

# **METHODOLOGY FOR IQ<sup>®</sup> INTERNATIONAL INDEXES**



## **Introduction**

- This document sets forth the methodology for the following indexes: (collectively the “Indexes” and each an “Index”):

### Small Cap Indexes:

- IQ<sup>®</sup> Australia Small Cap Index
- IQ<sup>®</sup> Canada Small Cap Index
- IQ<sup>®</sup> South Korea Small Cap Index
- IQ<sup>®</sup> Taiwan Small Cap Index
- IQ<sup>®</sup> Hong Kong Small Cap Index

### Mid Cap Indexes:

- IQ<sup>®</sup> Japan Mid Cap Index
  - IQ<sup>®</sup> Emerging Markets Mid Cap Index
- The Indexes are currently calculated by Standard & Poor’s and the Index value on a price basis is disseminated every 15 seconds to the Securities Industry Automation Corporation (SIAC) so that such Index value can print to the Consolidated Tape.
  - IndexIQ uses a rules-based process to select individual components of each Index (“Index Components”).

## **Eligibility Requirements**

- The Indexes are comprised of common stock only and exclude American Depositary receipts (ADRs), preferred stock, limited partnerships, master limited partnerships (MLPs), real estate investment trusts (REITs), investment companies, and trusts.
- The Index Components are listed for trading on the following exchanges and domiciled in the following countries / locales per Index:

○ <b>IQ<sup>®</sup> Australia Small Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
ASX National	Australia
○ <b>IQ<sup>®</sup> Canada Small Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Toronto	Canada
○ <b>IQ<sup>®</sup> South Korea Small Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Korea Stock Exchange	South Korea

○ <b>IQ<sup>®</sup> Taiwan Small Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Taipei	Taiwan
○ <b>IQ<sup>®</sup> Hong Kong Small Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Hong Kong	Hong Kong
○ <b>IQ<sup>®</sup> Japan Mid Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Tokyo	Japan
Osaka	Japan
○ <b>IQ<sup>®</sup> Emerging Markets Mid Cap Index</b>	
<u>Exchange</u>	<u>Country / Locale</u>
Bangkok	Thailand
Bogota	Colombia
Bombay	India
Budapest	Hungary
Cairo	Egypt
Casablanca	Morocco
Hong Kong	China
Indonesia SE	Indonesia
Istanbul	Turkey
Johannesburg	South Africa
Korea SE	South Korea
Kuala Lumpur	Malaysia
Lima	Peru
Manila	Philippines
Mexico City	Mexico
MICEX	Russia
Prague	Czech Republic
Rio de Janeiro	Brazil
Sao Paolo	Brazil
Santiago	Chile
Gre Tai Securities Market	Taiwan
Taipei	Taiwan
Warsaw	Poland

- Companies must have a minimum of 10 trading day history to be eligible for inclusion in the Index.
- The full market capitalization is determined for each country/region.

- For the Small Cap Indexes, companies in the bottom 15 percent of the full country/region market capitalization define the eligible small cap universe for the Index.
- For the Mid Cap Indexes, the average market capitalization in the range between the top 85% and top 70% (the “Market Cap Ceiling”) ranking of companies in country/region based on market capitalization for the prior 90 days will define the eligible mid cap universe for the Index (i.e., issuers with market capitalizations in the top 70% ranking (large cap) or bottom 15% ranking (small cap) are ineligible for the Index).
- Once the eligible universe is set, companies must meet the following minimum thresholds to be included in the Index:
  - Small Cap Indexes
    - Minimum market capitalization of \$150 million on the quarterly rebalance date
    - Minimum average market capitalization of \$150 million for 90 days prior to the quarterly rebalance date
    - Minimum average daily trading volume of \$1 million for 90 days prior to the quarterly rebalance date
    - Minimum average daily volume of 250,000 shares over the six months prior to the quarterly rebalance date
  - Mid Cap Index
    - Minimum market capitalization of \$500 million on the quarterly/annual (as applicable) rebalance date
    - Minimum average market capitalization of \$500 million for 90 days prior to the quarterly/annual (as applicable) rebalance date
    - Minimum average daily trading volume of \$1 million for 90 days prior to the quarterly/annual (as applicable) rebalance date
    - Minimum average daily volume of 250,000 shares over the six months prior to the quarterly/annual (as applicable) rebalance date

