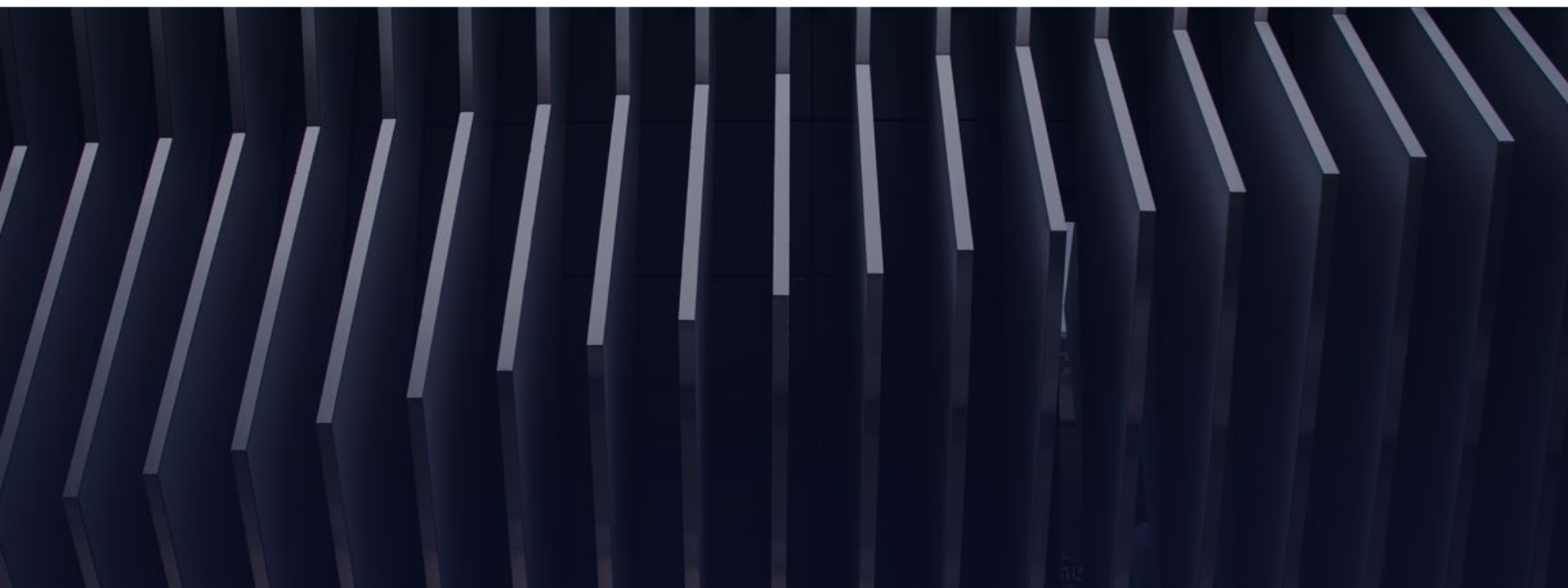


Wilshire Indexes

Policy for the Exercise of Expert Judgement

May 2025



Contents

Introduction 2

1 Equity Benchmarks 2

 1.1 Benchmark Design 2

 1.1.1 Benchmark eligibility rules 2

 1.1.2 Security weighting rules 2

 1.1.3 Percentage of capitalization covered 2

 1.1.4 Rebalance rules 2

 1.1.5 Thematic index eligibility rules 2

 1.1.6 Characteristic exposure rules 3

 1.2 Data Uncertainty 3

 1.2.1 Price Data 3

 1.2.2 Non-Price Data 3

 1.3 Complex Corporate Event Treatment 3

 1.4 Suspected or Potential Market Abuse 4

 1.5 Unexpected Market Closures 4

 1.6 Unanticipated Political Events 4

2 Digital Asset Benchmarks 4

 2.1 Benchmark Design 4

 2.1.1 Asset Eligibility 4

 2.1.2 Exchange Eligibility 5

 2.1.3 Standard Event Treatment 5

 2.2 Data Uncertainty 5

 2.2.1 Price Data 5

 2.2.2 Non-Price Data 5

 2.3 Complex Event Treatment 5

 2.4 Unexpected Market Closures 6

3 Queries and Complaints 6

Policy Approval 6

Legal Notices 7

Introduction

Wilshire Indexes¹ provides benchmarks² and analytics to asset owners, investment managers, trading desks and investment consultants. Wilshire OpCo UK Ltd is the UK entity of Wilshire Indexes. Wilshire OpCo UK Ltd is authorised by the UK Financial Conduct Authority as a benchmark administrator under the UK Benchmark Regulation (UK BMR).

This document describes the situations that may arise during the construction and management of a Wilshire Indexes 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 Index Management Committee.

1 Equity Benchmarks

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

1.1 Benchmark Design

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

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

1.1.1 Benchmark eligibility rules

- Country inclusion rules, e.g. developed 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.

1.1.2 Security weighting rules

- Investable capitalization or full market capitalization.

1.1.3 Percentage of capitalization covered

- Indices that include a greater percentage of the cumulative capitalization of the universe underlying the economic reality that the benchmark 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.

1.1.4 Rebalance rules

- The timing and frequency of benchmark 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.

1.1.5 Thematic index eligibility rules

Indices intended to measure a specific subset of the underlying economic reality, for example a thematic index, will require additional judgement.

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

¹ Wilshire Indexes is the trading name of Wilshire OpCo UK Limited (an FCA regulated benchmark administrator) and Wilshire Benchmarks US LLC.

² The term "benchmark" is used in this document as defined in the EU Benchmark Regulation (2016/1011) which forms part of UK law by virtue of the European (Withdrawal) Act 2018 (UK BMR).

1.1.6 Characteristic exposure rules

