

EDCI – How the Initiative Is Shaping ESG Data

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Key Takeaways

- The ESG Data Convergence Initiative (EDCI), established in 2021, addresses a need for standardized ESG data in the private equity market.
- EDCI collects 18 core metrics designed to provide comprehensive insights into environmental, social, and governance management.
- Membership streamlines ESG reporting processes for GPs, which saves time and resources and promotes transparent data that facilitates accurate performance benchmarking.
- Malk assists GPs with EDCI data collection and validation, ensuring data accuracy and compliance with reporting expectations.

Origins of EDCI

General Partners (GPs) and Limited Partners (LPs) increasingly recognize the importance of integrating ESG analysis and practices into their investment strategies. Historically, GPs, LPs, and portfolio companies have leveraged an array of frameworks to report on ESG metrics they deemed material. These myriad frameworks created a number of challenges:

- LPs and investment managers lacked standardized and comparable ESG data across their portfolios, hindering their abilities to directly assess ESG performance
- GPs faced high volumes of custom ESG data requests from LPs, diverting more time and energy away from meaningful progress on critical ESG issues
- Portfolio companies grappled with a complex array of ESG reporting standards and obligations, making it challenging to align ESG efforts with the right standards
- Private investment markets lacked comprehensive data on ESG performance, limiting stakeholders' ease to evaluate and compare ESG practices across companies

Recognizing these challenges, the [California Public Employees' Retirement System](#) (CalPERS) and the [Carlyle Group](#), a global investment firm, gathered a small group of GPs and LPs to discuss these ESG data challenges. The group developed a plan of action for ESG data, outlining metrics that broadly captured materiality across the private equity market and could be substantial enough to yield meaningful data.

The GPs and LPs in the initial gathering became founding members of the ESG Data Convergence Initiative (EDCI) upon its launch in 2021. EDCI now provides a standardized set of metrics and a mechanism to enable GPs and portfolio companies to assess their current positions and progress toward ESG improvements. Since its inception, over 425 GPs and LPs have joined the Initiative, prompting greater transparency and benchmarking capabilities across the industry.

EDCI Metrics

EDCI's [18 core metrics](#) are grouped into seven categories, providing GPs with insight into portfolio company environmental impacts, social impacts, governance structures, and ESG risks and opportunities:

1. Greenhouse gas (GHG) emissions
2. Net zero
3. Renewable energy
4. Diversity
5. Work-related accidents
6. Net new hires
7. Employee engagement

The Initiative provides guidance to members, including definitions, recommendations, and clarification for common questions.

EDCI metrics can change based on market demands. Since its inception, EDCI has added two new core metrics: % women in C-Suite (added for the 2023 cycle) and net zero commitment (added for the 2024 cycle). These updates reflect the markets' emphasis on evaluating how portfolio companies are approaching DEI in the workforce, as well as which portfolio companies are pursuing leadership in the climate transition to a lower-carbon future.

Benefits

Through EDCI membership, GPs can use streamlined reporting processes, saving time and resources for both them and portfolio companies, while providing clear insights into performance relative to peers. Through the platform, GPs can efficiently manage and share ESG data with LPs and private creditors, facilitating transparency and informed decision-making about future investments. Additionally, EDCI enables GPs to assess correlations between ESG efforts and financial performance, guiding strategic investment choices with a focus on long-term value creation.

Metrics gathered through EDCI are instrumental for businesses aiming to enhance their ESG profiles, as they offer a comprehensive view of a company's impact and ESG practices. For instance, tracking net new hires underscores ongoing workforce dynamics, highlighting both organic and inorganic growth a company is undertaking. Metrics like net new hires are foreign to many entering the ESG data space but are foundational indicators of ESG performance. Stakeholders use EDCI data to infer a company's capacity to innovate, adapt, and sustain long-term growth.

Another example concerns work-related accident metrics (e.g., fatalities, injuries, days lost to injuries), which are tracked through EDCI. These data points consolidate corporate safety data standards and are critical for measuring a company's commitment to workplace health and safety culture. They offer valuable insights into the outcomes of safety practices and risk management efficacy. High rates of accidents can indicate deficiencies in safety protocols, while tracking days lost to injuries quantifies the direct and indirect costs of workplace incidents, which impact productivity and employee morale. Companies that actively monitor and manage these metrics tend to exhibit a proactive approach to risk management and employee training for at-risk roles, aligning with business practices increasingly prioritized by investors.

EDCI Membership and Requirements

The EDCI's members include 425+ GPs and LPs, representing ~\$28 trillion in assets under management (AUM). GPs and LPs can become EDCI signatories by filling out a [survey](#) on the Initiative's website and signing a Data Privacy agreement.

By becoming a signatory, GPs agree to:

- Identify the funds that will participate in the Initiative. GPs may initially focus on a subset of their investment strategies, with the expectation that the proportion of their participating funds or portfolio companies will expand over time
- Make best efforts to monitor EDCI metrics, prioritizing mandatory metrics
- Adhere to EDCI Metrics Guidance and provide explanations for any deviations
- Provide EDCI data to LPs as requested, preferably using the EDCI's [Data Submission Template](#)
- Submit anonymized data for participating portfolio companies to the EDCI by April 30 each year
- Publicly support the initiative
- Encourage LPs to align with the EDCI
- Consider participating in working groups or self-nominating for the EDCI Steering Committee

Malk and EDCI

Since EDCI's inception, Malk has supported GPs by collecting EDCI data, including communicating directly with portfolio companies to gather required data. Malk supports clients on portfolio management through ESG monitoring, which can entail both qualitative reviews of companies' ESG improvements and quantitative data collection. Monitoring contextualizes data and engages company leadership to provide holistic outcomes and interpretations. Malk's approach provides metrics year-over-year but also offers a story of growth in practices and areas for improvement, helping create a narrative for a company's ESG journey.

Malk also assists GPs in validating data. Portfolio companies across industries and business models vary widely in their ESG maturities and ability to report ESG data. Malk helps GPs ensure that their portfolio EDCI data is accurate and fit-for-purpose by working with portfolio companies to improve their understanding of reporting requirements and inform tailored ESG targets. Malk can even submit validated data directly to EDCI for clients. As the ESG data landscape continues to evolve, Malk is committed to innovating the right tools and methods to help clients find and capitalize on the ESG metrics that matter to them and their companies.

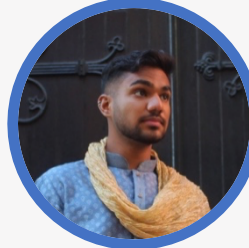
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