

# ESG Reporting Unveiled

Achieving Reliable and Comparable Data



## What is the EDCI?

The ESG Data Convergence Initiative (EDCI) is an open partnership with private equity companies and funds designed to “catalyse convergence toward consistent reporting on material ESG metrics and create a collaborative mechanism to improve this process every year”.

## Why EDCI matters?

Ever since the COVID-19 pandemic there has been a growing call for metrics beyond traditional financial data to be included in both valuations and analysis of the performance of a company. Reporting these metrics focused on defining the material risks of an organisation can be characterised into three broad and encompassing categories Environmental, Social and Governance (ESG).

Although there was alignment in the broader market on the definition of these categories of factors, with many frameworks and ratings used to assess a company’s ESG performance there is yet to exist a single standardised approach to assess and report ESG performance of private companies. The result has been a challenging process for investors and investment groups to compare companies and portfolios based on their ESG performance, as well

as for the companies and portfolios themselves to benchmark their progress against their competitors.

With an increasing amount of ESG metrics being recorded and reported by a cavalcade of providers, the increasing complexity of the ESG reporting landscape is inhibiting participants ability to determine which metrics are material to performance and which are superfluous.

**The goal of the EDCI is to “create a critical mass of meaningful, performance based ESG data from private companies by converging on a standardised set of ESG metrics for private markets.”**

It is envisioned that by formulating a standard approach to ESG data collection, assessment and reporting, member companies and portfolios will be able to “benchmark their current position and generate progress toward ESG improvements” whilst there will be “greater transparency and more comparable portfolio information” for other members and Investment Managers.

## Who is the EDCI for?

The EDCI is suited to fund organisations, private companies and investment managers who are seeking to gain clarity on how their fund, organisation, private company, or investments compare to the sector, wider economy or other benchmarking comparison in terms of ESG performance factors.

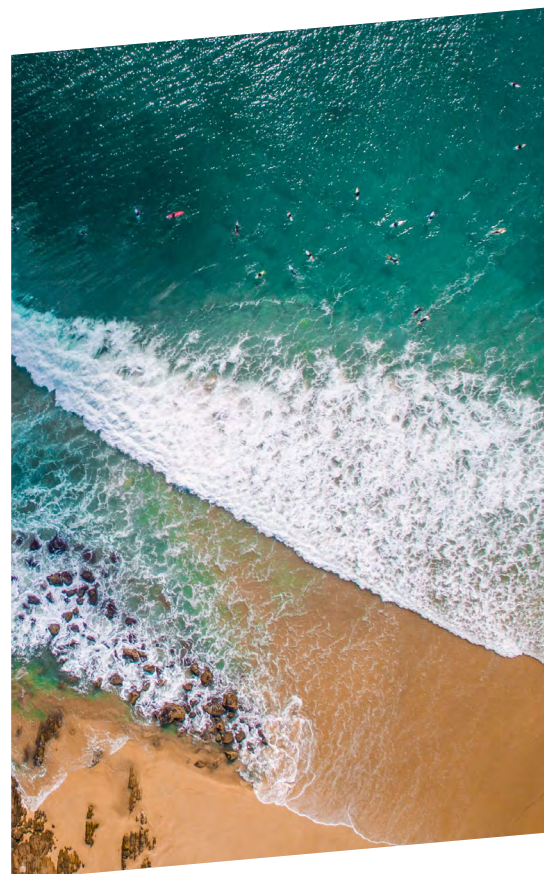
Those involved are separated into two defined groups depending on their involvement and position in the initiative, General Partners (GP) and Limited Partners (LP). In addition, Investment Consultants (IC) who currently advise committed LPs can formally join the EDCI as committed members.

General Partners are expected to employ a best-efforts approach and track the ESG metrics, defined by EDCI, and submit anonymised data for participating portfolio companies annually.

LP and IC have no requirement to supply specific ESG data but are encouraged to promote GPs to align with the initiative and the EDCI's definitions. LP and IC do not need to provide metric data to the EDCI.

IC can use the benchmark or insights externally only with LP clients.

To be involved in the EDCI for any of the above groups the entity must publicly commit to being associated with the initiative.



