

Why EDCI Signatories Should Prioritize Early Data Validation

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Key Takeaways

- EDCI signatories may experience setbacks when erroneous data is identified by the EDCI post-submission, leading to substantial rework on complex datasets and unplanned engagements with portfolio companies, diverting attention from the core activities of an asset manager.
- Validating data prior to the April 30th EDCI submission deadline can provide value to signatories by ensuring accuracy, reducing the risk of logistical challenges and process inefficiencies, and improving the quality of the EDCI benchmark for peer comparisons.
- Proactive data validation not only enhances the integrity of ESG data for internal purposes (i.e., LP reporting, measuring the efficacy of value creation initiatives) but also fosters more accurate benchmarking by EDCI, which can be useful for GPs to assess portfolio performance against peers.
- Malk Partners leverages integrated solutions and years of experience with EDCI validation to simplify the reporting experience for GPs and portfolio companies, providing support through flexible data collection, robust cleaning & validation, and portfolio-wide aggregation.

EDCI Reporting

The landscape of ESG framework relevant to asset managers and their investments continues to grow, expanding the scope of metrics to track across portfolios. The [ESG Data Convergence Initiative](#) (EDCI) was established to provide a standardized framework for reporting high-priority ESG metrics across the private equity market. The framework plays a crucial role in helping General Partners (GPs) and their portfolio companies focus their ESG data collection strategies and fulfill their reporting obligations to Limited Partners (LPs). With 18 core metrics underpinning the framework, [EDCI has shaped](#) the ESG data strategies of many LPs and their GP sponsors. Importantly, EDCI requires all signatory GPs to collect, aggregate, and submit anonymized portfolio company data by April 30th each year. This deadline ensures the timely collection of data that feeds into the annual EDCI benchmarking process. While GPs are able to update their submissions at later stages, early compliance with the April deadline offers significant strategic advantages and process efficiencies. Notably, data validation is a critical, resource-intensive component of the EDCI reporting process. Although time-consuming and complex, independent validation of EDCI data prior to submission helps GPs ensure year-over-year data consistency and prevents misinterpretations of ESG performance during the benchmarking stage of EDCI submission – when EDCI conducts its own audit of portfolio ESG data.

Benefits of Proactive Data Validation

EDCI runs its rigorous data validation process from June to August, scrutinizing large swings in year-over-year data and any potential outliers. Erroneous or inconsistent data can lead to administrative burdens and

prolonged follow-ups with portfolio companies. Since the EDCI validation process occurs a few months after initial submission, complexities may be increased with shifts in internal stakeholders and hurdles in confirming original sources of data. Consequently, GPs will be tasked with cleaning and re-aggregating portfolio-wide data for resubmission to EDCI. Such delays make it challenging to resolve discrepancies or obtain missing information, which, in turn, reduces the likelihood of remediating key datapoints. Robust data validation pre-submission involves careful analysis of metrics reported by portfolio companies and their year-over-year changes, ensuring that reported data is sensible and does not skew the perception of portfolio performance. By validating data early, GPs position themselves to mitigate these risks, contributing to a more seamless and meaningful reporting cycle. This proactive approach not only ensures the integrity of the submitted information but also enhances the quality of EDCI's overall benchmark results, making them more reflective of true portfolio performance. Relatedly, should inaccurate data pass through the EDCI validation process, this may reflect poorer portfolio ESG performance than is actually the case.

Supporting a Seamless Reporting Experience

Malk Partners prioritizes ease and efficiency in ESG reporting for GPs and their portfolio companies. Through customized private market solutions, EDCI data can be collected, cleaned, and aggregated on an ongoing basis - making EDCI a hands-off, stress-free process for many Malk clients. Regardless of the preferred data collection mechanism, Malk ensures that GPs and portfolio companies experience a streamlined process. A flexible approach to data management enables Malk to collect and aggregate ESG data from different sources and fill gaps, while performing the necessary cleaning and manipulation to meet EDCI's requirements.

Malk works closely with portfolio companies to understand their data collection capabilities and align on expectations for reporting. By handling the technical aspects of data processing, Malk reduces the administrative burden on both GPs and portfolio companies, enabling our clients to focus on their core activities. In-house expertise and best-in-class tools have been built over years of experience with the EDCI reporting and validation process, ensuring GP clients meet the reporting requirements with minimal stress.

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