

METHODOLOGY FOR IQ[®] FLAGSHIP INTERNATIONAL INDEXES



Introduction

- This document sets forth the methodology for the following indexes (the “Indexes”):
 - IQ[®] 500 International Index (the “International Index”)
 - IQ[®] Emerging Markets ADR Index (the “EM Index”)
 - IQ[®] BRIC ADR Index (the “BRIC Index”)
- For any ETF based on a given Index, such Index will be calculated by Solactive AG or another established and unaffiliated calculation agent prior to the launch of such ETF, and the Index value on a price basis will be disseminated every 15 seconds to the Securities Industry Automation Corporation (SIAC) so that such Index value can print to the Consolidated Tape.

Annual Reconstitution

- The Indexes are reconstituted once a year and adjusted intra-year only in connection with certain corporate actions or in the event certain concentration limitations are triggered, as described below.
- The annual reconstitution (the “Annual Reconstitution”) is conducted the last Friday in March effective at the close of business the following Friday. IndexIQ reserves the right to postpone the Annual Reconstitution date for up to one week with prior public notice of such postponement.

Eligibility Requirements

- All Index components are headquartered outside of the United States, as defined by data available through FactSet Research Systems.
- The International Index is comprised of common stock only and excludes American Depositary receipts (ADRs). The EM and BRIC Indexes are comprised of ADRs, American Depositary shares (ADSs) and common stock of non-U.S. companies (see below for country parameters) listed on one of the three major U.S. exchanges (NYSE, Amex, Nasdaq). All of the Indexes exclude preferred stock, limited partnerships, master limited partnerships (MLPs), real estate investment trusts (REITs), investment companies, and trusts.
- The components of the International Index are listed for trading on one of the following exchanges and are headquartered in one of the following countries / locales:

<u>Exchange</u>	<u>Country / Locale</u>
○ ASX National	Australia
○ Athens	Greece
○ Copenhagen	Denmark

○ Euronext Belgium	Belgium
○ Euronext France	France
○ Euronext Netherlands	Netherlands
○ Euronext Portugal	Portugal
○ Helsinki	Finland
○ Hong Kong	Hong Kong
○ Irish Main Market	Ireland
○ Italy Continuous	Italy
○ London	United Kingdom
○ Madrid	Spain
○ NZSE National Market	New Zealand
○ OM Stockholm	Sweden
○ Oslo	Norway
○ Singapore	Singapore
○ Swiss Virt-X	Switzerland
○ SWX	Switzerland
○ Tokyo	Japan
○ Toronto	Canada
○ XETRA	Germany
○ Vienna	Austria

- The components of the EM Index are headquartered in the following countries:
 - Argentina
 - Brazil
 - Chile
 - China
 - Colombia
 - Czech Republic
 - Egypt
 - Hungary
 - India
 - Indonesia
 - Israel
 - Jordan
 - Malaysia
 - Mexico
 - Morocco
 - Pakistan
 - Peru
 - Philippines
 - Poland
 - Russia
 - South Africa
 - South Korea
 - Taiwan
 - Thailand

- Turkey
- The components of the BRIC Index are headquartered in the following countries:
 - Brazil
 - Russia
 - India
 - China
- All components of the International Index have a minimum 52-week average daily trading volume of \$5 million and 100,000 shares prior to the Reconstitution. All components of the EM and BRIC Indexes have a minimum 52-week average daily trading volume of \$1 million and 50,000 shares prior to the Reconstitution.
- All Index components have had trading commence on their shares at least two (2) full quarters prior to the Reconstitution.
- As of the Reconstitution, the minimum market capitalization of each component of the International Index is \$1 billion, the minimum market capitalization of each component of the EM Index is \$1 billion, and the minimum market capitalization of each component of the BRIC Index is \$500 million.
- For the 60 trading days prior to the Reconstitution, the minimum average market capitalization of each component of the International Index is \$1 billion, the minimum average market capitalization of each component of the EM Index is \$1 billion, and the minimum average market capitalization of each component of the BRIC Index is \$500 million.

Selection Criteria

- The components of each Index are selected using a proprietary methodology developed and maintained by IndexIQ.
- For each of the two months prior to the Reconstitution, no more than 20% of each Index's components may have average daily trading volume less than \$1 million or average public float value less than \$150 million.
- As of the Reconstitution, the International Index has approximately 500 components, the EM Index has approximately 100 components, and the BRIC Index has up to approximately 30 components, although the number of components may vary depending on the results of IndexIQ's proprietary screening and weighting systems in connection with a particular Reconstitution.

Weighting

- The weighting of the components within each Index is determined using a proprietary, non-market capitalization methodology developed and maintained by IndexIQ. In the case of the Emerging and BRIC Indexes, the IndexIQ Weight Factor (see below) incorporates the 3-month average daily trading volume for each component.

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

Concentration Limitations

- At the time of the Reconstitution, no single component of the International Index may have a weighting greater than 5% of such Index, and no single component of the Emerging or BRIC Indexes may have a weighting greater than 10% of such Indexes. To the extent one or more components would exceed this limitation at the time of the Reconstitution, the cap (5% or 10%, as applicable) is applied and the excess weight is allocated proportionately among the other Index components.
- At the end of each quarter following the Reconstitution, no single component of the International 500 Index may have a weighting greater than 10% and no single component of Emerging or BRIC may have a weighting greater than 15%. To the extent one or more components would exceed this limitation as of the end of each quarter, the cap (10% or 15%, as applicable) 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, De-Listing or Prolonged Trading Suspension

- 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.

- In the event that trading in an Index component is suspended for more than three (3) consecutive trading days, the Index component is removed from the Index effective after the close on the third such day of trading 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 may remain within the index provided the spun-off company meets the eligibility requirements and selection criteria for inclusion in the index and is consistent with the objective of the index.

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 the component from the Index, with no replacement made.

Base Date & Value

- The Base Date and Value for Emerging and BRIC Indexes are March 30, 2001 with a starting value of 1000. The Base Date and Value for the International Index is March 30, 1998 with a starting value of 1000.

Component Changes

- Any change to the Index components or weights will be announced at least three (3) business days prior to their effective date.

Rule Changes

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

Index Committee

- 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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