**The general message derived from the over 22,000 data points provided by nearly 2,000 underlying portfolio companies was that “On average, privately owned companies are behind their publicly owned peers on key climate and diversity metrics”.**

## Who is backing EDCI?

The Institutional Limited Partners Association (ILPA) is the official Secretariat of the EDCI and has a role to facilitate the annual Steering Committee meeting, in addition to supporting the governance and elections of the committee. The ILPA's role in providing guidance to GP and LP members assists with aligning the members across ESG issues by providing education, toolkits and resources which ensure that private equity investors can integrate ESG considerations in a consistent manner.

Additionally, the Boston Consulting Group (BCG) has supported the EDCI since its inception, through collaborating closely with the EDCI's official Secretariat and the ILPA as a benchmarking and advisory partner. BCG specifically acts as a third-party aggregator of data collected for the purposes of making a robust and standardised benchmark from which research insights can be derived. In addition, BCG supports the Steering Committee of the EDCI for both the production of external publications and reviewing the initiatives progress (gathering and structuring participant feedback on EDCI metrics).

## Who is involved in the EDCI to date?

Currently, there are over 325 total members, including approximately 220 GP and 100 LP, who represent in excess of \$27T USD of AUM worldwide. Whilst the majority of these funds and companies who have committed to the EDCI are primarily from Europe and the USA, there have been a number of Australian based funds which have signalled their intention to become involved. Notable GP and LP members include Carlyle, HSBC, Oaktree Capital Management and CPP Investments.

## Which metrics are reported to the EDCI?

- ▶ Greenhouse gas emissions (Scope 1 and 2, Scope 3 is optional)
- ▶ Renewable energy (% Renewable energy usage)
- ▶ Diversity (% women on board, % women in C-suite (optional), % underrepresented groups on board (optional), % LGBTQ on board (optional)).
- ▶ Net new hires (Net new hires (organic and total), Turnover)
- ▶ Work-related accidents (Injuries, fatalities and days lost to injury)
- ▶ Employee engagement (Employee survey (yes/no), Employee survey response (optional))

## Which reporting frameworks does the EDCI relate to?

The EDCI's metrics have been selected to comply with a range of related frameworks including Sustainability Accounting Standards Board (SASB), Global Reporting Initiative and World Economic Forum (WEF).

## How do you sign up and what costs are involved?

There is no cost required to join the EDCI in terms of administrative registration or ongoing investment commitments.

## What were the findings of EDCI's inaugural report?

The general message derived from the over 22,000 data points provided by nearly 2,000 underlying portfolio companies was that "On average, privately owned companies are behind their publicly owned peers on key climate and diversity metrics".

No doubt these results should be seen as an important call to action for private equity to mobilise investment and capital to leverage the expertise of dedicated ESG assistance providers, such as those within the established Automic ESG team. Our ESG team can be seen as a critical enabler that promotes evolving best practice to ensure your company and portfolio improves its ESG performance to become a recognised leader by your stakeholders and the wider community alike.

## Automic Group's Core ESG Capabilities

- ▶ **ESG Consulting:** We work collaboratively with our clients to develop an ESG approach that is fit-for-purpose and meets the evolving expectations of stakeholders.
- ▶ **Sustainability Reporting:** Transparency builds trust. Effective sustainability reporting allows businesses to communicate their impact, management and performance on the issues that matter most.
- ▶ **Climate Services:** From greenhouse gas assessments to carbon neutral certifications and emissions reduction plans, our climate services are designed to support business objectives provide practical, impactful solutions.

## How can we help?

At Automic Group, we can advise companies and funds on ESG to attract and enhance their economic, environmental and social capital. We can:

- ✓ **Establish a system from which the relevant ESG data can be collected in both a timely and unobstructive manner.**
- ✓ **Ensure alignment to the current framework of the EDCI based on present data already collected.**
- ✓ **Build a strategy which will ensure both compliance with the EDCI and assist in moving the company's metrics towards a goal of exceeding their relative sector and the wider economy benchmarks.**
- ✓ **Communicate the actions and reporting results to ensure key stakeholders are aware and engaged with your ESG journey through a clear and directive public policy.**

# ESG Excellence

Elevate your ESG journey with Automic Group.

Visit us at <http://www.automicgroup.com/esg-advisory> and be a part of reshaping responsible business practices.

+ 61424253400

[sales@automicgroup.com.au](mailto:sales@automicgroup.com.au)

[automicgroup.com.au](http://automicgroup.com.au)