

Expanding ESG Transparency in Private Markets

Quality & Safety, Intellectual Property Are Key Controversy Risks

Morningstar Sustainalytics
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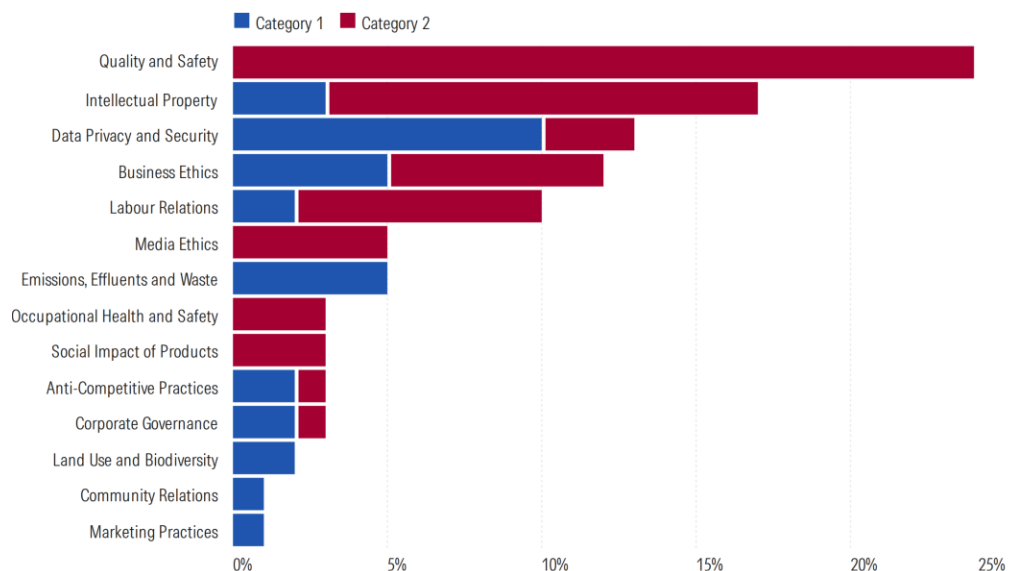
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Key Highlights

- ▶ The severity of controversies among the [Morningstar PitchBook Unicorn 30 Index™](#) constituents, which consist of large, late-stage private companies, is currently low, but the data reveal meaningful underlying issue exposure. This suggests that ESG risk may be constrained by limited disclosure.
- ▶ Controversies in the Unicorn 30 are clustered among the Quality and Safety, Data Privacy, and Intellectual Property event indicators, reflecting risks typical of digital and AI-driven business models.
- ▶ A comparison with public software companies reveals a similar concentration in Data Privacy, and Quality and Safety, but there are two telling differences: this group of private companies has elevated Intellectual Property exposure driven by AI training practices, and a striking underrepresentation of Anti-Competitive Practices incidents. This likely reflects a gap in regulation, which has not yet caught up with emerging business models and technological innovations.
- ▶ Labour Relations incidents are less evident among the Unicorn 30 cohort relative to the broader US market. This is likely a reflection of the sector mix and the lifecycle stage, with risk expected to increase as companies scale their workforce and face potential regulatory scrutiny.
- ▶ Governance structures are an important consideration for Unicorn 30 companies, particularly as Sustainalytics' work on SpaceX and Tesla indicates. Questions have arisen over whether AI, data, capital and management attention should sit within Tesla or other entities, such as xAI and X. Similar governance questions could be relevant for SpaceX, including launch services, Starlink, satellite communications, defense-related contracts and potential AI or data-infrastructure initiatives.

Breakdown of Key Event Indicators Captured Across the Unicorn 30



Source: Morningstar Sustainalytics. Data as of May 8, 2026.

Assessing Private Markets Controversies is Critical

Private markets have become an increasingly important allocation for institutional investors, with pension funds, sovereign wealth funds and endowments now commonly allocating 20-30% of portfolios to the asset class.¹ At the same time, companies are remaining private for longer and reaching significant scale before listing. This dynamic has created an anticipated pipeline of large initial public offerings (IPOs) in 2026, with many “late-stage” private companies likely to enter public market indices in the near term.

Against this backdrop, controversy-based exclusions, particularly those targeting severe ESG-related incidents, have become a baseline feature of most sustainable funds, a cohort representing approximately USD 3.51 trillion in assets under management as of May 2026.² ESG criteria, therefore, are widely embedded in institutional mandates. Gaining greater visibility into controversies within the [private unicorn universe](#), is becoming increasingly relevant for investors seeking consistency in risk management across private and public markets.

Investor interest in ESG integration within the private market, meanwhile, persists. Seventy-two percent of investors surveyed in Pitchbook’s 2025 Sustainable Investment Survey³ cited that they incorporate environmental, social, or governance factors into their evaluations and/or management of investments. Despite the public backlash against ESG in some jurisdictions, Limited Partners (LPs) across the US and Europe have not scaled back on the integration of ESG in their processes, with a large majority of them reporting plans to deepen responsible investing practices.⁴

Analysis Details

In response to this demand, Morningstar Sustainalytics has expanded its Controversy Ratings coverage to include a subset of large venture-backed private companies, including constituents of the [Morningstar PitchBook Unicorn 30 Index](#). The index is designed to track the performance of a curated set of large, late-stage private companies with “unicorn” status, which are defined as those with valuations exceeding USD 1 billion. Drawing on Morningstar PitchBook’s private market data, the index focuses on a concentrated cohort of high-profile, venture-backed firms that have achieved significant scale and are widely viewed as potential IPO candidates.

The index uses a market-driven pricing approach that combines transaction data from key secondary market aggregators that is then refined using a Kalman filter⁵ to reduce noise and improve reliability. This process produces a consolidated price⁶ designed to reflect underlying market sentiment. By applying a systematic and transparent methodology, the index aims to provide investors with a structured view of a traditionally opaque market segment and a reference point for companies likely to transition into public markets and enter mainstream equity benchmarks.

