

METHODOLOGY FOR IQ[®] CANDRIAM SUSTAINABLE EQUITY INDEXES

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by MainStay Investments

Introduction

- This document sets forth the methodology for the following indexes (collectively, the “Indexes” and each an “Index”):
 - IQ[®] Candriam Sustainable US Equity Index (“IQ US Sustainable Index”)
 - IQ[®] Candriam Sustainable World Equity Index (“IQ World Sustainable Index”)
 - IQ[®] Candriam Sustainable International Equity Index (“IQ International Sustainable Index”)
 - IQ[®] Candriam Sustainable European Equity Index (“IQ European Sustainable Index”)
 - IQ[®] Candriam Sustainable Asia Pacific Equity Index (“IQ Asia Pacific Sustainable 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 construct each Index (“Index Components”).

Index Components

The companies that will be included in the Index (the “Index Components”) is determined by Candriam Belgium S.A., a leading, European-based expert on socially responsible investing. Candriam produces the Index Components independently of IndexIQ and makes the list of Index Components available free of charge on its website located at <http://iqsri.candriam.com/>. Once the list of Index Components is publicly available, IndexIQ uses the information to complete the Index creation process by applying the weighting methodology and any other processes set forth below to determine the final Index. Information about Candriam’s process for determining the Index Components is available on the website.

An updated list of Index Components is posted on the website quarterly, approximately 5days prior to each Rebalance Date (defined below) of the Index.

Weighting

- Index Components are assigned a weight (“Fundamental Weight”). All data is sourced from Factset Research Systems. The codes for all data are listed in Appendix 1. The Fundamental Weight for each component is based on the following factors:

- Average Sales: Average of the last 5 years Sales in USD*
- Average Net Earnings: Average of the last 5 years Net Earnings in USD*
- Book Value: Most recent Book Value in USD*
- Average Operating Cash Flow: Average of the last 5 years Operating Cash Flow in USD*

*except for Europe Universe which is EUR.

The weight for each factor is the company's value divided by the sum of values for all Index Components. Each component's Fundamental Weight is the average of the 4 factor weights for each component.

- The minimum Fundamental Weight of each Index Component is :
 - $1/n * 50\%$ where n= number of companies in the bottom 50%
- The Fundamental Weight of each Index Component is then adjusted by the following factors:
 - Value:
 - Earnings Yield: Earnings per share over the last fiscal year divided by the price per share
 - Operating Cash Flow Yield: Operating cash flow of the last fiscal year divided by the last total market value
 - Sales/Enterprise Value: Total Sales of the last fiscal year divided by the Enterprise Value
 - Financing Cash Flow Yield: Financing cash flow of the last fiscal year divided by the last total market value
 - Quality
 - EBITDA to Net Debt (ex Financials): Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) over the last fiscal year divided by the Net Debt (Not applied to financial companies)
 - Operating Cash Flow to (Capital Expenditures + Dividends (ex Financials)) : Operating cash flow over the last fiscal year divided by the sum of Capital Expenditures and Dividends over the last fiscal year
 - ROCE Trend * Stability (Stability is a measure of the consistency of the metric measured through time): 6 years period trend of the Return on Capital Expenditures over the last 6 fiscal years multiplied by Stability (Stability is defined as the RSquared of the last 6 fiscal years of ROCE)
 - Operating Margin Trend * Stability (ex Financials): 6 years period trend of the Operation Margin multiplied by Stability (not applied to financial companies)

- ROE: Return on Equity over the last fiscal year
 - Low volatility
 - 6/12/24 month standard deviation of returns: Standard deviation of weekly returns over the trailing 6, 12 & 24 calendar months
- Each Index Component is ranked on each of the preceding criteria.
 - The percentile rank for each sub factor is averaged to get an average percentile rank for the factor.
 - The percentile rank for each factor is averaged to get an average percentile rank for the Index Component.
 - The Index Components are sorted into quintiles based on the average percentile rank across the factors.
 - The adjustment factor (“Adjustment Factor”) is based on the following table:

Index	Quintile based on average percentile rank across factors				
	1	2	3	4	5
US, Europe, Asia Pacific SRI Indexes	20.0	10.0	0.0	-10.0	-20.0
World SRI Index	15.0	7.5	0.0	-7.5	-15.0
International SRI Index	10.0	5.0	0.0	-5.0	-10.0

- The adjusted weight (“Adjusted Weight”) of each Index Component in each index = Fundamental Weight + Adjustment Factor
- Each Adjusted Weight is scaled such that the sum is 100%. The scaled weight becomes the final weight (“Final Weight”).
- All weights must be positive.

