



Morningstar PitchBook US Buyout Replication Index

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Private equity buyout is often touted as an alternative investment strategy; however, it shares many of the fundamental investment characteristics of "traditional" public equity strategies. Buyout managers seek to invest in relatively small, underperforming businesses with strong cash flows to service increased debt, while focusing on favorable sector and applying financial leverage to enhance returns. Much of this investment approach can be methodically replicated in public markets.

The Morningstar PitchBook US Buyout Replication Index is designed to capture the key characteristics of buyout investing by tracking publicly traded small- and mid-cap stocks that have similar risk profiles as the firms targeted by buyout managers. It employs a systematic approach, combining top-down industry exposure aligned with the US buyout market and bottom-up company selection using dynamic public market data to identify public businesses with established cash flows.

Index eligibility

The Morningstar PitchBook US Buyout Replication Index derives its constituents from the Morningstar US Market Extended Index, which tracks large-, mid- and small-cap stocks, representing the top 99.5% of the investable universe by market capitalization. To be eligible for inclusion, a company must be listed on the NYSE or NASDAQ for at least eight consecutive quarters, have a market capitalization between \$50 million and \$30 billion, actively trade with a stock price above \$1, and maintain an average daily

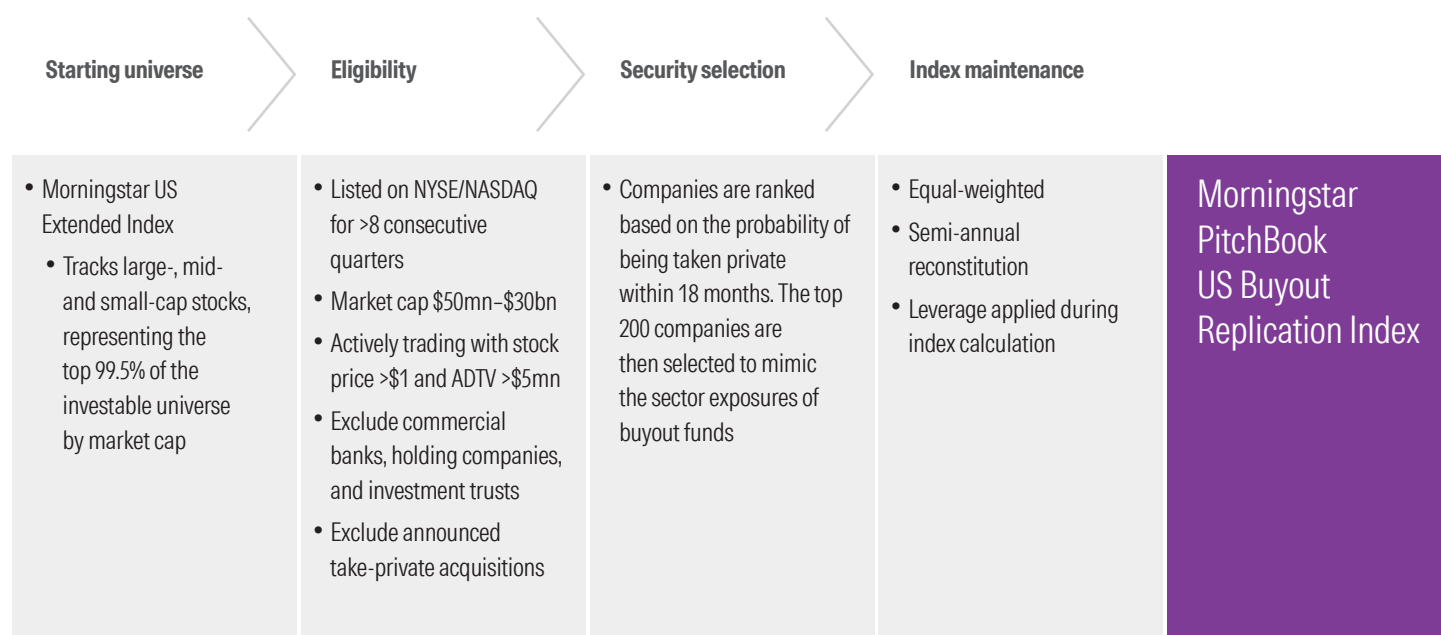
trading value exceeding \$5 million. Companies classified as commercial banks, holding companies, investment trusts, or those with announced take-private acquisitions are excluded.

Security selection

The index leverages an AI-driven advanced neural network trained on take-private transactions of public companies, quarterly financial statements, and daily stock prices to identify public securities and predict the probabilities of them being taken private within 18 months. Companies are then ranked based on these probabilities, with the top 200 companies selected to mimic the sector exposures of buyout funds.

Index maintenance and calculation

The index is equal weighted to ensure diversification and is reconstituted and rebalanced semi-annually in June and December. The index is calculated in both levered and unlevered versions, providing flexibility for different use cases. For the levered index variant, a target leverage ratio of 1.5x is applied to reflect the financing structures typically used in private equity leveraged buyouts, with leverage adjustments resetting at each reconstitution. Daily pricing incorporates corporate actions such as mergers, acquisitions, and take-private transactions, ensuring that the index remains a reliable benchmark for buyout investing in public markets.

Construction process**About Morningstar Indexes**

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves. Please visit indexes.morningstar.com for more information.

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