¹ Lefkowitz, Dan. “3 Reasons to Care About Private Markets Even if You’re Not Investing in Them.” Morningstar Indexes, October 15, 2025

² Morningstar, Global ESG Flow Report, Q1 2026.

³ Villegas, Anikka, and Hilary Wiek. Analyst Note: The State of Sustainable Investing in the Private Markets. PitchBook Institutional Research Group. Published April 10, 2026

⁴ Nixon, Oliver and Dr Johannes Lenhard, Pushing Forward Responsible Investing Practices of VC Limited Partners with a Deep Dive on Responsible AI and Data, published February 2025

⁵ Welch, Greg, and Gary Bishop. An Introduction to the Kalman Filter. Chapel Hill: University of North Carolina at Chapel Hill, Department of Computer Science, 1995. https://www.cs.unc.edu/~welch/media/pdf/kalman_intro.pdf

⁶ Morningstar (2026), Morningstar PitchBook Unicorn 30 Index Methodology, pp. 6–7. Available at: <https://indexes.morningstar.com/docs/rulebook/morningstar-pitchbook-unicorn-30-FS0000J90D> (accessed June 2026)

The subsequent analysis is based on index constituents from April 2026 and is heavily concentrated on technology and software companies (particularly enterprise software), with a strong US bias. This reflects the sector and geographic concentration of late-stage “unicorn” companies and their associated ESG risk profile. Exhibit 1 shows details of the index on which the analysis is based.

Exhibit 1 Morningstar PitchBook Unicorn 30 Constituents

Name	Industry	Country	Market Valuation (USD)
Space Exploration Technologies	Aerospace & Defense	United States	1,235,339,982,475
OpenAI OpCo LLC	Software & Services	United States	841,779,094,522
Anthropic PBC	Software & Services	United States	464,668,256,483
Stripe, Inc.	Software & Services	United States	170,553,569,631
Databricks, Inc.	Software & Services	United States	138,943,621,554
Revolut Ltd	Banks	United Kingdom	81,747,263,363
Anduril Industries, Inc.	Aerospace & Defense	United States	70,687,821,654
Canva Pty Ltd	Software & Services	Australia	48,401,408,417
Cursor	Software & Services	United States	38,389,167,908
Ramp Business Corp.	Software & Services	United States	35,659,705,450
Figure AI, Inc.	Machinery	United States	30,741,493,770
Wiz, Inc.	Software & Services	United States	22,863,505,195
Ripple Labs Inc.	Software & Services	United States	20,711,801,570
People Center, Inc.	Software & Services	United States	19,041,607,853
Applied Intuition, Inc.	Software & Services	United States	18,880,829,337
Perplexity AI, Inc.	Software & Services	United States	17,928,330,384
Deel, Inc.	Software & Services	United States	15,998,547,200
Epic Games, Inc.	Software & Services	United States	15,220,209,294
Payward, Inc.	Software & Services	United States	14,017,589,132
Mistral AI SAS	Software & Services	France	12,175,003,977
Gusto, Inc.	Software & Services	United States	9,622,642,331
Notion Labs, Inc.	Software & Services	United States	7,978,044,656
Celonis SE	Software & Services	Germany	7,865,669,679
Discord, Inc.	Software & Services	United States	7,548,501,740
Brex, Inc.	Software & Services	United States	3,862,893,603
Formagrid, Inc.	Software & Services	United States	3,656,089,070
Chainalysis, Inc.	Software & Services	United States	2,436,289,027
Flexport, Inc.	Software & Services	United States	2,104,512,826
Talkdesk, Inc.	Software & Services	United States	1,531,369,183

Source: Morningstar Sustainalytics. Data as of April 3, 2026.

In this context, the Morningstar PitchBook Unicorn 30 Index, combined with Morningstar Sustainalytics Controversy Ratings, aims to provide a bridge between private and public markets. Because it enables investors to apply public market ESG frameworks, it may help to improve pre-IPO risk monitoring, inform benchmark construction, and provide earlier insight into future index inclusion.

Overview of Controversy Rating Outcomes

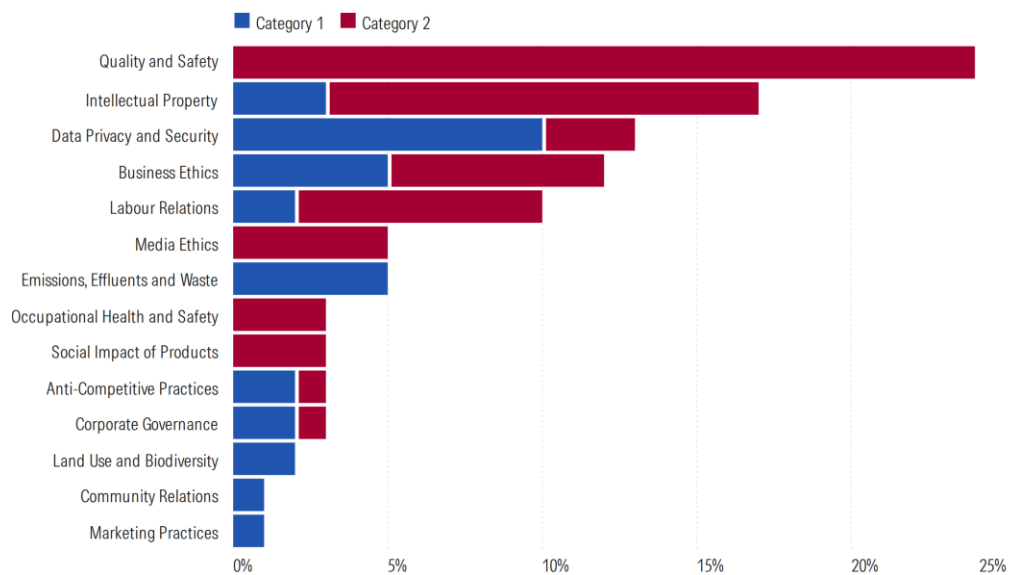
At an aggregate level, Controversy Ratings for companies in the Morningstar PitchBook Unicorn 30 Index indicate relatively low exposure to severe ESG incidents. Based on current assessments, no events have been rated as having significant (Category 3), high (Category 4) or severe (Category 5) ESG impact or risk.

