IQ Hedge Multi-Strategy Index

METHODOLOGY

IndexIQ LLC

Last edited June 2023

Contents

Introduction

This document sets forth the methodology for the IQ® Hedge Multi-Strategy Index (the "Index"). Capitalized terms are defined herein.

Index Objective

The Index 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 Index employs a quantitative process that seeks to replicate the risk-adjusted return characteristics of the collective hedge funds.

The Index seeks to replicate the risk-adjusted return characteristics of the hedge fund universe as represented by publicly available hedge fund performance data (i.e., monthly returns of a hedge fund index) provided by an unaffiliated third party ("Hedge Fund Index"). 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 Index are traded on one of the major U.S. exchanges (e.g. NYSE, NYSE Arca, and NASDAQ).

The components of the Index are liquid Exchange Traded Vehicles ("ETVs") with at least $50 million in assets under management ("AUM").

For each asset class and strategy represented by the components, the aggregate AUM must exceed $500 million.

Index Construction

Annual Reconstitution:

Selection Criteria

The starting universe consists of all U.S. listed ETVs ("Full Universe"). The Full Universe of approximately 3,000 funds is reduced by applying the following criteria:

- minimum AUM level
- must provide a unique exposure to an asset class or strategy
- must not be a fund of funds
- must not include leveraged or inverse exposure
- must have at least 120 months of live history or track an index that can reliably be used to supplement the history up to 120 months

Typically, thematic funds, actively managed funds and funds that are very narrow or very broad in their exposure are also eliminated. Exchange Traded Notes ("ETNs") are generally excluded however they may be considered for inclusion if they meet all the other eligibility criteria and provide an exposure that is important and otherwise unavailable as an ETF.

The remaining ETVs form the Asset Class Universe ("Asset Class Universe") of approximately 100-150 ETVs. The ETVs in the Asset Class Universe are grouped by broad asset class (i.e. Equity, Fixed Income, Commodity, Currency, Real Estate, Alternatives and Volatility) and run through a hierarchical cluster analysis based on 10-year monthly correlation. The analysis calculates the similarities between the funds and places them into clusters to maximize the similarity of funds *within* the cluster and maximize the difference of funds *across* clusters.

Based upon the results of the cluster analysis and an inspection of the exposures provided by the funds, ETVs are selected to be representative of the cluster in the Research Universe ("Research Universe"). The Research Universe contains approximately 50-70 ETVs.

Quarterly Rebalance:

The ETVs in the Research Universe are regressed using an ordinary least squares method ("OLS") against the Hedge Fund Index using a process that includes LASSO (least absolute shrinkage and selection operator) to select the ETFs that have the highest statistical significance. The analysis uses 120 months of returns for the ETVs (or their underlying index, if appropriate) and uses an exponential decay factor to place more significance on the most recent data. This process reduces the Research Universe to the Index Universe ("Index Universe") that contains approximately 30-40 ETVs.

The returns of the ETVs in the Index Universe are regressed against the Hedge Fund Index to determine the weights to best approximate the Hedge Fund Index. The analysis uses 120 months of returns for the ETVs (or their underlying index, if appropriate) and uses an exponential decay factor to place more significance on the most recent data.

Weighting

The beta coefficients from the regression form the base weights ("Base Weights") representing the asset allocation in the Index. They can be either positive with a maximum long weight of up to 25% or negative with a maximum short weight of -5%.

Additionally, any ETV identified as an alternative ETF ("alt ETF" meaning it principally employs a hedge fund strategy such as global macro, event-driven, options, merger arbitrage, and managed futures strategies) will have their strategy and individual ETV maximum long weights set as follows:

All alt ETFs will be grouped into 2 buckets depending on whether they are an eligible "acquired fund" pursuant to Rule 12d1-4 under the Investment Company Act of 1940 (the "1940 Act") and the acquired fund offers an investing fund agreement that permits other investment companies to own up to 25% of the outstanding voting securities of the acquired fund. The "acquired fund" status will be verified each year as part of the Annual Reconstitution.

For alt ETFs that are eligible for an investing fund agreement, their weights are calculated as follows:

> Min (5%, (10% x alt ETF AUM)/sum AUM for all investment companies registered under the 1940 Act that are advised or sub-advised by IndexIQ Advisors LLC ("1940 Act IQ funds") that track the Index)

For alt ETFs that are not eligible for an investing fund agreement, their weights are calculated as follows:

> Min (5%, (2.5% x alt ETF AUM)/sum AUM for all 1940 Act IQ funds that track the Index)

The LASSO and OLS process is run for each of the 3 months within the quarter and the weights for each fund in the Research Universe are averaged across the 3 months.

