

METHODOLOGY FOR IQ HEDGE[®] BETA INDEXES



Introduction

- This document sets forth the methodology for the following indexes (the “Indexes”):
 - IQ[®] Hedge Composite Beta Index
 - IQ[®] Hedge Emerging Markets Beta Index
 - IQ[®] Hedge Global Macro Beta Index
 - IQ[®] Hedge Fixed Income Arbitrage Beta Index
 - IQ[®] Hedge Long/Short Beta Index
 - IQ[®] Hedge Market Neutral Beta Index
 - IQ[®] Hedge Event-Driven Beta Index
- The Indexes currently are calculated and disseminated end of day by Standard & Poor’s.

Monthly Reconstitution

- The Indexes are reconstituted monthly and adjusted intra-month only in connection with certain corporate actions, as described below.
- The monthly reconstitution (the “Reconstitution”) is effective after the close of business on the 15th of each month. In the event the Reconstitution date would fall on a weekend or Holiday, then the rebalance will take place on the first business day following, effective at the open of the following trading day.

Eligibility Requirements

- All of the components are liquid U.S.-based ETFs with at least \$50M in AUM
- Each of the indexes has long-short positions in the ETF components. The net position is always 100%.
- All Index components are traded on one of the major U.S. exchanges (NYSE, NYSE Arca, AMEX, and NASDAQ)

Selection Criteria

- The components of each Index are selected using a proprietary methodology developed and maintained by IndexIQ.

Weighting

- The weighting of the components within each Index is determined using a proprietary, non-market capitalization methodology developed and maintained by IndexIQ.

Index Formula

- The following formula is used to calculate the Indexes:

$$\frac{\sum_{i=1}^n (P_i \times IQWF_i)}{D}$$

P_i = Price of security i

$IQWF_i$ = IndexIQ Weight Factor

D = Divisor

Ongoing Maintenance

Dividends

- Dividend payments by Index components are treated as if they are reinvested 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 and replace component from the Index.

Base Date & Value

- The Base Date and Value of the Indexes are March 31, 2007 and 1000, respectively. The Base Date and Value of the IQ[®] Hedge Composite Beta Index is October 31, 2007 and 1000, respectively.

Component Changes

- Any change to the Index components will be announced at least 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.

Rule Changes

- The Index is maintained by the Index Committee. There are four members of 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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