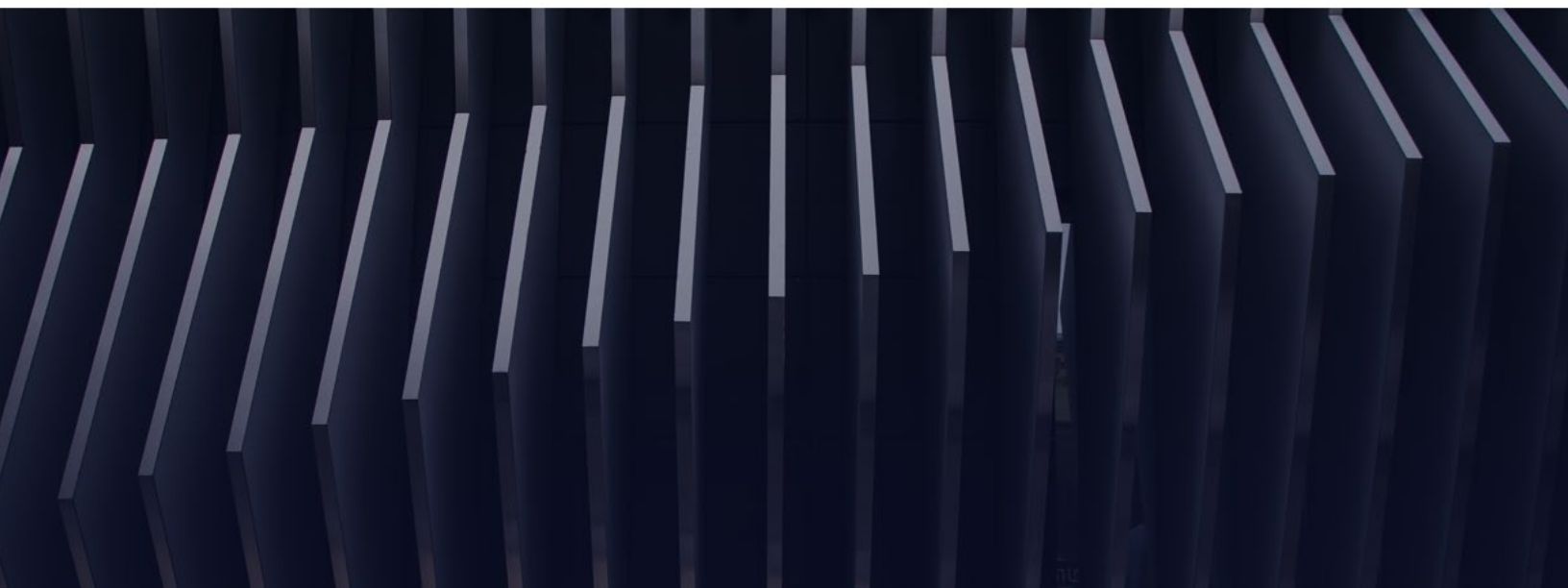


Wilshire Indexes

Paris-Aligned Benchmark Exclusion Criteria

March 2024



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Introduction

This document sets out the index methodology solutions implemented by Wilshire Indexes to ensure compliance with the exclusion criteria and transparency requirements of the EU regulations for Paris-Aligned Benchmarks (PABs) and Climate-Transition benchmarks (CTBs).

The EU Regulation on Paris-Aligned Benchmarks and Climate Transition Benchmarks

The regulatory texts and frameworks

The EU regulation on Paris-Aligned Benchmarks (PABs) and Climate Transition Benchmarks (CTBs) was established on 17 July 2020 following a period of discussion and feedback from various stakeholders and market participants.

The regulations listed below set out the mandatory requirements for Paris-Aligned Benchmarks and Climate-Transition Benchmarks:

- [Regulation \(EU\) 2016/1011: indices used as benchmarks \(as amended\) \(EU BMR\)](#); in particular Annex III
- [Commission Delegated Regulation \(EU\) 2020/1818 of 17 July 2020: minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks](#)
- [Regulation \(EC\) 1893/2006 as amended by Regulation \(EU\) 2023/137 establishing the statistical classification of economic activities \(NACE\)](#); used to support exclusions and Scope-3 progressive Phase-In into EU BMR.

Article 13 of the Delegated Act to EU BMR sets out transparency requirements for administrators of EU PAB benchmarks as follows:

“Administrators of EU Paris-aligned Benchmarks that use estimations that are based on data provided by an external data provider shall formalize, document and make public all of the following information:

- i. the name and contact details of the data provider;
- ii. the methodology used and the main assumptions and precautionary principles, where available; a hyperlink to the website of the data provider, and to the relevant methodology used, where available.”

