

**METHODOLOGY FOR
IQ[®] ENHANCED CORE BOND U.S. INDEX and
IQ[®] ENHANCED CORE PLUS BOND U.S.
INDEX**

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Introduction

- This document sets forth the methodology for the following indexes (each referred to as an “Index” and collectively as the “Indexes”):
 - IQ[®] Enhanced Core Bond U.S. Index (“Enhanced Core”)
 - IQ[®] Enhanced Core Plus Bond U.S. Index (“Enhanced Core Plus”)
- Each Index is currently calculated by Solactive AG 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.
- Each Index uses a rules-based process to select and weight individual components of the Index (“Index Components”).

Eligibility Requirements

- All of the Index Components are exchange traded funds (ETFs) registered under the Investment Company Act of 1940 or other exchange-traded vehicles issuing equity securities (ETVs) organized in the U.S.
- All of the ETF and ETV Index Components are listed on one of the major U.S. exchanges (NYSE, NYSE Arca, and NASDAQ).
- For Enhanced Core, all Index Components will correspond generally to a sector of the US dollar-denominated taxable fixed income universe, including, but not limited to:
 - U.S. Short term Treasuries (1-3 year maturities)
 - U.S. Intermediate term Treasuries (3-10 year maturities)
 - U.S. Long term Treasuries (greater than 10 year maturities)
 - Investment grade corporate Bonds; and
 - Investment grade mortgage-backed securities
- For Enhanced Core Plus, the Index Components will include all components of Enhanced Core as well as U.S. high yield debt and U.S. dollar denominated debt of emerging market issuers.

Selection Criteria

- IndexIQ identifies all existing ETFs and ETVs that meet the Index Eligibility Requirements set forth above.

- To the extent that more than one ETF or ETV provides substantially the same sector exposure, IndexIQ selects the ETF or ETV with the highest AUM level, longest historical performance record or other objective factor to be representative of such sector exposure. The ETF or ETV selected becomes the primary component (“Primary Component”).

Component Weighting

- IndexIQ uses total return momentum to determine the raw score of each Primary Component.
 - Momentum is measured by comparing a short-horizon (45 day) moving average of returns to a longer-horizon (90 day) moving average of returns for an index that is representative of the Primary Component, while taking into account recent volatility.
- Primary Component raw active weights relative to the US dollar-denominated taxable fixed income universe are assigned in a linearly declining way such that Primary Components showing stronger (weaker) momentum receive higher (lower) raw active weights.
 - The sum of the positive raw active weights can’t exceed 30%.
 - The sum of the negative raw active weights can’t exceed -30%.
 - The sum of the positive raw active weights is equal to the sum of the negative raw active weights.
- Each Index seeks to maximize total return while maintaining a target Tracking Error of 3% to the US dollar-denominated taxable fixed income universe.
 - Tracking error measures the divergence of the Index’s performance from that of the US dollar-denominated taxable fixed income universe.
 - Tracking error is measured via a moving average method that puts more weight on recent market fluctuations.
- All Primary Component final weights must be positive, indicating a long exposure.
 - Primary Components are each subject to a 50% maximum final weight in the Indexes.
 - Additionally, U.S. high yield and emerging markets are each subject to 25% and 5% maximum final weights respectively in the Enhanced Core Plus Index.
- For each Index, the raw weights of Primary Component will be adjusted based on the constraints above and the sum of all final weights is 100%.

- Each final Index is comprised of the Primary Components as well as any other ETFs or ETVs that are substantially similar to the sectors of such Primary Components. For Primary Components representing investments in U.S. Treasury Bonds, the additional ETFs are first weighted such that the weighted duration of the additional ETFs is equal to the duration of the initial Primary Component. The Index Components are then weighted within a given fixed income sector in the final Index proportionately based on its total asset size such that Index Components with larger asset size receive proportionately higher allocations within a given fixed income sector than Index Components with lower asset size.

Annual Reconstitution

- IndexIQ conducts an annual review of all Index Components once a year during the second calendar quarter, with any change in Components (additions or deletions) (the “Annual Reconstitution”) implemented no later than the third calendar quarter.

Monthly Rebalance

- The Component weights for the Indexes are rebalanced on a monthly basis (the “Monthly Rebalance”) pursuant to the process described in “Component Weightings” above for each Index.
- The monthly rebalance for the Indexes is effective after the close of the 3rd business day of each month.
- The Indexes are adjusted intra-month only in connection with certain ongoing maintenance, as described below.

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 i

$IQWF_i$ = IndexIQ Weight Factor

D = Divisor

Ongoing Maintenance

Dividends

- Dividend payments by Components are treated as if they are reinvested in the Index in calculating total returns for the 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.

Spin-Offs

- In the event of a spin-off from an existing Index component, the spun-off component may remain within the index provided the spun-off component meets the eligibility requirements and selection criteria for inclusion in the index and is consistent with the objective of the index.

Base Date & Value

- The Base Date and Value of the Index is October 30, 2015 and 1000, respectively.

Rule Changes

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

Index Committee

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

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