



# IQ Research and Development Index Series

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METHODOLOGY

IndexIQ LLC

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## Introduction

This document sets forth the methodology for the IQ Research and Development Index series (each an “IQ Index” and collectively the “Indexes”). The Indexes include the following:

- IQ U.S. Large Cap R&D Leaders Index (“Large Cap”)
- IQ Global Equity R&D Leaders Index (“Global”)

Capitalized terms are defined herein. For additional information, refer to the IndexIQ Events Guide.

### Index Objective

The IQ Research and Development Index series seek to provide exposure to highly innovative companies by investing in the equities with the highest R&D spending in the past one year in two universes: U.S. Large-cap and Global. Companies with high R&D spending are investing for future growth in their business and may enjoy strong long-term competitive positioning.

## Eligibility Requirements

### Index Universe

All Index components are selected from constituents of the following indices:

<u>IQ Index</u>	<u>Base Universe index (“Base Universes”)<sup>1</sup></u>
Large Cap	Russell 1000 <sup>®</sup> Index
Global	FTSE All World <sup>®</sup> Index

Securities that trade on exchanges in the following countries will be excluded from the Base Universes and will be ineligible for inclusion in the R&D Indexes:

- China companies that trade on one of the following exchanges:
  - Shanghai
  - Shanghai Connect
  - Shenzhen
  - Shenzhen Connect
- Bahrain

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<sup>1</sup> For more information on the methodology for the Russell indices, visit [https://research.ftserussell.com/products/downloads/Russell-US-indexes.pdf?\\_ga=2.236685185.1229005197.1636559148-1603133784.1636559148](https://research.ftserussell.com/products/downloads/Russell-US-indexes.pdf?_ga=2.236685185.1229005197.1636559148-1603133784.1636559148).

For more information on the FTSE Global Equity Index Series, visit [https://research.ftserussell.com/products/downloads/FTSE\\_Global\\_Equity\\_Index\\_Series\\_Guide\\_to\\_Calc.pdf?\\_ga=2.237740800.1229005197.1636559148-1603133784.1636559148](https://research.ftserussell.com/products/downloads/FTSE_Global_Equity_Index_Series_Guide_to_Calc.pdf?_ga=2.237740800.1229005197.1636559148-1603133784.1636559148).

- Egypt
- India
- Kuwait
- Pakistan
- Qatar
- Romania
- Saudi Arabia
- United Arab Emirates

To align with the rebalance and reconstitution of the Base Universes, their pro-forma versions are used where available.

### **Selection Criteria**

The components of the Indexes are selected from their respective Base Universes based upon the most recently reported 1 year US Dollar R&D spending for each constituent.

### **Index Construction**

As of the Reconstitution, the Indexes will select the top components with the highest R&D.

<u>IQ Index</u>	<u>Number of constituents selected</u>
Large Cap	100
Global	200

### **Research & Development Data**

The R&D data are pulled from a FactSet standardized table which aims to reconcile companies' reporting differences for a better cross-sectional comparison. At each rebalance date, the latest four quarterly research and development data, the latest semi-annual or fiscal year end research and development data would be pulled out across the Base Universes. For each security, the research and development number used for weighting is calculated by summing up the latest four quarterly research and development data. If any of the quarterly research and development data shows non valid or zero, the latest semi-annual or fiscal year end research and development data will be used.

### **Weighting**

Index component weights are derived from their reported R&D. The pro-rata percentage of each company's R&D relative to the sum of the R&D of the selected securities represents the weight of the component with higher R&D spending companies receiving higher weights within the index.

### **Concentration Limitations**

Concentration limits are set as both absolute levels and relative to the growth version of the Base Universes ("Growth Index").

<u>Base Universes</u>	<u>Growth Index</u>
Russell 1000 <sup>®</sup> Index	Russell 1000 <sup>®</sup> Growth Index
FTSE All World <sup>®</sup> Index	FTSE All World <sup>®</sup> Growth Index

At the time of the Reconstitution, no single component of the Index may have a weighting greater than the maximum of (5% of the Index or the weight of the component's issuer in the Growth Index + 2%) ("Component Weight Cap"). To the extent one or more components would exceed this limitation at the time of the Reconstitution, the Component Weight Cap is applied, and the excess weight is allocated proportionately among the other Index components.

Additionally, at the time of the Reconstitution, no sector weight in the Index may have a weighting greater than the maximum of (30% of the Index or the weight of the sector in the Growth Index + 5%) ("Sector Weight Cap"). To the extent one or more sectors would exceed this limitation at the time of the Reconstitution, the Weight Sector Cap is applied, and the excess weight is allocated proportionately among the other Index components.

In addition, at the time of the Reconstitution, for IQ Global Equity R&D Leaders Index, the sum of the weights of U.S. companies in the Index (where country is defined by the FTSE All World<sup>®</sup> Growth Index) may not exceed 55% of the Index ("Country Weight Cap"). To the extent sum of the U.S. companies exceed this limitation at the time of the Reconstitution, the Country Weight is applied, and the excess weight is allocated proportionately among the other Index components.

### **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 on a quarterly cycle (the "Reconstitution") and the Index is

adjusted intra-quarter only in connection with certain corporate actions (as described below) or as otherwise provided by this methodology.

Components are selected based upon data available through the third Friday of March, June, September and December. R&D data are checked against prior reported R&D data and against a 3<sup>rd</sup> party data source for accuracy. Any component' R&D that are deemed to be in violation of the quality control thresholds are researched and, if necessary, reverted back to the primary data vendor for further review. The Reconstitution occurs on the 3<sup>rd</sup> Friday and becomes effective at the open of the first business day of the next month.

### **Rebalance**

The Index is rebalanced on the same cycle as the Reconstitution.

### **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

### **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.
- Total Return (TR) versions reinvest regular cash dividends at the close on the ex-date with no deduction of applicable withholding taxes.

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

### Currency

The Indexes are calculated in U.S. Dollars.

### Base Dates and History Availability

Index	Index Live Date	Return Type	First Live Index Value	Base Date	Base Value
IQ U.S. Large Cap R&D Leaders Index	November 30, 2021	Price Return Total Return	1000 1000	November 30, 2021	1000
IQ Global Equity R&D Leaders Index	November 30, 2021	Price Return Net Total Return	1000 1000	November 30, 2021	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 U.S. Large Cap R&D Leaders Index	Price Return Net Total Return	IQLCRND IQLCRNDT
IQ Global Equity R&D Leaders Index	Price Return Net Total Return	IQGLRND IQGLRNDN

### 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
November 30, 2021	Effective date for rule book
July 14, 2022	Index rebalance selection date change
November 18, 2022	Add U.S. country constraint information in the reconstitution section
December 12, 2023	IQ U.S. Mid Cap R&D Leaders Index removed due to its termination



## APPENDIX 2: Disclaimers

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