IQ Hedge Beta Indexes

METHODOLOGY

Contents

Introduction

This document sets forth the methodology for the IQ® Hedge Beta Indexes (the "Indexes"). Capitalized terms are defined herein. The IQ Hedge Beta Indexes include the following indices:

- IQ Hedge Composite Beta Index
- IQ Hedge Emerging Markets Beta Index
- IQ Hedge Global Macro Beta Index
- IQ Hedge Fixed Income Arbitrage Beta Index
- IQ Hedge Long/Short Beta Index
- IQ Hedge Market Neutral Beta Index
- IQ Hedge Event-Driven Beta Index

The IQ Hedge Beta Indexes seeks to replicate the risk-adjusted return characteristics of hedge funds using multiple hedge fund investment styles, including long/short equity, global macro, market neutral, event-driven, fixed-income arbitrage, and emerging markets.

Index Objective

The IQ Hedge Indexes uses a rules-based process to select individual Index Components (defined below) that, when combined, produce an Index designed to replicate the risk-return characteristics of hedge funds generally, not individual hedge funds.

This process is referred to as the "Hedge Fund Replication Process." The Indexes employs a Hedge Fund Replication Process that seeks to replicate the risk-adjusted return characteristics of the collective hedge funds *within a hedge fund strategy*.

Each Index seeks to replicate the risk-adjusted return characteristics of a hedge fund strategy as represented by publicly available hedge fund performance data (i.e., monthly returns of hedge fund indexes) provided by an unaffiliated third party (each a "Hedge Fund Style Series"). Such data is available from Backstop Solutions Group (a.k.a BarclayHedge) ("Barclay"). Barclay reports applicable hedge fund performance data on its web site (portal.barclayhedge.com)..

Eligibility Requirements

Index Universe

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

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

Each of the indexes may have long-short positions in the ETF components. The net position is always 100%.

Selection Criteria

The components of the Index are selected using a proprietary methodology developed and maintained by IndexIQ.

All ETFs and ETVs that meet the Index Eligibility Requirements set forth above are selected and their correlation of returns calculated relative to the returns of each Hedge Fund Style Series.

All eligible ETFs and ETVs are assigned a score based on the extent of overlap of investment strategy and/or asset class exposure to each Hedge Fund Style Series using publicly available description of eligible ETFs and ETVs. A score of 3 is assigned for those with high overlap, a score of 2 for moderate overlap, and a score of 1 for low overlap.

The correlation and score of each eligible ETF and ETV is combined and ranked from highest to lowest.

If more than one ETF or ETV provides substantially the same investment strategy or asset class exposure, the ETF or ETV with the highest AUM or other objective factor representative of such investment strategy or asset class exposure from back testing results is selected.

In order to select the Index Components pursuant to the back-test process, each Index includes the ETFs and ETVs (the "Primary Back Test Components") with the greatest relevance to the Hedge Fund Style Series, as calculated by the process described above.

Using the Component Weightings process (as described below), multiple back tests are conducted 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, the returns of the underlying index for such ETF or ETV is used.)

To choose which of the hypothetical Indexes will constitute the actual 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 Hedge Fund Style Series so that the statistic measures the similarity between the hypothetical Index and the Hedge Fund Style Series. The Correlation values are 100% less the correlation such that lower values indicate a higher level of positive correlation.

All hypothetical Indexes that have excessive 3-Year Turnover or excessive Maximum Aggregate Short Positions.

For each remaining hypothetical Index the statistic value is multiplied by 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

Index component weights are determined using a proprietary non-market capitalization methodology developed and maintained by IndexIQ.

For each Index, the constrained beta coefficients are calculated for each Primary Back Test Component from an ordinary least squares (OLS) regression where the dependent variable is the Hedge Fund Style 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.

The IQ Hedge Composite Beta Index is an equal weighted composite of the other 6 Beta indices.

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).

Rebalance

The Monthly Rebalance occurs on the fifteenth business day of each month and becomes effective at the open of the third business day following the Monthly Rebalance date. In the event the Monthly Rebalance date would fall on a weekend or market holiday, the Monthly Rebalance will take place on the first business day following and effective three business days from that date.

Any changes to the Index components are announced at least two business days prior to their effective 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:

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

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 Hedge Composite Beta Index	October 31, 2007	1000
IQ Hedge Emerging Markets Beta Index	March 31, 2007	1000
IQ Hedge Global Macro Beta Index	March 31, 2007	1000
IQ Hedge Fixed Income Arbitrage Index	March 31, 2007	1000
IQ Hedge Long/Short Beta Index	March 31, 2007	1000
IQ Hedge Market Neutral Beta Index	March 31, 2007	1000
IQ Hedge Event-Driven Beta Index	March 31, 2007	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 Hedge Composite Beta Index	Price Return	IQHGCOBP
	Total Return	IQHGCOB
IQ Hedge Emerging Markets Beta Index	Price Return	IQHGEMBP
	Total Return	IQHGEMB
IQ Hedge Global Macro Beta Index	Price Return	IQHGGMBP
	Total Return	IQHGGMB
IQ Hedge Fixed Income Arbitrage Beta Index	Price Return	IQHGFIBP
	Total Return	IQHGFIB
IQ Hedge Long/Short Beta Index	Price Return	IQHGLSBP
	Total Return	IQHGLSB
IQ Hedge Market Neutral Beta Index	Price Return	IQHGMNBP
	Total Return	IQHGMNB
IQ Hedge Event-Driven Beta Index	Price Return	IQHGEDBP
	Total Return	IQHGEDB

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
March 17, 2021	Revision to reflect change to input data
December 31, 2021	Updated hedge fund return data source to BarclayHedge. Corrected Bloomberg tickers for Price Return index IDs.

APPENDIX 2: Disclaimers

Disclaimers

IndexIQ LLC keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of IndexIQ LLC may have information that is not available to other business units. IndexIQ LLC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

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