

Wilshire

Wilshire Indexes Policy for the Exercise of Expert Judgement

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Introduction

Wilshire OpCo UK Ltd (“Wilshire Indexes”) is an administrator of benchmarks as provided for in the UK Benchmark Regulation. This document describes the situations that may arise during the construction and management of a Wilshire benchmark that may require the exercise of expert judgement and the policy that should be followed in each case.

This document is owned by the Wilshire Indexes Executive Committee and is subject to regular review by the Wilshire Group Risk and Compliance Committee and the Wilshire Group Conflicts Committee.

Circumstances Requiring the Exercise of Expert Judgement

The various circumstances that might require the exercise of expert judgement are set out below along with the procedures to be followed in each case.

Index design

The design of an index methodology requires the exercise of expert judgement in determining how best to measure the underlying economic reality. The design will require trade-offs between the degree of representation of the underlying reality and the costs of implementing the index in a financial product.

As an example, for a global equity index areas where expert judgement is required include:

- Index eligibility rules
 - Country inclusion rules, e.g. developer and/or emerging markets
 - Company type inclusion rules, e.g. SPACS, Collective Investment Schemes and certain partnerships may be excluded
 - Security inclusion rules, e.g. minimum liquidity, minimum free float, minimum voting rights.
- Security weighting rules
 - Investable capitalization or full market capitalization.
- The percentage of capitalization covered
 - Indices that include a greater percentage of the cumulative capitalization of the universe underlying the economic reality that the index is seeking to measure will have better representation of that universe but at the expense of greater implementation costs and with no significant difference in return compared to indices that exclude the very smallest companies.
- Rebalance rules
 - The timing and frequency of index rebalances and reconstitutions
 - The use of buffers to minimize turnover resulting from updates to constituent weights arising from price movements and/or changes to the company’s shares outstanding or free float.

Indices intended to measure a specific subset of the underlying economic reality will require additional judgement

- Metrics to establish company eligibility, e.g. metrics related to ESG scores or carbon footprints

- Characteristic weighting factors to determine a company’s exposure to commonly recognized risk or return factors such as Value, Growth and Momentum
 - Cap vs. non-cap weighted indices

The methodology documents for Wilshire Indexes are approved by the Wilshire Indexes Executive Committee. Any subsequent changes to the documentation follow the Wilshire Benchmark Change and Cessation Policy.

Data uncertainty

Although the price of a security to be used in an index can be sourced with a good degree of certainty, other data that is used to determine the eligibility or weight of a security may be less objective or, in some cases, available only through modelling or interpolation. In these cases, expert judgement may be required to determine the value of the characteristic to be used.

Examples of uncertain non-price input data include:

- Establishment of free float weighting factors
 - Determination of which shareholders should be restricted
- Establishment of eligibility criteria for sustainable investment indices
 - Carbon emissions, ESG scores, percentage of revenues that can be considered “green”
- For single country indices, the assignment of a nationality of that country to some companies may not be clear cut
 - Nationality assignment rules typically consider the location of a company’s headquarters, its place of incorporation and the location of its trading venue. However, some companies will report that they have several headquarters, their place of incorporation may be chosen for taxation purposes, and their securities may be traded in several venues.
- For single industry indices, the assignment of that industry to some companies may not be clear cut
 - A company may have several business lines, but the revenues and assets associated with those business lines may not be readily discernible.

Wilshire Indexes operates a Queries and Complaints policy which allows clients or other stakeholders, including constituent companies, exchanges and regulators, to query Wilshire Indexes’ expert judgement in these areas. The Wilshire Indexes Queries and Complaints Policy sets out how these queries will be investigated and, if Wilshire Indexes Executive Committee agrees with the complainant, how the issue will be corrected. Corrections to a constituent’s weight or the eligibility of a security will ordinarily follow the procedures set out in the Wilshire Indexes Equity Indexes Error Correction Policy.

Complex corporate event treatment

The Wilshire Indexes Corporate Actions and Events Manual sets out how standard corporate actions and events will be implemented in Wilshire indexes. However, the manual cannot handle every eventuality and novel or complex corporate events may require the exercise of expert judgement.

Examples include:

- Timing of the implementation of acquisitions and the deletion of the target company
 - Appropriate threshold for votes cast approving the acquisition

- Handling of securities spun out of a parent company
 - Spin-off of ineligible securities (e.g. debt instruments or crypto assets) without a market price
 - Securities spun off with delayed settlement dates
- Timing of the deletion of securities that will become ineligible
 - Bankruptcies
 - Securities where the liquidity is destined to evaporate as a result of an event.

For complex and unusual events, Wilshire Indexes will publish its intended treatment to index users.

Suspected or potential market abuse

The Wilshire Indexes Market Abuse Policy sets out how Wilshire Indexes attempts to identify instances of market abuse with respect to its benchmarks, and the procedures that it will look to follow in various scenarios. Some market abuse scenarios may require the exercise of expert judgement. For example, if a company is suspected of attempting to manipulate the inclusion of one of its securities in an index at a forthcoming reconstitution, the Wilshire Indexes Executive Committee reserves the right to defer the immediate inclusion of that security and to reevaluate its eligibility at a subsequent reconstitution.

Unanticipated market events

On rare occasions, a market may be forced to shut down unexpectedly. Examples of such occasions include natural disasters, terrorist incidents and, potentially, a future pandemic.

In these instances, the Index Management Committee will be required to exercise expert judgement with respect to the implementation timetable for any forthcoming corporate actions or events. If an index reconstitution is imminent, the Index Management Committee will consider whether an individual market should be excluded from the reconstitution or, if many markets are affected by the incident, whether the reconstitution should be scaled back or deferred until a later date. In such cases, the Index Management Committee will recommend a course of action to the Wilshire Indexes Executive Committee who will take a final decision. The decision will be communicated to the market via the publication of a notice on the Wilshire website.

Unanticipated political events

In reaction to political events, certain index constituents may become the subject of sanctions. As a general rule, sanctions imposed by the US, UK or European Union render affected companies ineligible for inclusion in Wilshire indices, but expert judgement may be required to establish the exact securities that are the subject of the sanctions and also with regard to timing of the deletion of the sanctioned securities.

Similar considerations apply if a country imposes capital controls such that the repatriation of sale proceeds or distributions is prohibited. Countries imposing capital controls will have their classification in Wilshire indexes reviewed, and may be deemed ineligible. Expert judgement may be required to determine how best to account for security distributions whilst the capital controls are in place, and – if a decision is taken to remove a market from the Wilshire Global Equity Market Series - the price at which securities affected by such controls should be removed; the removal price may potentially be zero if no alternative to repatriation is available.

In instances such as these, and if time allows, the Wilshire Indexes Index Management Committee may launch a rapid consultation to establish the preferences of index users and other stakeholders. The Index Management Committee will

make a recommendation as to its preferred course of action to the Wilshire Indexes Executive Committee who will make the final decision. The decision will be communicated to the market via the publication of a notice on the Wilshire website.

Policy Approval

This Exercise of Expert Judgement Policy was approved by the Wilshire Indexes Executive Committee.

More information

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