However, a more detailed review of underlying signals suggests that there may be emerging ESG risks. These include issues related to event indicators such as Quality and Safety, Intellectual Property, and Social Impact of Products, among others.

Across the controversies assessed, there is a greater emphasis on impact versus risk for the Unicorn 30. Since many companies have sky-high valuations with the average market valuation of index constituents at USD 115.8 billion, the financial risk exposure is seemingly quite low. Morningstar Sustainalytics assesses financial risk by analyzing the financial materiality factor posed by an event and the potential erosion of the company's enterprise value, adjusted for risks related to its financial health. When assessing non-listed entities, we compare the company's market valuation to the material costs it is likely to incur due to its involvement in an incident.

Quality and Safety events are the most prevalent among the Unicorn 30 companies, in terms of frequency and severity, with all assessed as Category 2. Notably, incidents captured under this event indicator appear for only a handful of companies. Technology and social media company Discord has recorded the most, followed by OpenAI and Space Exploration Technologies (SpaceX). Discord currently faces numerous lawsuits in the US alleging that it has failed to protect children on its platform; this contributes to the high volume of incidents. Aside from legal risk exposure, Quality and Safety events can significantly damage a company's reputation, potentially undermining product adoption and market demand.

Exhibit 2 Breakdown of Key Event Indicators Captured Across the Unicorn 30⁷



Source: Morningstar Sustainalytics. Data as of May 8, 2026.

⁷There is a detailed description of the key event indicators in the appendix.

We have assessed several events for leading AI players under the Intellectual Property (IP) event indicator. Among the companies in the index, over 70% of all IP controversies are for OpenAI, followed by Perplexity AI and Anthropic. These peers face public backlash and multiple lawsuits, increasing their exposure to legal and operational risks. The lawsuits have been filed primarily by authors and journalists, with allegations regarding potential misuse of AI systems.⁸

Currently, Social Impact of Products events are relevant and assessed only for OpenAI, which is linked to allegations that ChatGPT misuse contributed to harmful incidents.⁹ Even though this event indicator is less prominent among Unicorn 30 companies, we believe it is an important one to monitor. As AI companies begin to face lawsuits and investigations, they may be held accountable for their impact on users and society.

These factors have not yet resulted in material controversies; however, the underlying signals highlight emerging ESG risks that may become more financially relevant as companies grow and face greater scrutiny. Until now, investors have had limited ability to assess these risks in a structured and comparable way across late-stage private equity companies. This framework provides a basis for earlier identification and ongoing monitoring, supporting more informed risk assessment ahead of an IPO and potential index inclusion.

Comparing Unicorn 30 to the Public Software Companies Universe

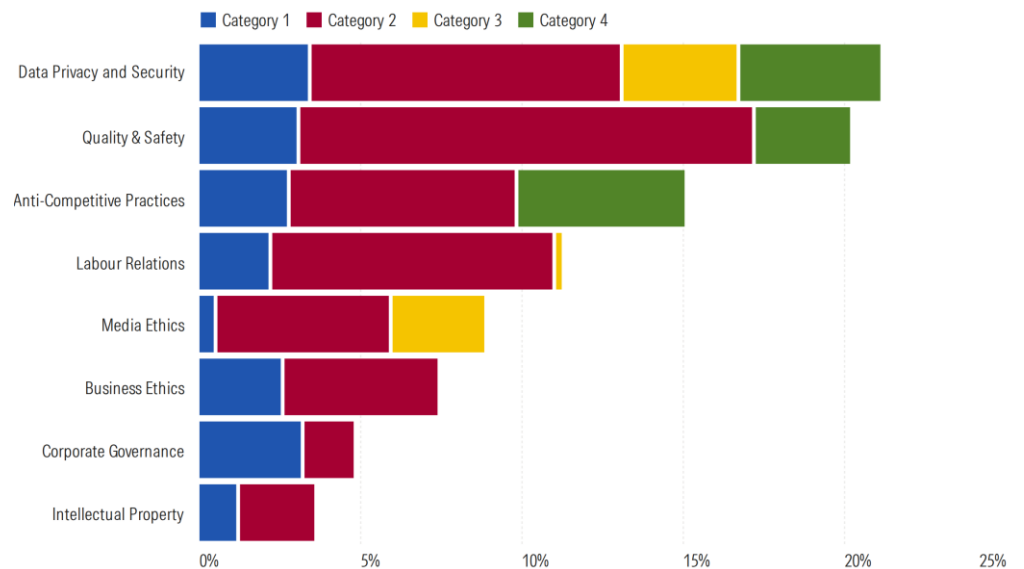
Most Unicorn 30 companies are classified as software companies, while the others span Aerospace and Defense (two), Banks (one) and Industrials (one). When comparing the Unicorn 30 companies to public software companies from a controversies research perspective, there are a few points to note. Due to the mature coverage of public companies, there is a high volume of recorded incidents and several material events (rated at the Category 3 or Category 4 level) for both impact and risk. However, for some companies in the Unicorn 30 Index, there is already a high recurring frequency of incidents, with OpenAI and SpaceX recording dozens of incidents to date. Therefore, we expect the incident cadence for the most prominent peers among the Unicorn 30 to be comparable to Sustainalytics' controversy coverage for public software companies.

Looking across the event indicators (see Exhibit 3), Data Privacy and Security issues are common and arise across public and private companies. Events defined here are often related to a company's exposure to data breaches, either directly or through its products' vulnerabilities. They may be considered a material event depending on their scale and scope. Several AI tech companies are included in the Unicorn 30. We will monitor any uptick in potential data breaches among these peers, particularly if their AI technology is used to detect vulnerabilities or misused to perform data breaches.

