



INVESTMENTS

# NYLI Merger Arbitrage Index

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METHODOLOGY

New York Life Investment Management LLC

## Contents

Introduction.....	2
Index Objective.....	2
Eligibility Requirements.....	2
Index Universe.....	2
Selection Criteria.....	3
Index Construction.....	3
Weighting.....	3
Exit Criteria.....	4
Concentration Limitations.....	5
Index Shares.....	5
Index Maintenance.....	5
Reconstitution.....	5
Rebalance.....	5
Corporate Actions.....	6
Corporate Events and Index Policy.....	6
Index Calculation.....	6
Index Level.....	6
Return Series.....	6
Currency.....	7
Base Dates and History Availability.....	7
Ticker.....	7
Contact Information.....	7
APPENDIX 1: Amendment History.....	8
Amendment History.....	8
APPENDIX 2: Disclaimers.....	8
Disclaimers.....	10

## Introduction

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

### Index Objective

The NYLI 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. For takeovers that involve an exchange of stock, the Index includes short exposure to the stock expected to be received by shareholders of the target company.

## Eligibility Requirements

### Index Universe

All deal information is sourced from the FactSet 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

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

Denmark	Finland	France	Germany
Greece	Hong Kong	Ireland	Israel
Italy	Japan	Luxembourg	Netherlands
New Zealand	Norway	Portugal	Singapore
Spain	Sweden	Switzerland	United Kingdom
United States			

## Selection Criteria

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

After the deals are screened for eligibility, the following scenarios are excluded from consideration as part of monthly reconstitution and rebalance process described below:

- Deals with negative spreads, or
- Deals where the spread is lower than the defined opportunity cost

Deal spread is defined as: offer price/current price -1. A negative spread deal is a transaction whereby the current price is higher than the offer price, which may indicate market’s expectation that an upward revision to the offer price and/or the presence of competing bids for the target company. In the event that an upward revision to the original offer takes place, the investor will be rewarded with higher profits. However, if there were no upward revisions or if the deal fails, the investor will incur a loss. Pay-off characteristics of non-positive spread deals are different from positive spread deals, given that investors hope to make substantial profits, while accepting the higher uncertainty of deal terms and the outcomes. Including a deal with negative spread thus has risk management implications to the portfolio.

Small spread deals are defined as those with spreads falling within the range of 0% to 0.5%. While a smaller spread could indicate a lower deal failure risk, it must be considered in the context of the opportunity cost for capital commitment.

Additionally, an eligible transaction must be classified as friendly based on the most recent deal terms and must meet minimum liquidity and size requirements.

## Index Construction

### Weighting

The common stock Index Component weights are calculated based on the rank of their transaction size as of the Monthly Rebalance Date. Specifically, the strategy uses a size-based weighing methodology that establishes a maximum weight based on the ratio of ranking of the transaction size of a particular security divided by the sum of the ranking

of the transaction size for all securities. There is a maximum weight of 7.5% and a minimum of .15%. At each rebalance, the available cash is applied to all newly eligible securities. If the available cash is less than the sum of the maximum weights for the newly eligible securities, each new position will receive a reduced amount of their maximum weight on a pro-rata basis. If the available cash exceeds the sum of the maximum weights for each newly eligible security, each newly eligible security will be allocated their maximum weight, and the remaining proceeds will be allocated to existing names up to their maximum weights. If there is not enough cash to fill all existing names to their maximum weights, the additional weights will be reduced pro-rata. If the available cash exceeds the sum of the additions to the existing names, the remaining cash will be held in a short-term bond ETF.

The weights of short positions of any acquiring stock (the “Hedge Ratio”) are reset at each Monthly Rebalance Date based on the proportion of stock consideration in the deals included in the Index and the weights of the target securities in the Index.

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 short- and/or medium-term bond ETF and short-term U.S. Treasury bills.

### **Exit Criteria**

Existing index securities undergo reevaluation if more than 180 days have elapsed since the deal announcement date as of the Monthly Rebalance Date.

