



# IQ Merger Arbitrage Index

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METHODOLOGY

IndexIQ, LLC

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## Introduction

This document sets forth the methodology for the IQ Merger Arbitrage Index (the “Index”). Capitalized terms are defined herein.

### Index Objective

The IQ Merger Arbitrage Index seeks to achieve capital appreciation by investing in global companies for which there has been a public announcement of a takeover by an acquirer.

This differentiated approach is based on a passive strategy of owning certain announced takeover targets with the goal of generating returns that are representative of global merger arbitrage activity. The Index also includes short exposure to global equities as a partial equity market hedge.

## Eligibility Requirements

### Index Universe

All deal information is sourced from the MergerStat database, or a similar database including similar takeover transaction information, and Bloomberg.

The universe of eligible Index Components includes the following deal types: Acquisition; Merger; Leveraged Buyout; and Private Equity. Minority Interests, Unit Divestitures, Target Ownership (private, division/unit), State Owned, and Joint Ventures are excluded.

Eligible deal types must also have greater than 50% ownership sought by the acquirer.

The Index is comprised of common stocks and exchange traded funds (ETFs) only.

The Index Components are listed for trading on one of the following exchanges and are headquartered in one of the following countries / locales:

Country <sup>1</sup>			
Australia	Austria	Belgium	Canada
Denmark	Finland	France	Germany
Hong Kong	Ireland	Israel	Italy
Japan	Netherlands	New Zealand	Norway
Portugal	Singapore	Spain	Sweden
Switzerland	United Kingdom	Luxembourg	

<sup>1</sup> As provided by Factset. Country of domicile may refer to country of headquarters, country of largest revenue, and/or reporting currency.

## Selection Criteria

IndexIQ identifies announced security deal types based on the categories outlined above in “Eligibility Requirements,” creating a monthly IndexIQ Merger Arbitrage Index eligibility list (“Index Eligibility List”).

IndexIQ calculates a probability scenario for each deal type within the Index Eligibility List as per the following rules-based methodology:

Scenario Prices	
$C_p$	= Close Price of security 1 day prior to Monthly Rebalance Date
$A_{p-1}$	= Close Price of security 1 day prior to deal announcement date
$O_p$	= Offer Price of security on deal announcement date
Probability = $(C_p - A_{p-1}) / (O_p - A_{p-1})$	

Scenario #	Scenario	Probability Scenario Calculation
1	$C_p < A_{p-1} < O_p$	Probability less than zero
2	$A_{p-1} < C_p < O_p$	Probability between zero and 100
3	$A_{p-1} < O_p < C_p$	Probability greater than 100
4	$C_p < O_p < A_{p-1}$	Probability greater than 100
5	$O_p < C_p < A_{p-1}$	Probability between zero and 100
6	$O_p < A_{p-1} < C_p$	Probability less than zero

Scenarios #1, #2, #3, and #4 deals are included on the Index Eligibility List and are potentially included in the Index as per the monthly reconstitution and rebalance process outlined below.

Scenarios #5 and #6 deals are eliminated from the Index Eligibility List.

## Index Construction

Additions based on “Selection Criteria” above and existing Index securities within the Index that fall in scenarios #1, #3, and #4 remain in the Index until deletion as per “Corporate Actions” below or if greater than 180 days have passed since the deal announcement date as of the Monthly Rebalance Date.

Additions based on “Selection Criteria” above that fall in scenario #2 remain in the Index until deletion as per “Corporate Actions” below or if greater than 180 days have passed since the deal announcement date as of the Monthly Rebalance Date.

Existing Index securities that fall in scenario #2 remain in the Index until deletion as per “Corporate Actions” below or if greater than 360 days have passed since the deal announcement date as of the Monthly Rebalance Date.

As of the Monthly Rebalance Date, all potential additions to the Index that have an effective acquisition date between the Monthly Rebalance Date and Effective Date are excluded from the Index.

As per the monthly rebalance, the Index will hold ETFs as follows:

Negative weights in economic sector and/or regional ETFs in an attempt to provide the Index with a partial hedge to the equity markets

Acquiring Company Based in	Hedge Asset
United States or Canada	S&P 500 Sector/Industry ETF (or equivalent)
Continental Europe and UK	Europe ETF
Asia Pacific ex Japan	Pacific Region ETF
Japan	Japan ETF
Emerging Market	Emerging Markets ETF

Short-term U.S. Treasury bills and one or more short- and/or medium-term bond ETFs, including the IQ Ultra Short Duration ETF, is used to represent both long cash exposure and offset cash against the sector and/or regional hedges.

### **Weighting**

The common stock Index Component weights are calculated based on their 7-day median dollar value traded as of the Monthly Rebalance Date.

The weights of the sector and/or regional ETFs (the “Hedge Ratio”) are reset at each Monthly Rebalance Date based on the proportion of stock consideration in the deals included in the Index, the weights of the target securities in the Index and the economic sector and domicile of the acquirer.

To the extent excess weight exists in the Index that cannot be allocated to common stock Index Components due to the weighting parameters set forth above, such excess weight is allocated to one or more short- and/or medium-term bond ETFs and short-term U.S. Treasury bills.

### **Concentration Limitations**

At the time of each Monthly Rebalance Date, no single common stock Index Component may have a weighting greater than 7.5%. 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 per “Weighting” set forth above.

In the event that the weight of the short- and/or medium-term bond ETFs used to represent only the long cash exposure of the Index reaches or exceeds 25%, the Index

will allocate any additional cash to the first U.S. Treasury bill that has a maturity that comes after the following month's Effective Date.

### **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.

## **Index Maintenance**

### **Reconstitution**

The Index is reconstituted – pursuant to which Index Components are added and subtracted – and rebalanced – pursuant to which Index Component weights are rebalanced – on a monthly basis.

The Monthly Rebalance occurs on the first business day of each month and becomes effective at the open of the fourth business day of the month.

### **Rebalance**

Index rebalance coincides with index reconstitution as described above.

### **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:

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

$P_i$  = Price of security  $i$

$\text{Shares}_i$  = Notional 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”).

- Price Return (PR) versions are calculated without adjustments for Distributions.
- Net Total Return (NTR) versions reinvest regular cash dividends at the close on the ex-date after the deduction of applicable withholding taxes.

In the event there are no regular cash dividends on the ex-date, the daily performance of both indices will be identical.

## Currency

The Index is calculated in U.S. Dollars.

## Base Dates and History Availability

Index	Return Type	Base Date	Base Value
IQ Merger Arbitrage Index	Price Return	10/31/2007	1000
	Net Total Return		

## 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 Merger Arbitrage Index	Price Return	IQMNA
	Net Total Return	IQMNAT

## Contact Information

For questions regarding the Index, please contact: (888) 474-7725 or [index@indexiq.com](mailto:index@indexiq.com).

## APPENDIX 1: Amendment History

### Amendment History

Effective Date	Change
December 31, 2019	Maximum weight in any individual equity reduced from 10% to 7.5% North American hedge assets expanded to include industry ETFs
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
June 1, 2020	<ul style="list-style-type: none"><li>• Short-term U.S. Treasury Bill added as an eligible security in the index.</li><li>• Concentration limits modified to allocate cash in excess of 25% to Short-term U.S. Treasury bills in lieu of a systematic re-allocation into existing index constituents.</li></ul>



## APPENDIX 2: Disclaimers

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