

## The Mega-cap IPO Craze

### Will This Impact Passive Equity Portfolios?



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#### At a Glance

- **Mega-cap initial public offerings (IPOs) are an important market event for passive portfolios. Unlike typical IPOs, companies such as SpaceX, OpenAI, and Anthropic could enter the market at high Market Capitalizations, making them immediately relevant for index inclusion and passive investors.**
- **Index providers are accelerating inclusion timelines, but not uniformly: While some benchmarks (e.g., MSCI, Nasdaq, broader S&P indices) already allow for fast-tracking based on size and float, flagship indices like the S&P 500 still maintain stricter profitability and seasoning requirements, creating divergent inclusion paths between providers.**
- **Inclusion may be fast, but index impact will depend on float and structure: Even with large valuations, initial index weights may be limited due to low free float, dual-class structures, and lock-up periods, with passive exposure increasing over time as more shares become available and floating rate increases.**

It is uncommon for IPOs to be large enough to matter for institutional investors using passive equity strategies. Most new listings do not meet the criteria for inclusion in large cap indices such as the S&P 500 or MSCI World, limiting their impact on benchmark tracking portfolios.

That is about to change. Mega-cap IPOs such as SpaceX, Anthropic, and OpenAI may come to market at sizes that challenge existing index inclusion frameworks. Index providers are now left scrambling to decide whether these companies should be fast tracked into benchmarks or excluded until they meet standard inclusion criteria.

Let's dive into the potential impact of these high profile IPOs on equity indices, the mechanics of index inclusion, and what this means for the passive portfolios managed by TD Asset Management Inc.'s (TDAM) passive equity investment team.

## What Investors Are Talking About

Discussions around mega-cap IPOs began to pick up in 2025 as market attention increasingly shifted toward companies such as SpaceX, Anthropic, and OpenAI, and the question of whether, and how they might eventually access public markets. These potential IPOs have attracted significant market attention, driven by substantial revenue bases despite not yet being profitable. Importantly, they would also give public-market investors access to business models that are largely unavailable today, most notably conversational AI and large language models that many of us already use, as well as exposure to the commercial space industry through SpaceX.

Investors are also closely focused on the underlying assets and platforms embedded within these businesses. SpaceX controls Starlink, an already well-established satellite internet provider, alongside its broader space exploration and Starship programs. OpenAI owns and operates ChatGPT, while Anthropic develops and operates Claude and Claude Code.

However, with revenues already measured in the multiple billions, high growth expectations tied to their AI business models, and several rounds of private financing behind them, these fan-favorite IPOs are expected to come to market at valuations that exceed those of many established public companies in major indices.

Name of Company	IPO Date	Estimated Market Cap	Percentage of Shares Issued Publicly
SpaceX	June 12, 2026	1 trillion – 1.8 trillion	7.53%
OpenAI	Filed Confidential Prospectus on June 9, 2026, IPO Rumored for Q4 2026 or 2027	852 billion	Estimates suggest between 5% to 8% of market capitalization
Anthropic	Filed Confidential Prospectus on June 1, 2026, expected to IPO in Q4 2026	965 billion	Estimates suggest between 5% to 8% of market capitalization

Source: SpaceX IPO information is sourced from Bloomberg IPO function. Estimated market capitalizations for OpenAI and Anthropic are based on Bloomberg data and reflect the latest private financing rounds. Assumptions regarding the percentage of shares expected to be issued publicly for OpenAI and Anthropic are market-based estimates, as no official IPO filings are currently available.

Criteria

Another challenge when assessing these companies ahead of an IPO is the limited transparency available to investors. Pre-IPO estimates for market capitalization, revenues, profitability, and the percentage of shares to be issued are often based on preliminary information and assumptions, as full disclosure only becomes available once a company formally enters public markets. As a result, many passive equity investment teams are working with assumptions and are waiting for final IPO details, as well as formal announcements from index providers, before taking any action.

For investors using passive strategies, it's important to remember that a large market capitalization does not automatically translate into a large index weight. Let's take a closer look at the key concepts and how index mechanics actually work when it comes to including these new mega-cap IPOs.

## Understanding Index Inclusion Mechanics

Key Definitions:

- **Market Capitalization:** A company's total value. For public companies, this is calculated by multiplying the share price by the total number of outstanding shares.
- **Free-Float Market Capitalization:** The value of a company based only on the shares available for public trading, excluding those held by insiders, founders, and strategic owners.
- **Fast-Tracking:** Index rules that allow a very large IPO to be added to a benchmark within days of listing, rather than waiting for standard inclusion criteria and review periods to be met.
- **Dual-class Shares:** A structure issuing share types with unequal voting rights, letting founders and insiders keep control while owning a minority stake.
- **Lock-Up Period:** The period following an IPO during which insiders are unable to sell their shares; its expiry typically results in additional shares being released into the public market.

## S&P

S&P implemented a clear two-tier approach to mega-cap IPO inclusion following its June 2026 consultation. The S&P 500 remains unchanged, with all existing requirements, such as a 12 month seasoning period, minimum float, and sustained profitability, still fully enforced, resulting in a delayed and more stringent path for newly listed companies. In contrast, S&P introduced a fast-track mechanism specifically for its broader indices, such as the Total Market Index and Completion Index, allowing large IPOs that meet defined float-adjusted market cap thresholds to be added shortly after listing, based on first-day pricing and with advance notice. Importantly, this pathway removes profitability and seasoning requirements, enabling faster inclusion in the broader market. Overall, the outcome creates a clear distinction: accelerated access to broad market exposure, but a slower, criteria-driven route into the flagship S&P 500.