### **Rebalance**

- The following Indexes are rebalanced quarterly:
  - Small Cap Indexes:
    - IQ<sup>®</sup> Australia Small Cap Index
    - IQ<sup>®</sup> Canada Small Cap Index
    - IQ<sup>®</sup> South Korea Small Cap Index
    - IQ<sup>®</sup> Taiwan Small Cap Index
    - IQ<sup>®</sup> Hong Kong Small Cap Index

- Mid Cap Index:
- IQ<sup>®</sup> Japan Mid Cap Index
- The following Index is rebalanced annually:  
Mid Cap Index:
    - IQ<sup>®</sup> Emerging Markets Mid Cap Index
  - The quarterly rebalance of the Index is conducted on the second Friday of each calendar quarter month end effective at the close of the third Friday of each calendar quarter month end.
  - The annual rebalance of the Index is conducted on the second Friday of March effective at the close of the third Friday of March.
  - Additions to the Index during the rebalance must meet all eligibility requirements outlined above.
  - Existing Index Components must meet the following requirements to remain in the Index during the quarterly/annual (as applicable) rebalance:
    - Small Cap Indexes
      - Average market capitalization for the 90 days prior to the quarterly rebalance date must fall below the cut-off level set at 65% higher than the market cap ceiling of the small cap universe outlined above
      - Minimum average market capitalization of \$100 million for 90 days prior to the quarterly rebalance date
    - Mid Cap Indexes
      - Average market capitalization for the 90 days prior to the quarterly/annual (as applicable) rebalance date must fall below the cut-off level set at 50% higher than the market cap ceiling of the mid cap universe outlined above
      - Average market capitalization for the 90 days prior to the quarterly/annual (as applicable) rebalance date must fall above the bottom 10 percent cut-off level of the full country market capitalization
      - Minimum average market capitalization of \$100 million for 90 days prior to the quarterly/annual (as applicable) rebalance date

### **Weighting**

- The weights for all index components are determined at the rebalance date using float adjusted market capitalization.

## **Index Formula**

The following formula is used to calculate the Index:

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

$P_i$  = Price of security = Local Price \* FX Rate

$IQWF_i$  = IndexIQ Weight Factor = Float Adjusted Shares

$D$  = Divisor

## **Concentration Limitations**

- At the time of each quarterly/annual (as applicable) rebalance, no single Index Component may have a weighting greater than 10%. To the extent one or more Index Components would exceed this limitation, the cap is applied and the excess weight is allocated proportionately among the other Index Components.

## **Ongoing Maintenance**

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

- Non-divisor adjustments are made to each 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.

- 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 or De-Listing***

- 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.

### ***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 Index in calculating the total return Index.

### ***Extraordinary Circumstances***

- In the event of an extraordinary circumstance in which an Index Component no longer conforms to the objectives of the Index, the Index Committee may elect to eliminate the Component from the Index. In such a situation, the Index Committee may seek to find a replacement Component that best conforms to the objective of the Index pursuant to the process set forth above.

### **Base Date & Value**

- The Base Date and Value for the following Indexes are December 31, 2006 and 1000, respectively:
  - IQ<sup>®</sup> Australia Small Cap Index
  - IQ<sup>®</sup> Canada Small Cap Index
  - IQ<sup>®</sup> South Korea Small Cap Index
  - IQ<sup>®</sup> Taiwan Small Cap Index
- The Base Date and Value for the following Indexes are December 17, 2010 and 100, respectively:
  - IQ<sup>®</sup> Hong Kong Small Cap Index
  - IQ<sup>®</sup> Japan Mid Cap Index
  - IQ<sup>®</sup> Emerging Markets Mid Cap Index

### **Rule Changes**

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

### **Index Committee**

- The Index methodology is maintained by the Index Committee. The Index Committee meets annually to review the index methodology and as necessary on an ad hoc basis to make any extraordinary decisions regarding the Index.

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