This forms the Base Index ("Base Index").

The Distributed Weights are determined as defined in the process below.

Distributed Weights

The Base Index components and additional ETFs and ETVs that largely provide a similar exposure, if any, are weighted within the asset class in the final Index proportionately based on their relative AUM levels. In the event that this causes any ETF to violate its maximum weight constraint, the excess weight will be added to the other ETVs within the same asset class. This may cause the final Index weight to not be exactly proportional to their relative AUM levels. For ETVs selected to represent the Ultra-Short Duration Bond asset class, the components are weighted in the final Index proportionately based on their relative dividend yields.

Such additional ETVs, if any, may be added to the Index as part of the Annual Reconstitution. The ETFs and ETVs selected comprise the Index.

Concentration Limitations

The sum of the weights of ETVs in the Index that generate non-qualifying income under Subchapter M of the Internal Revenue Code is limited to no more than 12.5% of the Index.

No single ETV may exceed 25% long or -5% short.

Notwithstanding a fund classification as an alt ETF, the maximum aggregate weight of all ETVs that are not eligible for a participation agreement is 10%.

The maximum sum of all positive weights is no more than 130% and the maximum sum of all negative weights is no less than -30% yielding a maximum gross exposure of 160%. In any case, the sum of the positive and negative weights will be 100%.

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 (see “Annual Reconstitution” above) and adjusted intra-year only in connection with the quarterly rebalance of its Index components (see Quarterly Rebalance above) 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

At each Quarterly Rebalance, the Index components are re-weighted according to the Quarterly Rebalance process outlined above.

The Quarterly Rebalance occurs on the first business day of first month of each calendar quarter and becomes effective at the close of the third business day of the same month.

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

To reflect the estimated cost of gross exposure of the index above 100%, the Divisor is adjusted each day to reduce the performance of the index by an annual equivalent of 30bps.

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 Index is calculated in U.S. Dollars.

Base Dates and History Availability

Index	Base Date	Base Value
IQ Hedge Multi Strategy Index	October 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 Multi Strategy Index	Price Return Total Return	IQHGMS IQHGMST

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
January 8, 2020	Added disclosure on the inclusion of the index fee in the divisor
April 17, 2020	Amended Distributed weights description for Ultra-Short duration bonds to be based on dividend yield, not AUM levels
March 17, 2021	Revision to reflect change to input data
December 31, 2021	Updated hedge fund return data source to BarclayHedge
March 1, 2023	Removed the IQ Hedge Market Neutral Index, IQ Hedge Macro Index, IQ Hedge Long/Short Index and the IQ Hedge Event Driven Index
June 6, 2023	Amended procedures to reflect the following changes: • replicating a single hedge fund index instead of replicating multiple sub-strategy hedge fund indices • changed the index fee in the divisor from 10bps to 30bps • quarterly instead of monthly rebalance • Max gross exposure of 160% instead of 120% • Standardized window size of 120 months with an exponential weight
July 14, 2023	Added clarification for resolution of rules conflict related to ETF maximum weights and AUM pro-rata allocation for distributed weights

APPENDIX 2: Disclaimers

Disclaimers

This document and the information included herein is proprietary to IndexIQ LLC and is protected by copyright and other intellectual property laws. The unauthorized copying, redistribution, sale, retransmission or other transfer to a third party of this data, without the prior written consent of IndexIQ LLC, is strictly prohibited.

Any use or exploitation of this document or the information included herein, for the purpose of creating any financial product or service which seeks to match the performance of the Indexes, or which otherwise is based on the Indexes, is not permitted unless a written license from IndexIQ LLC has been obtained.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. IndexIQ LLC does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. IndexIQ LLC makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. IndexIQ LLC makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. IndexIQ LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by IndexIQ LLC to buy, sell, or hold such security, nor is it considered to be investment advice. Closing prices for IndexIQ LLC's indices are calculated by the Calculation Agent based on the closing price of the individual constituents of the index as set by their primary exchange. Closing prices are received by the Calculation Agent from one of its third party vendors and verified by comparing them with prices from an alternative vendor. The vendors receive the closing price from the primary exchanges. Real-time intraday prices are calculated similarly without a second verification.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of IndexIQ LLC. The Content shall not be used for

any unlawful or unauthorized purposes. IndexIQ LLC and its third-party data providers and licensors (collectively "IndexIQ LLC Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. IndexIQ LLC Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content.

THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. INDEXIQ LLC PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall IndexIQ LLC Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

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.

IndexIQ LLC reserves the right to make changes to the information contained herein without further notice.