A deal will be removed from the Index if:

- The deal age has reached 360 days, or
- The spread shows a negative value, or
- The deal exhibits negative momentum, or
- The spread is less than a measure based on the risk-free interest rate

A deal that has passed 360 days since the announcement date as of the Monthly Rebalance Date will be removed from the Index. Aged deals account for a relatively small portion of the deal universe; however, despite their minority representation, these aged deals also tend to be larger in size and may entail a more complicated deal structure. Risk associated with aged deals could be idiosyncratic to the parties involved, or could be a reflection of systematic underlying factors. Idiosyncratic deal risk could arise due to issues such as financial instability, cultural difference, or legal complications between the two parties. Systematic risks can include a more stringent regulatory environment, shift in consumer behaviors, geopolitical instability, economic cycle, and bearish market conditions which can lead to delays or cancellations of M&A transactions.

We also remove the deals whose spread turned negative or exhibit negative momentum beyond 180 days. Momentum is defined as the current price/pre-announcement price -1. In addition, our exit rules consider the risk-free rate, which is particularly relevant in a

high interest-rate environment, to address the opportunity cost associated with holding deals with limited spreads especially.

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.

### **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.

Notwithstanding the 7.5% maximum weight set forth above, any security deemed to be a securities related issuer (i.e. the company derives 15% or more of their revenue from securities related sources) shall have a maximum weight at each rebalance of 4.5%, in compliance with SEC rule 12d3-1.

In the event that the weight of the short- and/or medium-term bond ETF 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 Actions

Except as provided above, existing Index securities will remain in the Index until one of the following occurs:

1-The proposed deal is completed at which time the security is removed from the Index and its weight is transferred to the short- and/or medium-term bond ETF (iShares Short Treasury Bond ETF) used to represent the long cash exposure of the Index. Any hedged asset assigned to the security is also removed from the index and the collateral assigned to the hedge is reduced by the same amount.

2-The proposed deal is terminated. Once a deal has been terminated, the security becomes ineligible and will be removed from the Index as soon as practicable. Any hedged asset assigned to the security will also be removed from the Index at the same time. If a proposed deal for an existing Index security is terminated and subsequently a new deal is announced for the security prior to the next Rebalance, the new deal will be evaluated based on the “Selection Criteria” above.

## Corporate Events and Index Policy

Refer to the NYLI 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
NYLI 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. New York Life Investment Management LLC’s website also provides an archive of recent index announcements.

Index	Return Type	Bloomberg
NYLI Merger Arbitrage Index	Price Return	IQMNA
	Net Total Return	IQMNAT

### Contact Information

For questions regarding the Index, please contact: (888) 474-7725 or [index@nylinvestments.com](mailto:index@nylinvestments.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>
July 14, 2022	Added Corporate Action section to discuss index treatment of Existing securities where the deal is completed or terminated.
November 18, 2022	Added 4.5% maximum weight for securities related issuers.
February 14, 2023	Removed the IQ Ultra Short Duration ETF (ULTR) as an eligible cash position and consolidated its current maximum weight of 5% with SHV's 20% maximum weight
June 3, 2024	<ul style="list-style-type: none"> <li>Added a reference to minimum size and liquidity requirements at deal entry.</li> <li>Amended Selection Criteria to add exclusion scenarios for negative deal spreads, spreads lower than the risk free rate, and non-friendly deals.</li> <li>Listed three conditions for Exit Criteria for deal exit between 180 days and 360 days: Negative spread, negative momentum, and remaining spread less than the risk free rate.</li> <li>Added comments relating to the deployment of cash.</li> <li>Removed a reference for sector/market hedge and added a reference for acquirer hedge to reflect a change in hedging methodology</li> </ul>
June 12, 2024	Changed the index treatment for deals that are terminated intra-month to be removed as soon as practicable, rather than keeping the positions and the hedge asset in the Index until the next rebalance
August 28, 2024	Effective August 28, 2024, the index management services provided by IndexIQ Advisors LLC ("IndexIQ Advisors"), an indirect, wholly owned subsidiary of New York Life Insurance Company ("NYL"), was transferred to New York Life Investment Management LLC ("NYLIM"), which is also an indirect, wholly owned subsidiary of New York Life Insurance Company ("NYL"). NYLIM replaced IndexIQ LLC as the index provider for all indexes developed and

	maintained by IndexIQ LLC and, as part of this change, the index name changed to the NYLI Merger Arbitrage Index from IQ Merger Arbitrage Index.
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