Judgement is required in the choice and formulation of characteristic exposures to determine a company's exposure to commonly recognized risk or return factors such as Value, Growth and Momentum in the construction of non-cap weighted indexes.

1.2 Data Uncertainty

1.2.1 Price Data

Although the price of a security to be used in a benchmark can be sourced with a good degree of certainty, there may be occasions when a price is republished or restated and expert judgement may be required in order to determine if a recalculation is required.

Should a security be suspended by a trading venue or regulator, expert judgement may be required to determine whether the security should be removed from the benchmark and, if so, the date when the deletion should take effect, and the appropriate price at which to remove the security.

1.2.2 Non-Price Data

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 used in equity indexes include:

- Establishment of free float weighting factors
 - Determination of which shareholders should be considered 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 have been 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.

1.3 Complex Corporate Event Treatment

The Wilshire Indexes Equity Index Calculation and Corporate Action Guide 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
 - Assessing the appropriate threshold for determining the success of tender offers
 - The materiality of pending regulatory and shareholder approvals
- 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 benchmark users.

1.4 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 a benchmark at a forthcoming reconstitution, the Wilshire Indexes Index Management Committee reserves the right to defer the immediate inclusion of that security and to reevaluate its eligibility at a subsequent reconstitution.

1.5 Unexpected Market Closures

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.

The general procedures to be followed in the event of unexpected equity market closures are set out in the Wilshire Indexes Equity Index Calculation and Corporate Action Guide. These procedures allow for the exercise of expert judgement in determining the probable timetable for a market to re-open, and should the Wilshire Indexes Index Management Committee consider that a market is unlikely to re-open with the specified timeframe, securities that trade on that market will be deleted from Wilshire Indexes' benchmarks subject to a minimum notice period. Such decisions will be communicated to the market via the publication of an benchmark notice on the Wilshire Indexes website.

1.6 Unanticipated Political Events

In reaction to political events, certain benchmark 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 Indexes' equity benchmarks, 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' equity benchmarks 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 FT 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 benchmark 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 take the final decision. The decision will be communicated to the market via the publication of a notice on the Wilshire Indexes website.