Exclusion criteria for EU Paris-Aligned Benchmarks

In addition to meeting carbon intensity reduction targets, EU Paris-Aligned Benchmarks are required to exclude companies that meet certain criteria. The main exclusion criteria linked to PAB indexes are defined in the Article 12 of the Delegated Regulation as follows:

Exclusions for EU Paris-aligned Benchmarks

1. Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:
 - a. companies involved in any activities related to controversial weapons;
 - b. companies involved in the cultivation and production of tobacco;
 - c. companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
 - d. companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
 - e. companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
 - f. companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;

- g. companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

For the purposes of point (a), controversial weapons shall mean controversial weapons as referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation.

2. Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council, in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.
3. Administrators of EU Paris-aligned Benchmarks shall disclose in their benchmark methodology any additional exclusion criteria they use and which are based on climate-related or other environmental, social and governance (ESG) factors.

The PAB regulation thus requires the inclusion of rules in the index methodology that are not directly related to decarbonization and climate change. The spirit of the supplementary exclusion criteria is to avoid the inclusion of companies that would negatively affect other critical ESG objectives, including those on the social or environmental front.

Different categories of exclusion can be identified:

- Ethical screening focused on products:
 - Involvement in controversial weapons
 - Involvement in tobacco (cultivation and production)
- Ethical screening focused on environmental, social and governance bad practices:
 - Possible violations of the UNGC principles, and/or
 - Possible violations of the OECD guidelines
- Specific Climate screening that foster existing carbon intensity criteria
 - Significant revenues derived from hard coal and lignite
 - Significant revenues derived from oil fuels
 - Significant revenues from gaseous fuels
 - Significant revenues from fossil-fuel oriented electricity generation
- Additional ESG criteria derived from the concept of Do No Significant Harm¹
 - These criteria are intended to avoid causing involuntary specific hazardous risks that an activity could cause in four domains:
 - Climate change adaptation
 - Sustainable use and protection of water and marine resources
 - Pollution prevention and control regarding use and presence of chemicals
 - Protection and restoration of biodiversity and ecosystems.

Exclusion rules for Wilshire Indexes PAB and CTB benchmarks

Based on the above exclusion criteria, Wilshire Indexes has implemented rules in the methodology of all Wilshire Indexes' PAB and CTB indexes. These rules define thresholds and scores for the various exclusion criteria. The scores are calculated using data sourced by Wilshire Indexes from [ISS ESG](#), a well-recognized third-party ESG provider that is committed to cover all exclusion criteria that may arise from the PAB regulations. The thresholds are set by Wilshire Indexes.

The thresholds and scores may be revised from time to time according to the various factors, including the evolution of legislation, demands from clients, changes to sources, and the statistical significance of their efficacy.

The PAB exclusion rules are regularly reviewed by the Wilshire Indexes Index Management Committee. Any change to the exclusion rules will be published in advance and at the latest one month (30 days) before any rebalancing of indexes.

¹ See [EU delegated Act on Green Taxonomy](#), in particular annex A, B, C, and D

Ethical screening focused on ESG

Category	Label	Threshold	Description
<i>Ethical screening focused on ESG bad practices</i>			
UNGC Principles and OECD Guidelines	Norm-Based Research – Overall Flag	RED	<p>NBR Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's link with any breaches of international standards. The "Red" value covers instances of a failure to respect established norms which has been verified by an authoritative body and where the issue remains unaddressed. The "Amber" value covers instances where the issuer has entered contract(s) that would, when actualised, lead to a failure to respect established norms; where there are credible allegations that the issuer is involved in a failure to respect an established norm; where the failure to respect established norms has been verified, yet the issuer is implementing remedial measures; or where there are credible allegations but there is fragmentary information about the issuer's ongoing involvement. The "Green" value covers instances where there are allegations of a failure to respect international norms, but the information is fragmentary or the severity has yet to be established; where the incidents are not severe and the issuer has committed to improve its practice, but the issue is not yet fully addressed.</p>

Ethical screening focused on products

Category	Label	Threshold	Description
<i>Ethical screening focused on products</i>			
Controversial Weapons	Biological Weapons – Overall Flag	RED	Biological Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any biological weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Chemical Weapons – Overall Flag	RED	Chemical Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any chemical weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Nuclear Weapons – Overall Flag	RED	Nuclear Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any nuclear weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Nuclear Weapons Outside NPT – Overall Flag	RED	Nuclear Weapons Outside NPT - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any nuclear weapons programme outside of the Non-Proliferation Treaty (NPT). The Overall Flag is determined by the lowest

Category	Label	Threshold	Description
			individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Cluster Munitions – Overall Flag	RED	Cluster Munitions - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any cluster munitions programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Depleted Uranium – Overall Flag	RED	Depleted Uranium - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any depleted uranium programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Controversial Weapons	Anti-personnel Mines – Overall Flag	RED	Anti-personnel Mines - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any anti-personnel mines programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
Tobacco	Tobacco – Production Average Percentage of Revenues (%)	> 0%	Tobacco - Production Average Percentage of Revenues (%): This factor identifies the average percentage value of revenue derived from involvement in the production of tobacco.

