LPX GROUP
LISTED ALTERNATIVE INVESTMENTS

2024

Guide to the Treatment of Sanctioned Index Constituents

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LPX AG
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1 Introduction

The design, calculation and delivery of the LPX Indices ensure that they are investable, tradable and transparent. First, according to Section 2.2 of the LPX Guide to the Equity Index Series, a liquidity analysis is conducted prior to each ordinary rebalancing. This analysis ensures that the LPX Index Series are both "representative and replicable". Secondly, the LPX Index Series are constructed based on a universe of index constituents that are traded on a regulated stock exchange as set forth in Section 1.5 "Country Allocation". Specifically, a list of eligible stock exchanges is determined, which is the foundation to determine the LPX Base Universe. In general, it is the responsibility of the index administrator to ensure that the LPX index members can be traded without encountering any restrictions. These restrictions may include factors such as reduced liquidity or sanctions imposed by authorities.

2 Overview

Generally, sanctions on specific stocks are typically imposed by governments or international organizations as part of their economic or foreign policy measures. These sanctions can be implemented for various reasons, such as national security concerns, human rights violations, or geopolitical disputes or due to act of violence.

The specific authority responsible for imposing sanctions on stocks varies depending on the country and the circumstances. In the United States, for example, the primary authority for imposing sanctions is the Office of Foreign Assets Control (OFAC), which operates under the U.S. Department of the Treasury. OFAC maintains a list of sanctioned individuals, entities, and countries and imposes restrictions on financial transactions and trade involving them. When a stock is sanctioned, it generally means that there are restrictions or prohibitions on certain activities related to that stock. These restrictions can include:

- Trading Restrictions: Sanctioned stocks may be subject to limitations or outright bans on trading. This implies that investors and financial institutions may be prohibited from buying, selling, or engaging in any transactions involving those stocks.
- Asset Freezing: The assets of individuals or entities associated with the sanctioned stocks can be frozen. This comprises any funds, properties, or other assets held within the jurisdiction of the imposing authority. Freezing assets prevents their transfer or use, effectively locking them in place.
- Investment Prohibitions: Sanctions may restrict investments in certain stocks or sectors. Investors may be prohibited from acquiring new shares, making new investments, or providing financial support to the sanctioned companies.
- Market Access Limitations: Sanctioned stocks may be excluded from certain financial markets or trading platforms. This can limit the liquidity and availability of the stocks for investors, reducing their overall market value.

It's important to note that the specific implications of sanctions on stocks can vary depending on the scope and severity of the sanctions imposed. Violating sanctions can lead to legal consequences and penalties, including fines and restrictions on future business activities. Hence, it's crucial for investors and financial institutions to stay well-informed about any relevant sanctions and comply with the applicable regulations. Finally, sanction can imply that investors can not trade a specific equity or trading is limited. From an indexing perspective, this implies that an index, which is designed to be "replicable" needs to be adjusted immediately to account for the sanctioned stocks.

The LPX Index Series reflect sanctions imposed by entities such as the U.S Department of the Treasury (USDT), the Office of Foreign Assets Control (OFAC), the United Kingdom (UK), the European Union (EU) and the United Nations Security Council (UNSC). Index relevant sanctions encompass those that prohibit individuals or organizations from holding equity in specific countries, industries, named companies, or companies associated with individuals who are subject to sanctions. The LPX Base Universe and all LPX Index members undergo a regular screening process to identify stocks listed on any sanction list imposed by relevant authorities.

3 Treatment of Sanctioned Index Constituents

If an index constituent of the LPX Indices is affected by sanctions imposed by any authority as listed in Section 2, the constituent index member will be removed from all relevant LPX indices during an extraordinary rebalancing as set forth in Section 2.2. in the LPX Guide to the Equity Indices. Similarly, if a country is impacted by sanctions imposed by any authority as listed in Section 2, the LPX universe can be restricted according to the list of eligible stock exchanges as set forth in Section 1.5 "Country Allocation".

However, if a sanctioned security, which is part of the LPX Base Universe have ceased to be impacted by sanctions imposed by any authority as listed in Section 2, the inclusion in the LPX Indices is feasible with the next ordinary rebalancing as set forth in Section 2.2 LPX Guide to the Equity Indices.

The treatment of any sanctioned constituent index members will be shared in advance to all relevant stakeholders and will be made accessibly to the public on the LPX AG corporate website. The information is classified as "publicly available information".

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