



IQ Enhanced Core Bond Indexes

METHODOLOGY

IndexIQ LLC

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Introduction

This document sets forth the methodology for the IQ Enhanced Core Bond U.S. Index (“Enhanced Core”) and IQ Enhanced Core Plus Bond U.S. Index (“Enhanced Core Plus”). Capitalized terms are defined herein.

Index Objective

The Index uses a rules-based process to select and weight individual components of the Index (“Index Components”).

The Index seeks to outperform the U.S. dollar-denominated taxable fixed income universe by using a momentum investing strategy, which seeks to capitalize on the persistence of ongoing trends in the market.

Momentum is measured by comparing a short-horizon (45 day) moving average of returns to a longer-horizon (90 day) moving average of returns, while taking into account recent volatility of each sector.

Eligibility Requirements

Index Universe

All 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 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”).

Index Construction

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 no greater than 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.

Concentration Limits

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 the 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.

Index Shares

Shares held within the index are derived from a notional value, the weight as determined above, and component prices as of the Reconstitution or Rebalance.

Index Maintenance

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.

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 at the open of the 4th business day of each month.

Corporate Events and Index Policy

Refer to the IndexIQ Events Guide.

Index Calculation

Index Level

The following general formula is used to calculate the Index Level:

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

P_i = Price of security i
 Shares_i = Shares of security i
 D = Divisor

Return Series

The Index return series is based on the treatment of cash dividends, stock dividends, and spin-offs (collectively determined as a “Distribution”).

- The Price Return (PR) index is calculated without adjustments for distributions.
- The Total Return (TR) index reinvests distributions as of the ex-date.

In the event there are no distributions the daily performance of both indexes will be identical.

Currency

The Indexes are calculated in U.S. Dollars.

Base Dates and History Availability

Index	Base Date	Base Value
IQ Enhanced Core Bond U.S. Index	October 31, 2015	1000
IQ Enhanced Core Plus Bond U.S. Index	October 31, 2015	1000

Ticker

Index levels are available through major quote vendors, numerous investment-oriented websites, and various print and electronic media. IndexIQ LLC’s website also provides an archive of recent index announcements.

Index	Return Type	Bloomberg
IQ Enhanced Core Bond U.S. Index	Price Return	IQAGGE
	Total Return	IQAGGET
IQ Enhanced Core Plus Bond U.S. Index	Price Return	IQAGGP
	Total Return	IQAGGPT

Contact Information

For questions regarding the Index, please contact: (888) 474-7725 or index@indexiq.com.

APPENDIX 1: Amendment History

Amendment History

Effective Date	Change
December 31, 2019	Effective date for new rule book template

APPENDIX 2: Disclaimers

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