
Morningstar Corporate Actions Methodology for Venture Capital-Backed Private Companies

Morningstar Inc.

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<https://indexes.morningstar.com/>

Introduction

This document outlines the corporate action policy that is used in the maintenance of Morningstar's venture capital-backed private company indexes.

Cash Distribution

Cash Dividend or Ordinary Cash Dividend

This is a distribution of a portion of a company's earnings to its shareholders at regular intervals, typically on a quarterly, semiannual, or annual basis, and quoted in per share amounts. Typically, privately held companies do not pay out regular dividends. So, private equity index calculation is not impacted by ordinary dividends.

Special Dividend

This is a nonrecurring cash distribution of a company's earnings or assets to shareholders and is treated as a corporate action with price and divisor adjustments. It is also quoted in dividends per share. For index calculation, the price on the day before the ex-date is adjusted for the special dividend and thus affects all three variants of indexes. It results in a stock's price being reduced by the dividend amount at the opening of the last update date.

The last update date¹ of dividend recapitalization is considered as the ex-date for privately held companies. If the amount distributed as dividend is not known, the deal amount of the recapitalization is considered as the dividend.

- ▶ If the dividend amount < the latest available valuation, the adjustment is made.
- ▶ If the dividend amount >= the latest available valuation, no adjustment is made.

Mergers and Acquisitions

In a merger, two or more companies join to form a new entity. This is generally done by a mutual agreement or through a tender offer that can be structured in a wide variety of ways that involve cash, stock, or a combination of both. In an acquisition, a company buys most or all of the target company and assumes controlling interest. The acquisition could be funded through cash, stock, or a combination of both. In a reverse merger, a private company acquires a public company. Any type of merger or acquisition will result in changes in the financing/backing status of the target company, making them ineligible for inclusion in Morningstar venture capital-backed private company indexes. Companies that

¹ Last update date is the date when the information on the deal is captured by Pitchbook.

have completed a merger or acquisition are dropped from the index within two days of the last update date² of the deal, at the valuation determined by Morningstar's proprietary private equity pricing model.

If a merged or acquired company has been removed from the index but become eligible again due to a new qualifying funding round, it will be included as of the next effective reconstitution date.

Bankruptcy and Financial Distress

Bankrupt securities are ineligible. When a company undergoes bankruptcy, or goes out of business, it is removed from the index at zero price within two days of the last update date² of the bankruptcy.

If a bankrupt company has been removed from the index but become eligible again due to a new qualifying funding round, it will be included as of the next effective reconstitution date.

Listing

A private security gets listed when it is made available on a tradeable exchange through an IPO. When a constituent undergoes an IPO, it is held in the index portfolio until the end of any specified lockup period. If no lockup period is specified, the constituent is held in the portfolio for a default of 180 days. Listed securities are dropped at their public market capitalization.

If a listed company has been removed from the index but become eligible again due to a new qualifying funding round, it will be included as of the next effective reconstitution date.

Buyout

If a company undergoes a buyout, leveraged buyout, or an investor buyout by management, its financing/backing status changes, thereby making it ineligible for inclusion in Morningstar venture capital-backed private company indexes. Companies that are bought out are dropped from the index within two days of the last update date² of the deal, at the valuation determined by Morningstar's proprietary private equity pricing model.

If a bought-out company has been removed from the index but become eligible again due to a new qualifying funding round, it will be included as of the next effective reconstitution date.

² Last update date is the date when the information on the deal is captured by Pitchbook.

About Morningstar Indexes

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Please visit indexes.morningstar.com for more information.

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