocated proportionately among the other Index components.
- At the time of the Quarterly Reconstitution, no single component in the Short Exposure may have a weighting greater than 1% in the Index. To the extent one or more components would exceed this limitation at the time of the Quarterly Reconstitution, the 1% cap will be applied and the excess weight shall be allocated proportionately among the other components.

## **Ongoing Maintenance**

### ***Stock Splits / Reverse Splits / Stock Dividends***

- Non-divisor adjustments are made to the Index as appropriate in connection with any of these stock-related corporate actions.

### ***Extraordinary Distributions***

- In the event of certain types of corporate actions, such as the payment of a dividend, other than an ordinary cash dividend, rights offering, or a distribution with respect to an Index component, the divisor is adjusted to reflect the adjustment to the price of that component stock resulting from the distribution.

### ***Mergers / Takeovers***

- If an existing Index component is merged into or is otherwise acquired by another Index component for shares (or a combination of shares and cash), then the Index component being acquired is removed from the Index on the effective date of the transaction and no replacement is made. The surviving entity remains a component of the Index with its weight factor adjusted so that the surviving entity retains the same overall percentage representation within the Index as the sum of the entities prior to the transaction. If the transaction involves cash only, then the Index component being acquired is removed, the percentage representation of the acquiring component is not adjusted to reflect the merger / takeover, and the weights of all Index components (other than the one that was removed) are

adjusted proportionately for the weight of the Index component that was removed. In the event of a merger or other acquisition in which the short component is the merged or acquired entity, then the short component will be removed and the weights of all Index components in the Long Exposure will be adjusted proportionately for the weight of the removed short component.

- If an existing Index component is acquired by a non-component, then the existing Index component is removed, no replacement is made, and the weights of all remaining Index components are adjusted proportionately for the weight of the Index component that was removed.
- If an existing Index component acquires a non-component, the existing Index component remains in the Index with an unchanged percentage representation, and the weights of all other Index components are not adjusted.

### ***Bankruptcy, De-Listing or Prolonged Trading Suspension***

- In the event of an Index component's bankruptcy, the Index component is removed from the Index effective after the close on the date of the bankruptcy filing and is removed at the value at which it last traded, with no replacement made. The weights of all remaining components are adjusted proportionately for the weight of the component that is removed.
- In the event of an Index component's de-listing from one of the exchanges outlined above under "Eligibility Requirements", the Index component is removed from the Index effective after the close on the date of the de-listing and is removed at the value at which it last traded, with no replacement made. The weights of all remaining Index components are adjusted proportionately for the weight of the component that is removed.
- In the event that trading in an Index component is suspended for more than three (3) consecutive trading days, the Index component is removed from the Index effective after the close on the third such day of trading and is removed at the value at which it last traded, with no replacement made. The weights of all remaining Index components are adjusted proportionately for the weight of the component that is removed.

### ***Spin-Offs***

- In the event a company is spun-off from an existing Index component, the spun-off company is not included in the Index and the percentage representation of the remaining components is adjusted proportionately to reflect the change in the composition of the Index.

### *Dividends*

- Dividend payments by Index components are treated as if they are reinvested in the Indexes in calculating total returns for the Indexes.
- Dividend payments by Index components within the Short Exposure will be treated as liabilities in the Indexes in calculating total returns for the Indexes.

### *Extraordinary Circumstances*

- In the event of an extraordinary circumstance in which an Index component no longer conforms to the objectives of a particular Index, IndexIQ may elect to eliminate the component from the Index, with no replacement made.

### **Base Date & Value**

- The Base Date and Value of the Index are March 29, 1996 and 1000, respectively.

### **Component Changes**

- Any change to the Index components or weights will be announced three (3) days prior to their effective date.

### **Rule Changes**

- Any change in the Index rules may be made only following 60 days public notice.

### **Index Committee**

- The Index is maintained by the Index Committee. The committee meets annually to make any extraordinary decisions based on the results of the Annual Reconstitution.
- In addition, the Index Committee, at the annual meeting, will make any rules or policy changes to the Index. The Index Committee meetings are confidential and the members of the Index Committee are subject to confidentiality and non-disclosure agreements relating to Index matters discussed among, and governed by, the Committee.

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