IQ Real Return Index

METHODOLOGY

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Introduction

This document sets forth the methodology for the IQ Real Return Index. Capitalized terms are defined herein.

Index Objective

The IQ Real Return Index seeks to provide a "real return" or a return above the rate of inflation, thereby providing a hedge against the U.S. inflation rate, as represented by the Consumer Price Index, which is published by the Bureau of Labor Statistics.

The Consumer Price Index ("CPI") is a measure of the average change in prices over time of goods and services purchased by households and is a widely recognized barometer of inflation in the U.S.

Eligibility Requirements

Index Universe

All components of the Indexes are traded on one of the major U.S. exchanges (NYSE, NYSE Arca, Amex, and NASDAQ).

The components of the Indexes are liquid ETFs or ETVs with at least $50 million in AUM.

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 CPI.

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 asset class exposure, to the CPI.

IndexIQ assigns a score to each eligible ETF and ETV based on the extent of the overlap of 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 the ETFs and ETVs (the "Primary Back Test Components") with the greatest relevance to CPI, as calculated by the process described above.

Using the Component Weighting 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:

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, the statistic is the "Real Return" (or difference between the nominal return and CPI) versus the target Real Return. For standard deviation, the statistic is the absolute value of the difference between the standard deviation of the hypothetical Index and the standard deviation of the CPI so that the statistic measures the similarity between the hypothetical Index and CPI. 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 Average Annual Turnover.

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

IndexIQ calculates the constrained beta coefficients for each Component from an ordinary least squares (OLS) regression where the dependent variable is the Year over Year (YoY) change in the CPI plus a target real return and the independent variables are the rolling 12-month Component returns.

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

All Component beta coefficients must be positive.

The final Index is comprised of the Primary Back Test Components of the Low Back Tested Index, as well as any other ETFs or ETVs that are substantially similar to the investment strategies and/or asset class exposures of such Components. The 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, except that any allocation to the IQ Ultra Short Duration ETF will comprise the first 25% of the short-term bond allocation in the Index. Such additional ETFs and ETVs, if any, may be added to the Index between Annual Reconstitutions.

Concentration Limitations

IndexIQ seeks to limit the sum of the weights of those Components that generate non-qualifying income under Subchapter M of the Internal Revenue Code to no more than 10% of the total Index weight.

At the time of the monthly rebalance, no single component of the Index may have a weighting greater than 25% of the Index. To the extent one or more components would exceed this limitation, the cap is applied and the excess weight is allocated proportionately among the other Index components.

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 (the "Annual Reconstitution") and 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 Reconstitution occurs during the first calendar quarter and implemented no later than the second calendar quarter.

Rebalance

The Indexes are rebalanced monthly (the "Monthly Rebalance") and adjusted intra-month only in connection with certain ongoing maintenance.

The Monthly Rebalance takes place on the business day (the "Monthly Rebalance Date") on which the CPI is reported by the Bureau of Labor Statistics which is generally on or around the 15th calendar day of the month.

The Monthly Rebalance is effective at the open of the 3rd business day following the Monthly Rebalance Date.

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:

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

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 Real Return Index	October 31, 2008	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 Real Return Index	Price Return	IQHGCPI
	Total Return	IQHGCPIT

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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