2 Digital Asset Benchmarks

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

2.1 Benchmark Design

As with equity benchmarks, the design of a digital asset benchmark requires the use of expert judgement to ensure that the underlying economic reality is appropriately measured.

Examples where judgement can benefit the design of a benchmark include:

2.1.1 Asset Eligibility

A benchmark, in the form of an index or a reference (fix) price, should only be calculated for assets where the determination can be deemed reliable. Selecting such assets requires consideration of factors such as:

- The number of exchanges where the asset is traded
- The adequacy of the liquidity of the asset on the eligible exchanges

- Whether the asset has been involved in any regulatory litigation, for example if it is alleged to be in breach of financial regulations
- The validity of an asset's consensus or network protocol following programmatic failures or attack on the network (e.g. 51% attack)
- Whether the asset network has been subject to any successful hacking attempt.
- For multi-asset indices, determining the eligibility requirements of each asset, the weighting to be used, and the frequency of index reconstitutions and rebalances.

2.1.2 Exchange Eligibility

Determining whether the transaction prices sourced from a particular exchange can require the exercise of expert judgment in circumstances not included or between the Exchange Benchmark Reviews. For example, the eligibility decision will require consideration of factors such as:

- Whether the exchange has suffered prolonged outages
- The liquidity of the eligible asset on the exchange
- Whether the exchange has been the subject of successful litigation against it, for example concerning the loss of client funds or has been proven to be in breach of financial regulations
- Whether the exchange has been subject to a successful hacking attempt leading to the loss of funds
- Whether the exchange has placed locks on the withdrawal of client funds.

2.1.3 Standard Event Treatment

As far as possible, the index methodology should specify the treatment of standard asset or index events such as capital distributions. Expert judgement may be required in specifying:

- The standard treatment of distributions such as air drops, emissions and mining rewards in the index calculation
- The standard treatment of hard and soft forks
- For staking reward indices, the types of rewards (for example, consensus, execution and MEV rewards of Ethereum) that should be included.

2.2 Data Uncertainty

2.2.1 Price Data

There are several ways in which a price for a digital asset can be calculated from the transactions observed on the eligible exchanges. The method chosen may depend on the purpose of the calculation: for example, a price to be used in the calculation of a real time index might use a different time window than one intended to be used as a reference, or settlement, price used to value financial instruments or determine the pay-off to a financial contract.

Choices include:

- Choice of time weighting scheme, equal weighted (and the length of the time window) or exponentially weighted (and the decay parameter)
- Choice of outlier filters to remove rogue transactions or fat-finger errors
- Identification and treatment of stale prices.

2.2.2 Non-Price Data

Examples of uncertain non-price input data used in digital asset indexes include:

- Coins-in-circulation data (where market value is used as the weighting factor)
- Aggregation of staking reward data (where used in total return indexes).

2.3 Complex Event Treatment

Although the index methodology should be written to minimise the requirement for expert judgement during the normal calculation of the index, expert judgement may still be required in certain areas, for example:

- An asset undergoes a novel type of capital distribution, not envisaged when the benchmark was designed
- An asset is impacted by a network event that leads to a rapid collapse in prices.

2.4 Unexpected Market Closures

For digital asset indexes, Input data interruptions do occur from time to time due to the suspension of trading on the contributing exchanges, the temporary closure of the exchanges or IT outages that adversely impact the quality of the exchanges API service. The following procedures are used to address these issues:

- Time penalty factor: If the index calculation service stops receiving updated data, the methodology time penalty factor will reduce the weight of the exchange automatically;
- Historical calculation: Once the exchange service is back, the collection service will attempt to backfill trade data if it is available. The index is recalculated with the late data and saved as a dynamic version; the static version of the index stays intact.

3 Queries and Complaints

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 the Wilshire Indexes Executive Committee agrees with the complainant, how the issue will be corrected.

Policy Approval

This Policy for the Exercise of Expert Judgement was approved by the Index Management Committee on 8 May 2025.

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