⁸ Reuters. "OpenAI copyright lawsuits from authors, New York Times consolidated in Manhattan." April 3, 2025.

<https://www.reuters.com/legal/litigation/openai-copyright-lawsuits-authors-new-york-times-consolidated-manhattan-2025-04-03/>

⁹ BBC. "OpenAI let ChatGPT aid and abet mass shooters, Florida lawsuit claims." June 1, 2026. <https://www.bbc.com/news/articles/czx2j0v8d2xo>

Exhibit 3 Key Event Indicators Captured Across Public Software Companies

Source: Morningstar Sustainalytics. Data as of May 13, 2026.

Note: Software companies include those in the Internet Software & Services and Enterprise Infrastructure Software subindustries.

A notable difference between the coverage of companies within the Unicorn 30 index and public software companies is the occurrence of events related to Anti-Competitive Practices. These events account for less than 3% of all controversies for the Unicorn 30 versus 15% for public software companies. The scale seen on the public company side is largely weighted by the incessant antitrust issues led by big tech companies Alphabet (Google), Meta Platforms (Meta) and Microsoft. While this issue is not currently material across the Unicorn 30 universe, we are already seeing antitrust investigations and lawsuits targeting OpenAI and SpaceX, and given the companies' market dominance, we can expect to see continued scrutiny.

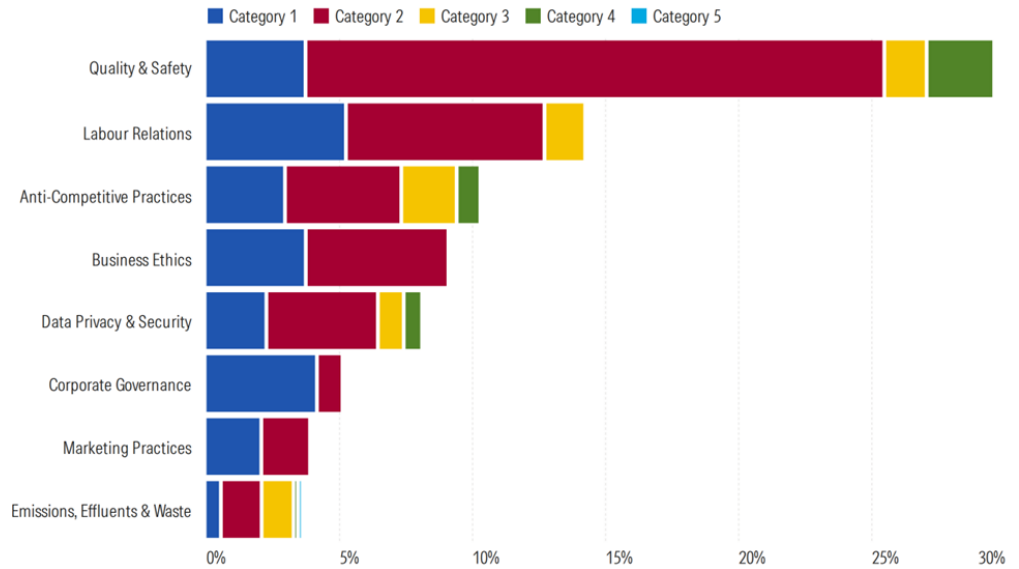
Issues prevalent across Quality and Safety events for the Unicorn 30 align with the types of events across public software companies. For example, allegations and litigation surrounding companies' impact on youth mental and physical health are commonly reported. On the public side, there are currently material Quality and Safety events, again driven by the big tech companies. For example, Meta is currently assessed as Category 4 (Impact) and Category 3 (Risk) due to the high volume of investigations, lawsuits and scrutiny arising from concerns over harm to users on its platforms. Granted, Meta has faced several years of related media spotlight and litigation, unlike many of the companies across the Unicorn 30 Index. However, with all eyes on companies like OpenAI, Anthropic and SpaceX, especially considering their IPOs, we can expect public scrutiny and litigation to increase for the most prominent unicorn companies.

Comparing Unicorn 30 to US-Based Public Companies

When we compare Unicorn 30 companies with our broader universe of US public companies (totaling close to 9,800 companies), we see alignment, particularly on Quality and Safety, which is the most populated event category for both subsets. Health and safety is a highly regulated field across many sectors; therefore, the volume of controversies in this area is reasonable. On the public side, there are material rating assessments (Category 3, 4 and 5) for several strictly regulated sectors, including

Healthcare, Transportation, and Aerospace and Defense. Comparatively, for the Unicorn 30, Quality and Safety issues are tied largely to the Technology sector’s lag in safety oversight and related scrutiny.

Exhibit 4 Key Event Issues Captured Across US-Based Public Companies



Source: Morningstar Sustainalytics. Data as of May 27, 2026.

Labour Relations is another key event indicator associated with a high volume of events for all the company subsets. Notably, though, it is ranked the highest across the US public companies universe. The material events assessed are connected to large consumer-facing public companies with significant employee headcounts (e.g. Amazon, Tesla, Starbucks). For the Unicorn 30, nearly all Labour Relations controversy assessments are currently tied to SpaceX. Incidents here include lawsuits filed by former employees alleging unlawful termination or discrimination. Deel and Figure AI are the only other Unicorn 30 peers with Labour Relations-related risks currently. While the remaining Unicorn 30 companies are not linked to controversies in this area, labor issues are pertinent to all companies and may become more of a material issue as these private players build out their workforces.

Lastly, Corporate Governance controversies are much more prominent in the US public company universe, placed sixth from the top, compared to Unicorn 30, where it is ranked eleventh. This is expected, due to the general strength of public market governance oversight compared to private markets. Only a handful of Corporate Governance events are currently assessed for the Unicorn 30, affecting SpaceX, OpenAI and Anduril Industries. The Unicorn 30 cohort serves as a forward-looking comparison, offering insight into how the prevalence and severity of issues may evolve as companies scale and come under greater public scrutiny. It also highlights how sector-driven risk concentrations could become more pronounced when a company seeks an IPO and has implications for index composition and investor exposure.

