



# IQ 500 Index

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## METHODOLOGY

IndexIQ LLC

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## Introduction

This document sets forth the methodology for the IQ<sup>®</sup> 500 Index (the “Index”). Capitalized terms are defined herein. For additional information, refer to the IndexIQ Events Guide.

### **Index Objective**

The IQ 500 Index identifies U.S. companies that enjoy a strong economic footprint and, at the same time, are able to maintain their long-term competitive positioning. The combination of these factors results in companies that are poised to drive improved operational performance and sustainable, long-term equity appreciation with low volatility and low turnover.

## Eligibility Requirements

### **Index Universe**

All Index Components are domiciled in the U.S., as defined by data available through FactSet Research Systems (“FactSet”) or any other third-party data provider.<sup>1</sup>

The Index is comprised of common stock only and excludes American Depositary Receipts (ADRs), preferred stock, limited partnerships, master limited partnerships (MLPs), real estate investment trusts (REITs), investment companies, and trusts.

All Index Components are listed on one of the major U.S. exchanges (NYSE, NYSE Arca, and NASDAQ).

At the time of the Reconstitution (defined below), an Index component must have:

- a minimum 52-week average daily trading volume of \$5 million and 75,000 shares
- been publicly traded on an exchange for at least the immediately prior two calendar quarters
- a minimum market capitalization of \$1 billion
- a minimum average market capitalization for the immediately prior 60 trading days of \$1 billion.

For each of the two months immediately prior to the 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.

### **Selection Criteria**

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<sup>1</sup> As provided by FactSet. Country of domicile may refer to country of headquarters, country of largest revenue, and/or reporting currency.

The components of the Index are selected using a methodology developed and maintained by IndexIQ that ranks eligible index components based on three different fundamental factors (the “Composite Score”).

- The Composite Score is the arithmetic average of three single-factor ranks (each a “Factor”) available as of the Reconstitution:
  - Annual Sales Rank<sup>2</sup>
  - Market Share Rank<sup>3</sup>
  - 3-Year Average Operating Margin Rank<sup>4</sup>

Each single-factor is ranked within the eligible Universe according to its value, with higher values receiving a higher rank.

## Index Construction

At the of the Reconstitution, the Index has approximately 500 components, although the number of components may vary depending on the results of the proprietary screening and weighting methodology.

### Weighting

Index component weights are determined using a proprietary, non-market capitalization methodology developed and maintained by IndexIQ.

### Concentration Limitations

At the time of the Reconstitution, no single component of the Index 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 Reconstitution, the 5% weight cap is applied, and the excess weight is allocated proportionately among the other Index components.

### Index Shares

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<sup>2</sup> The “Annual Sales Rank” is determined relative to other eligible Universe securities at the time of Reconstitution based on annual sales data provided by FactSet. See Appendix 2.

<sup>3</sup> “Market Share” is the pro-rata percentage of a company’s annual sales relative to other eligible Universe securities within the same economic sector, as provided by FactSet, at the time of Reconstitution. See Appendix 2.

<sup>4</sup> “3-Year Average Operating Margin Rank” is relative to other eligible Universe securities within the same economic sector, as provided by FactSet, at the time of the Reconstitution. See Appendix 2.

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

The Index is reconstituted once a year (the “Reconstitution”) and the Index is adjusted intra-year only in connection with certain corporate actions (as described below), in the event the concentration limitations described above are triggered, or as otherwise provided by this methodology.

The Reconstitution occurs on the last Friday in March and becomes effective at the first Friday of May.

### Rebalance

At the end of each quarter following the Reconstitution (a “Rebalance”), no single component of the Index 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 a Rebalance, the 5% weight cap is applied, and the excess weight is allocated proportionately among the other Index components

The Rebalance occurs on the last Friday of June, September, and December for effect at the open of the Monday after the following Friday. The Rebalance occurs only if necessary, to correct any violations of the Annual Reconstitution criteria which includes, but is not limited to, exceeding the Concentration Limitations.

### 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  $i$

$\text{Shares}_i$  = Notional 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 Index is calculated in U.S. Dollars.

### Base Dates and History Availability

Index	Base Date	Base Value
IQ 500 Index	March 29, 1996	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 500 Index	Price Return	IQ500P
	Total Return	IQ500

### Contact Information

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

## APPENDIX 1: Amendment History

### Amendment History

Effective Date	Change
December 31, 2019	Effective date for new rule book template
February 14, 2019	Rebalance effective date changed from the first Friday of April to the first Friday of May.

## APPENDIX 2: Disclaimers

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