

Methodology book for: MSCI All Country Venture-Backed Private Company Top 50 Index

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1. Introduction

The MSCI All Country Venture-Backed Private Company Top 50 Index aims to represent the performance of 50 of the largest venture-backed private companies that have liquidity in the secondary market¹.

Venture-backed private companies represent a widely adopted private asset class. Although such companies do not trade on centralized exchanges, secondary markets for many private company shares exist through various networks of brokers and trading platforms². Using transaction and other data from the secondary markets, MSCI constructs the Index using daily modeled prices, providing daily performance information that is derived from secondary market activity.

MSCI utilizes data from third-party vendors Caplight³ and PM Insights⁴ for the construction of the Index.

¹ The Index is governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix 1 for more details.

² Private equity investments are generally less liquid than public equity investments. Unlike publicly traded securities, private equity interests are not listed on public markets and are typically subject to transfer restrictions and long holding periods. Secondary markets for private equity interests are limited in scope and may not offer immediate liquidity or favorable pricing. Transactions in the secondary market can be complex, time-consuming, and subject to discounts from net asset value.

³ Please refer to [Caplight | Private Markets Re-imagined](#) for more details

⁴ Please refer to [PM Insights | Private Market Insights](#) for more details

2. Constructing the Index

2.1 Starting Universe

The Starting Universe includes all the venture-backed privately held companies covered by both data providers, Caplight and PM Insights, which have evaluated share prices and related market capitalizations available at the time of rebalance.⁵

2.2 Eligible Universe

To construct the Eligible Universe, companies in the Starting Universe that satisfy all the following criteria are selected:

1. Current evaluated market capitalization is higher than 500 million USD
2. Each company must have at least 1 trade (forward trades not included) in the available history⁶
3. Each company must have a minimum of 4 ask counts in the preceding 12 months
4. Each company must have a minimum of 1 bid count in the preceding 12 months

Liquidity filter relaxation steps:

In cases where after applying the above filters, the number of companies in the Eligible Universe is less than 50, the filters are gradually relaxed until the Eligible Universe reaches 50. The order of relaxations is:

- a. The required number of asks is reduced in steps of 1 till it reaches 1, while the required number of trades and bids are kept at 1.
- b. If after the above steps the eligible universe is still below 50, the required number of bids, asks are both dropped to 0.
- c. If after step b, the eligible universe is still below 50, the required number of trades is also dropped to 0.
- d. If the Eligible Universe is still below 50, the Index will include all the constituents of the eligible universe and the Index will have less than 50 constituents.

2.3 Selection

Companies in the Eligible Universe based on the filtering conditions are sequentially selected and are ranked in descending order based on their evaluated market capitalization. The top 50 companies are selected to be included in the Index.

2.4 Weighting scheme

At the initial construction and at each Index rebalancing, constituents are given weight that is proportional to their estimated market capitalization. Between two rebalances, the weightings of constituents will change due to price performance.

⁵ Only those companies for which required data is available from both providers are included

⁶ Two years of rolling history is used for this filter

3. Maintaining the Index

3.1 Index Review

The Index is reviewed quarterly, coinciding with the February, May, August and November review schedule of MSCI equity indexes. At each review steps in Section 2 are followed to rebalance the index with new constituents and associate weights. The same inclusion thresholds are applied for existing and new index constituents. The proforma Index is generally announced 16 weekdays prior to the effective date.

In general, MSCI uses evaluated market capitalization and liquidity data as of the end of the month preceding the Index Reviews for the rebalancing of the Index.

3.2 Ongoing Event-Related Changes

The general treatment of corporate events in the Index aims to minimize turnover outside of Index reviews. The methodology aims to represent an investor's participation in an event based on relevant deal terms and pre-event weighting of the Index constituents that are involved.

The table below briefly describes the treatment of common corporate events for the Index:⁷

Event Type	Event Details
New additions	No new additions between Index reviews
IPO	The company is deleted at the IPO offer price at the IPO date
Merger/Acquisition	Target company deleted from Index at last evaluated price (in some cases may be calculated price if stopped trading)
Spin-Offs	All securities created as a result of the spin-off of an existing Index constituent will not be added to the Index at the time of event implementation
Bankruptcy	The company is deleted from the Index at a price of zero

Any cash proceeds from IPO or other corporate actions is proportionally redistributed into the remaining constituents of the Index.

If a pro forma constituent is impacted by the above corporate events before the effective date of rebalancing, the constituent is removed from the pro forma index and its weight is redistributed to the remaining constituents. In such instances the number of constituents for the MSCI All Country Venture-Backed Private Company Top 50 Index may be less than 50.

⁷ Corporate events outside of this list will be reviewed on a case-by-case basis provided sufficient information is available. Given the nature of this market, some corporate action information will be available with delays. The application of these corporate actions and correction of index levels will be reviewed by MSCI on a case-by-case basis.

3.3 Daily Index Calculation

The Index is calculated using the formula described in Appendix 2.

4. Data

To construct and calculate the Index, MSCI sources data from two data providers specializing in providing high-quality data on privately held venture-backed companies. The evaluated prices and market capitalizations are directly sourced from the data providers. The pricing models use activities in secondary markets (transactions and indications of interests), primary market activities and other relevant data.

To maintain continuity and robustness, the Starting Universe includes only those companies for which required data is available from both providers (Caplight and PM Insights).

Appendix 1: Methodology Set

The Index is governed by this methodology document.

The Methodology document for the Index can also be accessed from MSCI's webpage <https://www.msci.com/index-methodology> in the section 'Search Methodology by Index Name or Index Code'.

Appendix 2: Index Calculation Methodology

The Index level on each day "t" ($Index\ Level_t$) is calculated as the sum of the products of the number of shares (units) of each company security "i" in the index and its respective price, aggregated across all Index constituents

$$Index\ Level_t = \sum_i^n x_{i,t} \times P_{i,t} + Cash\ Balance_t$$

where:

$x_{i,t}$ is the number (or units) of shares of security "i" in the index as of end of day "t"
 $P_{i,t}$ is the evaluated price of the security "i" as of end of day "t"

A Cash Balance t is used to hold cash proceeds for reinvestment at the end of day "t".

$$Cash\ Balance_t = \sum_{i=1}^n x_{i,t-1} \times D_{i,t}$$

where:

$x_{i,t-1}$ is the number (or units) of shares of security "i" as of the end of the weekday preceding "t"
 $D_{i,t}$ is the cash proceeds per share for security "i" as of day "t" (e.g. cash proceeds due to IPO, M&A, dividend)

The Cash Balance is proportionally redistributed into the Index constituents at the end of day "t". New number of shares $x_{i,t+1}$ are calculated as of end of day "t" and are effective as of the weekday after day "t" in accordance with the formula below.

$$x_{i,t+1} = x_{i,t} + \frac{x_{i,t} \times Cash\ Balance_t}{\sum_i^n x_{i,t} \times P_{i,t}}$$

After such reinvestment Cash Balance is reset to zero.

The number of shares " $x_{i,t}$ " at the initial construction of the Index and on each rebalancing is calculated using the following formula. Here "t" is the effective date (index rebalances at the end of "t-1" and becomes effective at "t").

$$x_{i,t} = \frac{Target\ Weight_i}{P_{i,t-1}} \times Index\ Level_{t-1}$$

Target Weight_i is the target weight of security “i” in each rebalance.

P_{i,t-1} is the evaluated price of the security “i” as of end of the weekday prior to the effective date “t”.

Index level_{t-1} is the Index Level as of end of the weekday prior to the effective date “t”.

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