



# IQ Leaders GTAA Index

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## METHODOLOGY

IndexIQ LLC

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## Introduction

This document sets forth the methodology for the IQ Leaders GTAA Index (the “GTAA Index”). Capitalized terms are defined herein.

### **Index Objective**

The IQ Leaders GTAA Index seeks to replicate the performance and risk characteristics of the top 10 World Allocation mutual funds. The top 10 is based upon fund performance and asset size and is reconstituted annually.

IndexIQ uses a rules-based process to select leading mutual funds in a particular investment category (“Leaders”).

#### *Annual selection of leading mutual funds*

- IndexIQ identifies all mutual funds (“Funds”) that are classified in a particular investment strategy by an unaffiliated third party.
- Each Fund will have a minimum of 2 years of performance results to be eligible for potential inclusion.
- Each fund will have an investment objective consistent with the objective of the Leaders to be eligible for potential inclusion.
- Eligible funds are assigned scores (“Criteria Scores”) based upon their rankings on the following criteria:
  - Fund Size, as measured by assets under management
  - Fund Performance (Returns), as measured by 24-month total return
- Each Fund’s Criteria Scores are aggregated to create Composite Score (“Composite Score”) where the weights are as follows:
  - 60% Fund Size
  - 40% Fund Performance
- The 10 Funds with the highest Composite Score that also meet the fund eligibility requirements constitute the Leaders.
- The returns of the Leaders are averaged to create the Leaders Series.

IndexIQ uses a rules-based process (see “Index Construction Process” below) to select individual Index Components that, when combined, produce an Index designed to replicate the risk-return characteristics of the Leaders.

## Eligibility Requirements

### **Index Universe**

All the Index components (collectively, the “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., each with at least \$50 million in assets under management (“AUM”) as of the date of the annual Reconstitution (see below).

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

### **Selection Criteria**

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

IndexIQ calculates the correlation of the returns of each eligible ETF and ETV relative to the returns of the Leaders Series.

IndexIQ conducts an analysis whereby it utilizes the publicly-available description of the eligible ETFs and ETVs to identify which of these ETFs and ETVs correspond, based on overlap of investment strategy and/or asset class exposure, to each Leaders Series that IndexIQ is seeking to replicate.

IndexIQ assigns a score to each eligible ETF and ETV based on the extent of the overlap of investment strategy and/or asset class exposure described above, with 3 being high overlap, 2 being moderate overlap, and 1 being low overlap.

IndexIQ adds the correlation and the score for each ETF and ETV and then ranks the ETFs and ETVs, from highest to lowest, based on the resulting values.

To the extent that more than one ETF or ETV provides substantially the same investment strategy or asset class exposure, IndexIQ selects the ETF or ETV with the highest AUM level or other objective factor to be representative of such investment strategy or asset class exposure for back testing purposes (see below for a description of the back test process).

In order to select the Index Components pursuant to the back test process, IndexIQ includes in each Index the ETFs and ETVs (the “Primary Back Test Components”) with the greatest relevance to the Leaders Series, as calculated by the process described above.

Using the Component Weightings process (as described below), IndexIQ conducts multiple back tests to calculate various statistics of a hypothetical Index using the Primary Back Test Components in different combinations. (To the extent that an ETF or

ETV did not exist during the back test period, IndexIQ uses the returns of the index underlying such ETF or ETV.)

In order to choose which of the hypothetical Indexes will constitute the actual Index, IndexIQ examines the following statistics and assigns each a weight factor as follows:

To choose which of the hypothetical Sub Indexes will constitute the actual Sub Index, the following statistics are examined, and each assigned a weight factor as follows:

Statistic	Weight Factor
1-year Return	12
3-year Annualized Return	36
5-year Annualized Return	60
1-year Standard Deviation	8
3-year Standard Deviation	24
5-year Standard Deviation	40
Tracking Error (vs. Hedge Fund Style Series)	15
1-year Correlation (vs. Hedge Fund Style Series)	10
3-year Correlation (vs. Hedge Fund Style Series)	10
5-year Correlation (vs. Hedge Fund Style Series)	10
Maximum Aggregate Short Position	N/A
3-year Turnover	N/A

For returns and standard deviation, the statistic is the absolute value of the difference between the hypothetical Index and the Leaders Series so that the statistic measures the similarity between the hypothetical Index and the Leaders Series. The Correlation values are 100% less the correlation such that lower values indicate a higher level of positive correlation.

IndexIQ excludes all hypothetical Indexes that have excessive 3-Year Turnover or excessive Maximum Aggregate Short Positions.

For each remaining hypothetical Index, IndexIQ multiplies the statistic value times the weight factor to calculate its “back test score.”

The hypothetical Index that has the lowest back test score (the “Low Back Tested Index”) forms the basis for the final Index.

## Index Construction

### Weighting

For each Index, IndexIQ calculates the constrained beta coefficients for each Primary Back Test Component from an ordinary least squares (OLS) regression where the dependent variable is the Leaders Series return and the independent variables are the Index Component returns.

The beta coefficients are scaled so that the sum of all beta coefficients is 1.

Beta coefficients can be either positive or negative indicating either a long or short exposure, respectively.

The final Index is comprised of its Primary Back Test Components of the Low Back Tested Index, and may include any other ETFs or ETVs that (i) meet the Eligibility Requirements and (ii) are substantially similar to the investment strategies and/or asset class exposures of such Primary Back Test Components. The Primary Back Test Components and the additional ETFs and ETVs, if any, are weighted within a given investment strategy or asset class in the final Index proportionately based on their relative AUM levels.

### **Concentration Limitations**

The sum of the weights of Components that generate non-qualifying income under Subchapter M of the Internal Revenue Code is limited to no more than 10% of the Index.

### **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**

The Index is reconstituted once a year during the first calendar quarter, with any change in Components (additions or deletions) (the “Reconstitution”) implemented no later than the second calendar quarter.

The Reconstitution process is the same as the process described above under “Initial Selection of Components” with consideration given to new ETFs and ETVs that have been launched and/or existing ETFs and ETVs that have, since the last Reconstitution, met the Index Eligibility Requirements.

To the extent the back testing process, with the addition or deletion of one or more ETFs and ETVs, yields better replication results than the existing Index, as measured by “back test scores”, the Components of the given Index are adjusted accordingly.

The Index is adjusted intra-year only in connection with the monthly rebalance of its Index Components (the “Monthly Rebalance”) or with certain corporate actions (as described below).

The annual Leaders Construction Process will use information dated the last business day of February of the selection year to go into effect the last business day of March of the selection year.

#### *Semi-Annual review of leading mutual funds*

The Semi-Annual review will occur six months after the annual selection. IndexIQ will eliminate any of the Leaders that have returns for the first half of the calendar year that is more than 2 standard deviations below the average return of the Leaders Series. The returns of the remaining Leaders are averaged to create the Leaders Series for the remainder of the year.

#### **Rebalance**

IndexIQ rebalances the Component weights for each Index on a monthly basis pursuant to the process described in “Component Weightings” above.

The monthly rebalance for the Indexes is effective at the open of the fourth 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  $i$

$\text{Shares}_i$  = Shares of security  $i$

$D$  = Divisor

To reflect the estimated cost of gross exposure of the index above 100%, the Divisor is adjusted each day to reduce the performance of the index by an annual equivalent of 30bps.

### 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 Leaders Index	June 30, 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 Leaders Index	Price Return Total Return	IQGTAA IQGTAAT

### 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
January 8, 2020	Added disclosure on the inclusion of the index fee in the divisor

## APPENDIX 2: Disclaimers

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