Governance Considerations for Companies Seeking IPOs

Observed trends in controversy exposure signal potential risk areas, but a private company's governance ultimately shapes how these risks are managed and overseen. This becomes increasingly important for late-stage private companies seeking an IPO, where transparency is still limited, but market expectations start aligning more closely with those in public markets.

Therefore, while the prevalence of Corporate Governance events is quite low across Unicorn 30 companies, the issue remains a key area of scrutiny for late-stage private companies preparing for an IPO. These companies are not subject to the same stringent level of regulatory disclosure and requirements as publicly listed firms; however, the voluntary adoption of good corporate governance practices becomes critical in gaining investors' trust. Recent surveys have shown that investors consider governance-related factors ahead of social and environmental factors when they make investment decisions.^{10,11}

Exhibit 5 illustrates Morningstar Sustainalytics' Corporate Governance framework. While recognizing that there are differences in rules, regulations or recommendations based on the country of incorporation or the listing venue, Sustainalytics has developed a unitary framework based on an understanding of best practices globally. This framework enables cross regional analyses and comparisons, creating a common gauge of effective corporate governance.

¹⁰ Stanford Graduate School of Business, the Hoover Institution Working Group on Corporate Governance, and the Rock Center for Corporate Governance in collaboration with the MSCI Sustainability Institute. "2024 Institutional Investor Survey on Sustainability." May 1, 2024. <https://www.hoover.org/sites/default/files/2024-05/2024-cgri-msci-sustainability-survey-FINAL.pdf>

¹¹ CFA Institute. "Environmental, Social and Governance (ESG) Survey." 2017. <https://rpc.cfainstitute.org/sites/default/files/-/media/documents/survey/esg-survey-report-2017.pdf>

Exhibit 5 Morningstar Sustainalytics Corporate Governance Framework

Morningstar Sustainalytics' Corporate Governance Framework



DEFINITION

Corporate Governance encompasses the mechanisms, processes and policies by which a company is managed and overseen to ensure its ability to mitigate risks, increase long-term value creation and safeguard its reputation. It focuses on whether a company is run in a transparent and accountable way and whether its leadership acts in the best interests of shareholders.



WHY CORPORATE GOVERNANCE MATTERS FOR UNICORN COMPANIES?

- Weak oversight raises risks of capital misallocation, minority shareholder harm & reputational damage
- Governance quality affects IPO valuation, index inclusion & long-term value creation
- Private companies lack public market scrutiny – voluntary adoption of best practices is critical pre-IPO

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Source: Morningstar Sustainalytics.

Poor corporate governance practices may result in valuation discounts or even failed IPOs. A notable example is WeWork, which in 2019 was forced to withdraw its IPO following investor scrutiny over its corporate governance approach and business model. The company had to implement corporate governance changes ahead of its planned IPO in 2019 after investors voiced concerns over its super-voting shares and insufficient independent oversight.^{12,13} The company later went public in 2021 through a special-purpose acquisition company.

¹² The We Company. Form S-1. September 13, 2019. <https://www.sec.gov/Archives/edgar/data/1533523/000119312519244329/d804478ds1a.htm>

¹³ BBC. "WeWork officially pulls plan for stock market listing." September 30, 2019. <https://www.bbc.com/news/business-49884247>

Against this backdrop, transitioning from private to public markets may require companies to make significant adjustments to their corporate governance frameworks to meet both regulatory requirements and public market expectations, including increased disclosure transparency, and enhanced board independence and accountability. The appointment of independent directors and oversight committees ensures objective judgement and may provide assurance to shareholders that their interests are adequately represented. Moreover, independent directors strengthen the board's ability to challenge management decisions that may pose risks to the business.

Moreover, companies that make the transition to public markets may be required to gradually shift away from the founder-led framework to governance arrangements where shareholders have enhanced rights and can effectively have a say in the way the company is run.

Case Study: SpaceX

Among the Unicorn 30 Index constituents, SpaceX exemplifies how governance-related risk signals may be interpreted, as these may shape future controversy exposure and influence both index eligibility and portfolio construction. While having conducted the largest IPO in history,¹⁴ SpaceX has adopted corporate governance practices that could be viewed as lagging behind both large aerospace and technology companies, and market expectations.¹⁵ The company will significantly restrict shareholders' rights while concentrating power in the hands of the company's founder, Elon Musk, as shown in the Form S-1 Registration statement filed with the Securities Exchange Commission (SEC) on May 20, 2026. The company will operate as a controlled company and may therefore benefit from exemptions from certain corporate governance requirements, including a majority independent board or fully independent compensation and nomination committees.

SpaceX's governance structure solidifies Musk's control of the company as owner of nearly 94% of its super-voting shares. According to the company's IPO prospectus,¹⁶ SpaceX has a dual-class share structure, with class B shares carrying 10 votes per share and class A shares only one vote per share. Through this structure, Musk will control around 82% of the voting power, despite holding less than a majority of SpaceX's total equity. This will allow him to maintain control without proportional economic exposure. Notably, only class A shares were offered to the public in the IPO.

Dual-class structures are not unusual at the IPO stage among founder-led technology companies. Firms such as Alphabet, Meta and Airbnb have also provided enhanced voting rights to their founders to preserve their control following the IPO. Moreover, according to the Council of Institutional Investors (CII), around one-third of companies that went public in the US in 2025 featured dual-class structures.^{17,18} Proponents argue that these structures are beneficial, allowing founders to focus on long-term strategy and protect the company against any potential takeover attempts or activist investor

¹⁴ The Guardian. "SpaceX makes largest ever stock market debut, making Elon Musk world's first trillionaire." June 12, 2026. <https://www.theguardian.com/science/2026/jun/12/spacex-stock-price-ipo-spccx>.

¹⁵ Reuters, "SpaceX IPO gives Musk sweeping power and curbs shareholder rights." May 6, 2026. <https://www.reuters.com/sustainability/boards-policy-regulation/spacex-ipo-gives-musk-sweeping-power-curbs-shareholder-rights-2026-05-06/>.