## MSCI

MSCI does not need to change its rules to deal with large IPOs. Instead, it relies on its existing fast-track process, which already allows very large companies to be included relatively quickly after listing. Inclusion is mainly driven by size, liquidity, and free float, with no profitability requirement and no fixed seasoning period, making MSCI's approach more flexible than that of indices such as the S&P 500.

A key difference is how MSCI treats free float. Rather than applying a hard minimum threshold, MSCI looks at float in absolute terms and adjusts for company size. As a result, very large companies with relatively low initial float can still qualify, as long as the overall market capitalization and available float are large enough.

In practice, this means that large, liquid IPOs can be added to MSCI benchmarks relatively soon after listing, even when public ownership is limited at launch.

## Nasdaq

The Nasdaq-100 includes companies that meet several core eligibility criteria, including a primary listing on the Nasdaq Global Select or Global Market, exclusion from the financial sector, a minimum three-month average daily traded value of \$5 million, and a ranking among the 100 largest non-financial Nasdaq-listed companies by market capitalization (with fast-track candidates typically requiring an estimated market cap of around \$102 billion). Unlike the S&P 500, there is no profitability requirement, and the index uses a modified market-cap weighting methodology while excluding REITs, SPACs, and when-issued securities. Recent rule changes implemented on May 1, 2026, further accelerated inclusion for mega-cap IPOs, allowing entry as early as 15 trading days post-listing, removing the minimum float requirement, applying a size-adjusted float multiplier for low-float names, and introducing new quarterly ranking tests.

## Solactive

Solactive's latest consultation period, which closed May 1, 2026, introduces a structured fast-track framework for mega-cap IPOs, enabling newly listed companies that meet predefined size, liquidity, and eligibility thresholds to be added to indices outside of the standard rebalancing schedule. The approach is designed to ensure more timely inclusion of large, market-relevant IPOs, while maintaining a rules-based process through an IPO review mechanism that limits discretion. In addition, the changes formalize clearer eligibility criteria and implementation timelines across Solactive's core benchmark families, improving consistency and transparency in how IPOs are treated. Overall, the update reduces the historical lag to inclusion, enhances index responsiveness to significant new listings, and aligns Solactive's methodology more closely with evolving industry standards and investor expectations.

## Index Inclusion Rules for New IPOs

Criterion	S&P 500	MSCI	Nasdaq-100	Solactive
Fast-Track Inclusion Rule?	No	Yes	Yes	Yes
Fastest Post-IPO Inclusion Timing	12-Month Minimum	10 Trading Days Since IPO	15 Trading Days Since IPO	Custom indices such as Solactive Global Technology Leaders Index will fast-track IPOs after 10 trading days; broad market Solactive indices include at next rebalance.
Profitability Requirements	Yes – 4 consecutive quarters of profitability	No	No	No
Minimum Free Float Threshold	10% hard minimum	~15% free float; MSCI retains flexibility for large IPO inclusions	No	Free float requirements waived if Market Cap > USD 1 billion
Rule Changes for Mega-Caps?	Yes – Proposal Rejected on June 4, 2026	No – Existing Framework Deemed Sufficient	Yes – Implemented on May 1, 2026	Yes – Will be implemented on June 30, 2026
Is SpaceX Eligible?	No – Earliest Eligibility June 2027 (Subject to Profitability being met)	Yes – Expected Late June 2026	Yes – Expected Late June 2026 (Day 15 after IPO)	For custom indices, inclusion is expected after 10 trading days; for broad market indices, inclusion will occur at the August rebalance.

## Implications for TDAM’s Passive Equity Portfolios

In summary, the rise of mega-cap IPOs introduces a new dynamic for passive investing, where timing, eligibility, and implementation can vary meaningfully across index providers. While fast-track mechanisms are improving speed of inclusion, differences in profitability requirements, float thresholds, and seasoning periods create divergent pathways into major benchmarks. Importantly, even when inclusion is accelerated, realized portfolio impact will depend on float and share availability, with weights building over time.

For TDAM’s passive equity investment team, the focus remains on closely tracking underlying indices while minimizing replication error, and as such, the team is actively preparing to systematically incorporate these names as they enter benchmark universes, ensuring portfolios remain aligned with index evolution while maintaining efficient implementation. Operationally, there are two key questions when incorporating these names into our passive equity strategies: what index weight will they ultimately carry in the index, and will there be enough liquidity to trade into these positions without causing significant market impact?

When it comes to index exposure, it is difficult to provide a precise estimate in advance, as index providers ultimately determine entry weights based on free float market capitalization post-IPO, which can vary with market performance. What we do know is that, given the relatively low free float at listing, index providers such as MSCI are unlikely to assign a large initial weight. Instead, index weights are typically adjusted over time as additional shares become available to the public market, which often occurs following the expiration of lock-up periods.

While companies such as SpaceX, OpenAI, and Anthropic are expected to come to market with very large market capitalizations, their initial free float is likely to be meaningfully lower than that of many

existing constituents in benchmarks such as the S&P 500.

From a liquidity and trading volume perspective, it remains difficult to project precise levels in advance, particularly given the high profile nature of these IPOs and their expected appeal to retail investors. That said, we have run a range of scenarios based on historical high profile U.S. IPOs. Our analysis suggest that based on current fund size and simulated volume of SpaceX on the inclusion date we should be able to gain exposure at close of market price, allowing us to closely align with index inclusion while minimizing replication error relative to the underlying benchmark. ■

# Inclusion



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