DNSH - SDG Impact Rating

Category	Label	Threshold	Description
<i>DNSH - SDG Impact Rating</i>			
DNSH	SDG Impact Rating – Climate Action	<= -9	SDG Impact Rating - Climate Action: This factor assesses an issuer's impact on Sustainable Development Goal 13 – Climate Action. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.
DNSH	SDG Impact Rating – Life On Land	<= -9	SDG Impact Rating - Life On Land: This factor assesses an issuer's impact on Sustainable Development Goal 15 – Life On Land. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.
DNSH	SDG Impact Rating – Life Below Water	<= -9	SDG Impact Rating - Life Below Water: This factor assesses an issuer's impact on Sustainable Development Goal 14 – Life Below Water. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.
DNSH	SDG Impact Rating – Responsible Consumption and Production	<= -9	SDG Impact Rating - Responsible Consumption and Production: This factor assesses an issuer's impact on Sustainable Development Goal 12 – Responsible Consumption and Production. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.

Specific climate screening

Category	Label	Threshold	Description
<i>Specific climate screening</i>			
Coal	Thermal Coal Mining – Average Percentage of Revenues (%)	>= 1%	Thermal Coal Mining - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's total involvement in thermal coal mining, including any exposure in Production or Services. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.
Oil	Oil - Total Average Percentage of Revenues (%)	>= 10%	Oil - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's involvement in the extraction and refining of oil, the pre-production stages of the extraction of fossil fuels, as well as the distribution of fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.
Natural Gas	Natural Gas – Total Average Percentage of Revenues (%)	>= 50%	Natural Gas - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's involvement in the extraction and refining of natural gas, the pre-production stages of the extraction of fossil fuels, as well as the distribution of fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.

Category	Label	Threshold	Description
Power Generation	Power Generation – Thermal Average Percentage of Revenues (%)	>= 50%	Power Generation - Thermal Average Percentage of Revenues (%): This factor provides the average percentage of recent-year revenues for the issuer's involvement in the generation of electric power using fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.

In particular for this last category of fossil-fuel additional criteria, the following table details the specific sub-criteria and rules derived from the % of revenues as collected and/or estimated by ISS:

Technical details for fossil fuel criteria

Row ID	Category	Label	Description
<i>Fossil Fuels Exposure</i>			
A	Oil	Oil - Total Average Percentage of Revenues (%)	Oil Extraction (C) + Oil Refining & Processing (D) + Fossil Fuels Distribution (G) + Fossil Fuels Exploration (H)
B	Natural Gas	Natural Gas - Total Average Percentage of Revenues (%)	Gas Extraction (E) + Gas Refining & Processing (F) + Fossil Fuels Distribution (G) + Fossil Fuels Exploration (H)
<i>Oil Extraction & Refining</i>			
C	Oil Extraction	Fossil Fuel - Oil Extraction Average Revenue Share (%)	Fossil Fuel - Oil Extraction Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the extraction of oil (including crude oil, condensate, shale oil, bitumen, synthetic crude oil from oil/tar sands, and heavy oils).
D	Oil Refining & Processing	Fossil Fuel - Oil Refining & Processing Average Revenue Share (%)	Fossil Fuel - Oil Refining & Processing Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the refining of oil (including liquefied petroleum gas, naphtha, gasoline, kerosene, diesel, fuel oil, and other combustive oil products).

Gas Extraction & Refining

E	Gas Extraction	Fossil Fuel - Gas Extraction Average Revenue Share (%)	Fossil Fuel - Gas Extraction Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the extraction of natural gas (including coalbed/coal seam methane).
F	Gas Refining & Processing	Fossil Fuel - Gas Refining & Processing Average Revenue Share (%)	Fossil Fuel - Gas Refining & Processing Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in natural gas processing and gas-to-liquids operations.

Fossil Fuels Distribution & Exploration

G	Fossil Fuels Distribution	Fossil Fuel - Distribution Average Percentage of Revenues (%)	Fossil Fuel - Distribution Average Percentage of Revenues (%): This factor provides the average percentage of revenues for the company's involvement in the distribution of fossil fuels for the most recent fiscal year period.
H	Fossil Fuels Exploration	Fossil Fuel - Exploration Average Percentage of Revenues (%)	Fossil Fuel - Exploration Average Percentage of Revenues (%): This factor provides the average percentage of revenues for the company's involvement in the pre-production stages of the extraction of fossil fuels for the most recent fiscal year period.

Approval

This Paris-Aligned Benchmarks Exclusion Criteria was approved by the Index Management Committee.

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