¹⁶ Space Exploration Technologies, Corp. Prospectus. June 12, 2026. <https://www.sec.gov/Archives/edgar/data/1181412/000162828026042639/spacexexplorationtechnology.htm>.

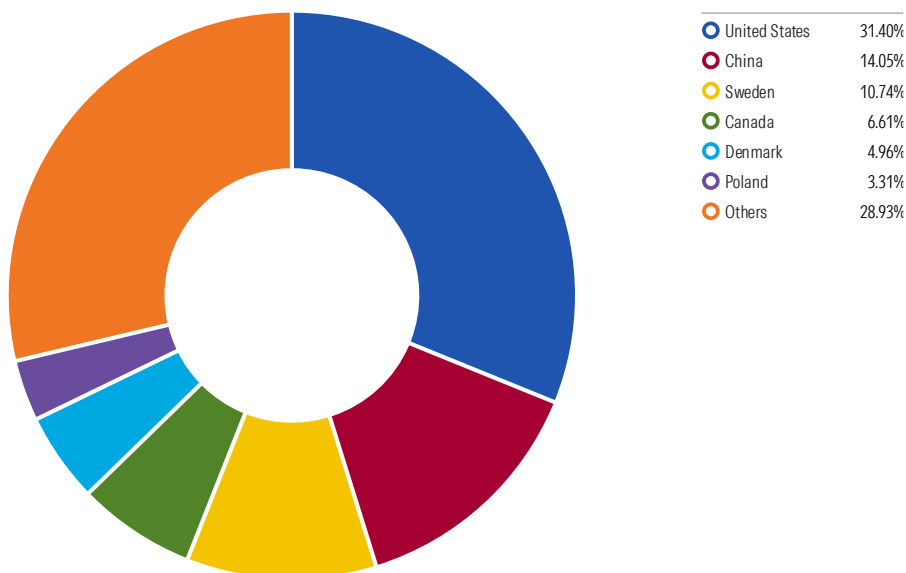
¹⁷ Council of Institutional Investors. "Newly Public Operating Companies Snapshot: Jan.-Dec. 2025." <https://www.cii.org/files/publications/dual-class/2025-Jan-Dec-Dual-Class-Report.pdf>.

¹⁸ CII tracking includes traditional IPOs, direct listings, and de-SPAC mergers. CII does not include shell company IPOs, foreign private issuers (FPIs), Real Estate Investment Trusts (REITs) or companies valued below US\$200 million in public equities.

pressures. However, these structures also come with governance risks, such as diminished accountability to minority shareholders and the potential for management entrenchment.¹⁹ The CII recommends that companies include time-based sunset provisions in their charters, arguing that the value premium that dual-class share structures tend to bring in the first years after the IPO fades to a discount after seven years.²⁰ SpaceX's documents do not envisage any sunset clause for its super-voting Class B shares, further entrenching insider control.

Morningstar Sustainalytics data show that companies employing dual-class structures represent only 7.2% of the entire publicly listed companies assessed in our ESG Risk Ratings. In the case of only 2.7% of total publicly listed companies, super-voting shares allow investors who hold less than a 50% equity stake to control more than 50% of the voting rights. Most of the entities where the largest shareholder secures control through super-voting shares are incorporated in the US (31.4%) and China (14.05%). In terms of industry, 19% of these companies operate in Software and Services and 10.74 % in Diversified Financials.

Exhibit 6 Control Achieved Through Super-Voting Shares



Source: Morningstar Sustainalytics. Data as of May 29, 2026.

The central governance concern is not merely that Musk will retain significant influence over SpaceX. It is that the company's governance architecture appears designed to preserve his control even if public shareholders later become dissatisfied with the company's strategy, execution, conflicts of interest, or leadership.

Maintaining control will insulate Musk from any shareholder opposition, allowing him to dictate the strategy of the company. However, while providing significant freedom to pursue long-term goals and faster execution, this power comes with trade-offs, limiting shareholders' ability to oppose any potential misalignments of interests or excessive risk-taking by the management. Evidence from Meta Platforms

¹⁹ Investor Coalition for Equal Votes. "Voting on Voting Rights." November 2024. <https://www.railpen.com/media/4y5lxhzmz/icev-dcss-voting-policies-2024.pdf>

²⁰ Council of Institutional Investors. "Dual-class stock." https://www.cii.org/dualclass_stock

illustrates how dual-class structures with concentrated voting power allow management to pursue costly strategies, despite shareholder concern. Meta, which is controlled by its founder, Mark Zuckerberg, through super-voting share ownership, has lost around USD 80 billion on its Reality Labs division since 2020.²¹ Massive investments in the metaverse and virtual reality division had raised shareholder skepticism.^{22,23} Meta also identifies Reality Labs strategy and investment as a potential risk in its latest 10-K report.²⁴ This example is particularly relevant for SpaceX, as its outlook also depends heavily on markets and technologies that do not yet fully exist, including Mars missions and space-based AI data centers. In Q1 2026, connectivity (Starlink) was the only profitable segment, while the company recorded a USD 1.94 billion operating loss, with its AI division alone losing USD 2.47 billion.²⁵

Musk's influence at SpaceX is further reinforced by the concentration of key leadership positions he holds within the company: chief executive officer, chief technical officer and executive chairman of the board. This combination of executive, technical, and board leadership roles gives him unusually broad control over both day-to-day operations and board-level oversight.

SpaceX's documents clearly warn that shareholders will have limited power to influence corporate matters or the election of directors, with Musk and other insiders being able to elect a majority of the directors and decide on corporate matters. The power concentration is cemented by a provision in the company's IPO prospectus that essentially gives Musk veto power over his removal, since he "can only be removed from our board or these positions by the vote of Class B holders." Musk owns 93.6% of Class B stock.²⁶

Musk's accountability is inversely related to the rights of minority shareholders, who will have little, if any, power to challenge management decisions. Shareholders are also waiving their rights to jury trials against the company, with disputes being solved through individual arbitration rather than class action lawsuits.²⁷ This could have the effect of limiting avenues for shareholder litigation, including challenges like those previously brought against Musk's pay arrangements at Tesla.

