

METHODOLOGY FOR IQ[®] INTANGIBLE ASSETS INDEXES



by MainStay Investments

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Introduction

- This document sets forth the methodology for the following indexes (the “Indexes”):
 - IQ[®] Innovation Leaders Index
 - IQ[®] Fastest Growing Companies 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 in the United States, as defined by data available through FactSet Research Systems.
- All Indexes are comprised of common stock only. American Depositary receipts (ADRs), preferred stock, master limited partnerships (MLPs), real estate investment trusts (REITs), and trusts are excluded.
- All Index components are traded on one of the two major U.S. exchanges (NYSE Arca, NASDAQ).
- All Index components have a minimum 90 day average daily trading volume of \$1,000,000 prior to the Reconstitution.
- All Index components have a minimum 6 month average daily trading volume of 250,000 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, IQ[®] Fastest Growing Companies Index has a minimum market capitalization of \$1.5 billion and the IQ[®] Innovation Leaders has a minimum market capitalization of \$300 million.
- For the 60 trading days prior to the Reconstitution, IQ[®] Fastest Growing Companies Index has a minimum market capitalization of \$1.5 billion and the IQ[®] Innovation Leaders has a minimum market capitalization of \$300 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, IQ[®] Fastest Growing Companies Index has approximately 50 components and the IQ[®] Innovation Leaders Index has 100 components. 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.

Index Formula

- The following formula is used to calculate the Indexes:

$$\frac{\sum i (P_i \times IQWF_i)}{D}$$

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 any Index may have a weighting greater than 5% of such Index. To the extent one or more components would exceed this limitation at the time of the Reconstitution, the 5% cap 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 any Index may have a weighting greater than 10% of such Index. To the extent one or more components would exceed this limitation as of the end of each quarter, the 10% cap 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 Indexes have a base date of December 31, 2008, when the values of the Indexes were set equal to 1000.

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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