

METHODOLOGY FOR IQ[®] U.S. REAL ESTATE SMALL CAP INDEX



Introduction

- This document sets forth the methodology for the following index (the “Index”):
 - IQ[®] U.S. Real Estate Small Cap 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.
- IndexIQ uses a rules-based process to select individual components of the Index (“Index Components”).

Eligibility Requirements

- The Index is comprised of common stock and may include depositary receipts on eligible exchanges.
- The Index Components are listed for trading on the following eligible exchanges:

Exchange

NYSE
NYSE Arca
NASDAQ

- Companies must have a minimum of a 10 trading day history to be eligible for inclusion in the Index.
- The full market capitalization is determined for the U.S. Real Estate Sector, with companies in the bottom 10 percent of the market capitalization defining the eligible small cap universe for the Index.
- Once the eligible small cap universe is set, companies must meet the following minimum thresholds to be included in the Index:
 - Minimum market capitalization of \$150 million on the quarterly rebalance date
 - Minimum average market capitalization of \$150 million for 90 days prior to the quarterly rebalance date
 - Minimum average daily trading volume of \$1 million for 90 days prior to the quarterly rebalance date
 - Minimum average daily volume of 250,000 shares over the six months prior to the quarterly rebalance date

- Each company that meets all of the above criteria is then reviewed to ensure that the primary line of business is real estate related.

Quarterly Rebalance

- The quarterly rebalance of the Index is conducted on the second Friday of each calendar quarter month end effective at the close of the fourth Friday of each calendar quarter month end.
- Additions to the Index during the quarterly rebalance must meet all eligibility requirements outlined above.
- Existing Index Components must meet the following requirements to remain in the Index:
 - Average market capitalization for the 90 days prior to the quarterly rebalance date must fall below the cut-off level set at 65% higher than the market cap ceiling of the small cap universe outlined above
 - Minimum average market capitalization of \$100 million for 90 days prior to the quarterly rebalance date

Weighting

- The weights for all Index Components are determined at the quarterly rebalance date using float adjusted market capitalization.

Index Formula

The following formula is used to calculate the Index:

$$\frac{\sum_{i=1}^n (P_i \times IQWF_i)}{D}$$

P_i = Price of security = Local Price * FX Rate

$IQWF_i$ = IndexIQ Weight Factor = Float Adjusted Shares

D = Divisor

Concentration Limitations

- At the time of each quarterly rebalance, no single Index Component may have a weighting greater than 10%. To the extent one or more Index Components would exceed this limitation, the 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 an Index Component 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 Index Components are adjusted proportionately for the weight of the Index 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 Index 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 Index in calculating the total return Index.

Extraordinary Circumstances

- In the event of an extraordinary circumstance in which an Index Component no longer conforms to the objectives of the Index, the Index Committee may elect to

eliminate the Component from the Index. In such a situation, the Index Committee may seek to find a replacement Index Component that best conforms to the objective of the Index pursuant to the process set forth above.

Base Date & Value

- The Base Date and Value for the Indexes are December 24, 2010 and 1000, respectively.

Rule Changes

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

Index Committee

- The Index methodology is maintained by the Index Committee. The Index Committee meets annually to review the index methodology and as necessary on an ad hoc basis to make any extraordinary decisions regarding the Index.

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