At SpaceX, Musk's compensation consists mainly of performance-based restricted shares that would vest, subject to meeting market capitalization milestones and the establishment of a permanent human colony on Mars that has at least one million inhabitants.

Public investors, such as leaders of major pension systems in the US and Europe, have cited their concerns and described SpaceX's proposed governance structure as "extreme," objecting to the

²¹ CNBC. "Meta's Reality Labs lost over \$4 billion in first quarter." April 29, 2022. <https://www.cnbc.com/2022/04/29/metasp-reality-labs-lost-over-4-billion-in-first-quarter.html>

²² Medium.com. "Time to Get Fit — an Open Letter from Altimeter to Mark Zuckerberg (and the Meta Board of Directors)." October 24, 2022. <https://medium.com/@alt.cap/time-to-get-fit-an-open-letter-from-altimeter-to-mark-zuckerberg-and-the-meta-board-of-392d94e80a18>

²³ Investopedia. "Meta's Metaverse May Be Shrinking. Investors Are Happy and the Stock Is Surging." December 4, 2025. <https://www.investopedia.com/meta-metaverse-may-be-shrinking-investors-are-happy-and-the-stock-is-surging-11861835>

²⁴ Meta Platforms, Inc. 10-k Annual Report for Year Ending December 31, 2025 January 29, 2026. <https://www.sec.gov/ix?doc=/Archives/edgar/data/0001326801/000162828026003942/meta-20251231.htm>

²⁵ Space Exploration Technologies, Corp. Form S-1. May 20, 2026. https://www.sec.gov/Archives/edgar/data/1181412/000162828026036936/spaceexplorationtechnologi.htm?utm_source=chatgpt.com

²⁶ Space Exploration Technologies, Corp. Form S-1. May 20, 2026. <https://www.sec.gov/Archives/edgar/data/1181412/000162828026036936/spaceexplorationtechnologi.htm>

²⁷ Space Exploration Technologies, Corp. Form S-1. May 20, 2026. <https://www.sec.gov/Archives/edgar/data/1181412/000162828026036936/spaceexplorationtechnologi.htm>

combination of super-voting shares, protections against shareholder litigation, and provisions that would make it difficult to remove Musk.^{28,29}

Lessons from Tesla's Governance Experience

The Tesla example may provide a useful reference point for SpaceX investors. Unlike the proposed SpaceX structure, Musk does not control Tesla through majority voting power or a dual-class structure. Rather, Tesla illustrates the types of corporate governance issues that can arise where a company is closely associated with a founder CEO, has complex related-party relationships, and depends significantly on-board oversight, disclosure controls, and conflict-management processes.

Tesla has faced scrutiny over its board independence and executive compensation. Musk's historic compensation package became the subject of litigation, with a Delaware court finding that Tesla's board process did not satisfy the applicable standard of review. The relevance for SpaceX is that executive compensation and board independence can become significant governance issues where a senior executive has substantial influence over the company and its board, even in the absence of formal voting control.

Tesla's acquisition of SolarCity also raised questions about conflicts of interest and related-party decision-making, as Musk held significant ownership and leadership roles in both companies.³⁰ Although Musk ultimately prevailed in that litigation, the case highlights how transactions involving companies or shareholders with overlapping interests can create concerns about board independence, process, and fairness to shareholders. For SpaceX investors, the relevant issue is not whether similar disputes will arise, but whether the company has robust mechanisms to identify, review, approve and disclose transactions involving affiliated entities.³¹

Tesla has faced regulatory and investor concerns over public communications and disclosure controls. The SEC's 2018 settlement over Musk's "funding secured" tweet required Musk to step down as Tesla chair, required Tesla to add independent directors and imposed controls over certain public communications. This is relevant to SpaceX, because effective disclosure controls are particularly important where market expectations may be influenced by statements from a high-profile founder or executive.³²

Tesla illustrates the challenge of managing conflicts across Musk's companies. Questions have arisen over whether AI, data, capital and management attention should sit within Tesla or other entities, such as xAI and X. Similar governance questions could be relevant for SpaceX, given the scale and strategic importance of its businesses, including launch services, Starlink, satellite communications, defense-related contracts and potential AI or data-infrastructure initiatives.

SpaceX's IPO filing has already disclosed extensive intercompany links, including purchases of Tesla goods and services, Tesla's investment in SpaceX, aircraft-sharing arrangements and co-operation on AI

²⁸ New York City Comptroller. <https://comptroller.nyc.gov/reports/letter-to-spacex-re-ipo-from-nyc-comptroller-levine-nys-comptroller-dinapoli-and-calpers-ceo-frost/>

²⁹ Reuters. "Danish pension fund excludes SpaceX citing governance and valuation." May 29, 2026.

<https://www.reuters.com/legal/transactional/danish-pension-fund-excludes-spacex-citing-governance-valuation-2026-05-29/>

³⁰ Reuters. SolarCity accepts Tesla's \$2.6 billion offer, both shares fall. August 2, 2016. <https://www.reuters.com/article/business/solarcity-accepts-teslas-26-billion-offer-both-shares-fall-idUSKCN10C26O/>

³¹ Reuters. "Judge rules for Elon Musk in \$13 bln lawsuit over Tesla-SolarCity deal." April 27, 2022. https://www.reuters.com/business/judge-rules-elon-musk-tesla-investor-lawsuit-over-solarcity-deal-2022-04-27/?utm_source=chatgpt.com

³² Securities and Exchange Commission. October 2, 2018. https://www.sec.gov/newsroom/press-releases/2018-226?utm_source=chatgpt.com

infrastructure. This makes it important for investors to understand how conflicts of interest would be identified, reviewed and managed and whether SpaceX's board will have sufficient independence to ensure that decisions are made in the interest of SpaceX minority shareholders.³³

Notably, SpaceX's charter does not include any restrictions on Musk or his affiliates owning assets in or doing business with potential competitors.³⁴

Overall, the existence of governance-related risk highlights the importance of their incorporation into ESG frameworks, as they may ultimately shape controversy outcomes, index inclusion decisions, and portfolio risk profiles.