Rebalance

- The Indexes are rebalanced quarterly.
- The quarterly rebalance for each Index is effective after the close of the 3rd Friday of the 3rd month in each calendar quarter (“Rebalance Date”).
- The index components are determined using the process defined above based on data as of the Friday 1 week prior to the Rebalance Date (“Data Date”).
- Index weights and shares are calculated as of the Data Date. Index shares are frozen as of the Data Date and become effective as of the Rebalance Date.

Reconstitution

- The Indexes are reconstituted during the quarterly rebalance as detailed above.
- Additions to the Index during the reconstitution must meet all eligibility requirements outlined above.

Index Formula

The following formulas are used to calculate the Index:

$$\text{Index} = \frac{E}{D} + H$$

$$E = \sum_{i=1}^n (P_i \times \text{IQWF}_i)$$

$$H = \text{Mcap}_i C_m \times \text{HF} \times \left[\frac{S_{m-1}}{\text{FR}_t} - \frac{S_{t-1}}{S_t} \right]$$

Where:

P_i = Price of security _{i} = Local Price _{i} * FX Rate

IQWF_i = IndexIQ Weight Factor

n = number of securities

D = Divisor

Mcap, C_m = Sum of the market capitalization in each currency as of the rebalance date

S_{m-1} = Spot exchange rate as of the rebalance date

HF = Hedge factor (percentage of currency that is hedged)

S_t = Spot exchange rate at the close of the current calculation date

FR_t = Forward exchange rate at the close of the current calculation date

Concentration Limitations

- At the time of each rebalance, no single Index Component may have a weighting greater than 10%.
- In the event that the weight of an Index Component exceeds 10% as of the Rebalance Date, the weight of that component is capped at 10% and the excess

weight over 10% is distributed proportionately across all 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, net of foreign withholding taxes where applicable, 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 or De-Listing

- 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.

Spin-Offs

- In the event a company is spun-off from an existing Index Component, the spun-off company will be added to the index according to the terms of the corporate action.

Dividends

- Dividend payments by Index Components are treated as if they are reinvested in the Index, net of any applicable foreign withholding taxes, 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 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 October 30, 2015 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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Appendix 1-Codes for fundamental data.

- Average of the last 5 years Sales in USD (All universes ex Europe) or EUR (Europe): FF_SALES
- Average of the last XX quarters/ 5 years Net Earnings in USD (All universes ex Europe) or EUR (Europe): FF_NET_INC
- Most recent Book Value in USD (All universes ex Europe) or EUR (Europe): FF_BPS*FF_COM_SHS_OUT
- Average of the last 5years Operating Cash Flow in USD (All universes ex Europe) or EUR (Europe): FF_OPER_CF
- Earnings per share of the last fiscal year: 1/FF_PE
- Operating cash flow of the last fiscal year to last Market Value: FF_OPER_CF / FF_MKT_VAL
- Total Sales to Enterprise Value of the last fiscal year: 1/FF_ENTRPR_VAL_SALES
- Financing cash flow of the last fiscal year to last Market Value: FF_FIN_CF/FF_MKT_VAL
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) of the last fiscal year to last fiscal year Net Debt: 1/FF_NET_DEBT_EBITDA_OPER
- Operating cash flow of the last fiscal year: FF_OPER_CF
- Capital Expenditures of the last fiscal year: FF_CAPEX
- Dividends over the last fiscal year: FF_DIV_CF
- ROCE Trend of the last 6 years: SLOPE(FF_ROIC)
- Stability: Rsquare of the last 6 years of ROCE
- Operating Margin Trend of the last 6 years: SLOPE(FF_EBITDA_OPER_MGN)
- Return on Equity of the last fiscal year: FF_ROE
- Standard deviation of weekly returns: STD(P_TOTAL_RETURNC)