While the governance concerns outlined here for SpaceX suggest a potentially elevated risk profile, SpaceX's current Controversy Rating reflects the fact that these issues have not led to severe governance incidents so far. Under our Controversies Rating, some concerns related to corporate governance are not classified as controversies where they do not meet Morningstar Sustainalytics' thresholds for material ESG risk, impact, or accountability, even if they raise potential governance questions. As SpaceX transitions to the public market, it is expected to enter the broader Morningstar Sustainalytics products universe coverage. The governance risks outlined in this report are likely to be assessed more comprehensively under ESG Risk Ratings and reflected under the company's unmanaged risk.

³³ Reuters. "SpaceX reveals Musk company links, from Cybertrucks and jets to stock investments." May 20, 2026. https://www.reuters.com/legal/transactional/spacex-reveals-musk-company-links-cybertrucks-jets-stock-investments-2026-05-21/?utm_source=chatgpt.com

³⁴ Space Exploration Technologies, Corp. Form S-1. May 20, 2026. <https://www.sec.gov/Archives/edgar/data/1181412/000162828026036936/spacexplorationtechnologi.htm>

Enhancing Data Accessibility in Private Markets: Implications for Investors

Through a rules-based approach, the Morningstar Pitchbook Unicorn 30 Index combined with Sustainalytics Controversy Research framework introduces standardization and comparability to a segment traditionally characterized by limited disclosure and heterogeneous data, enabling investors to:

- ▶ **Monitor total portfolio risk exposure:** Assess and aggregate ESG and controversy risks consistently across public and private equity holdings, reducing blind spots as market concentration increases across sectors and companies
- ▶ **Strengthen due diligence and valuation:** Incorporate forward-looking signals of operational and reputational risk that are often not captured in late-stage private market financials
- ▶ **Benchmark across public and private markets:** Compare companies on a consistent basis, supporting relative value assessment and manager oversight
- ▶ **Anticipate pre-IPO valuation and exclusion risk:** Identify when even minor ESG issues may signal disproportionate downside risk, given unicorn valuations' sensitivity to sentiment and the potential for screening-based exclusion at index inclusion

As large private companies approach public markets at unprecedented scale, the gap between private opacity and public accountability has never been more consequential. The introduction of Controversy Ratings for the Morningstar PitchBook Unicorn 30 Index represents a meaningful step toward closing that gap. It brings the rigor of public market ESG frameworks to bear on a cohort of companies that will soon shape the composition of major indices and institutional portfolios. The evidence suggests that while severe controversies remain limited today, there are underlying risk signals in the types and frequency of incidents. Furthermore, the governance structures of some leading candidates are untested under public scrutiny, and the stakes are significant. Transparency, applied early and consistently, can contribute to robust investment processes. ■■■

Appendix

Morningstar Sustainalytics categorizes the assessments under Controversy Ratings on a scale of 0 to 5, with Category 0 representing no involvement in a controversy and Category 5 representing the most severe stakeholder or environmental impacts, or the most severe financial risk to the company.

Exhibit 7 Controversy Rating Summary

Category 5	Category 5 represents the most severe controversies. The category highlights the most material risk or most severe stakeholder/environmental impact.
Category 4	Category 4 represents a high stakeholder/environmental impact or high level of financial materiality for the company.
Category 3	Category 3 represents a significant stakeholder/environmental impact or significant financial materiality for the company.
Category 2	Category 2 represents moderate stakeholder/environmental impact and is financially immaterial to the company.
Category 1	Category 1 represents a low stakeholder/environmental impact and is financially immaterial to the company.
No evidence of relevant controversies	Incidents involving the company have not been recorded during the relevant time period.

Source: Morningstar Sustainalytics

Exhibit 8 Controversy Event Indicators

Event Indicator Name	Definition
Quality and Safety	Incidents related to quality or safety issues associated with the company's products or services that may result in negative impacts on the safety or wellbeing of consumers or society.
Intellectual Property	Incidents related to breaches of intellectual property rights, such as patents, copyright, industrial design rights, trademarks or trade secrets.
Data Privacy and Security	Incidents related to breaches of customer data privacy, unauthorized disclosure, collection or use of personal data, or failure to protect customer data.
Business Ethics	Incidents related to ethical violations committed by a company or its employees.
Labour Relations	Incidents related to poor compensation, discrimination and harassment in the workplace, or to unfair working conditions that are raised by a company's own employees or their representatives, such as labor unions.
Media Ethics	Incidents related to breaches in editorial standards, content or general ethical principles for the media, including broadcast, print, digital and other types of media outlets.
Emissions, Effluents and Waste	Incidents related to the release or improper disposal of waste, effluents or emissions (excluding carbon dioxide) into the environment by company suppliers.
Occupational Health and Safety	Incidents related to workers' health and safety within a company's operations.
Social Impact of Products	Incidents related to the negative societal impact of a company's products.
Anti-Competitive Practices	Incidents related to attempts to prevent, reduce or restrict competition in a market.
Corporate Governance	Incidents related to breaches of good corporate governance practices and their effects on a company's shareholders' rights.
Land Use and Biodiversity	Incidents related to a company's failure to adhere to sustainable land or sea use practices and result in negative effects on ecosystems and biodiversity.
Community Relations	Incidents related to corporate activities that negatively impact local communities (including Indigenous communities), and how a company responds to and manages conflicts with affected groups.
Marketing Practices	Incidents related to false or deceptive marketing practices, such as using misleading or incorrect statements in promotional materials or targeting vulnerable consumers.

Source: Morningstar Sustainalytics

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.sustainalytics.com.



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