

ESG DATA CONVERGENCE INITIATIVE

EDCI Overview



ESG Data
Convergence
Initiative

AGENDA

- 1 Overview of EDCI
- 2 Learnings from inaugural year
- 3 How to get involved

ESG DATA CONVERGENCE INITIATIVE |

Context

[Read More](#)



What | A global initiative to advance PE ESG reporting

- A group of GPs and LPs led by Carlyle Group and CPP Investments
- Supported by BCG with ambition to drive progress on ESG and financial value

Why | Low comparability and standardization of ESG data

- The private equity industry has historically had a fragmented approach to collecting and reporting ESG data
- Ambition of the ESG Data Convergence Initiative is to create a critical mass of meaningful, performance-based and comparable ESG data from private firms to understand what drives value

Outputs | Initially 6 standardized categories of ESG metrics

- Initiative aligned on 6 initial categories of ESG metrics for 2021, which have been collected across all represented PortCos and benchmarked by BCG
- Benchmarks have been shared with all participating firms at no cost, allowing investors to view their portfolio company performance vs peers
- For the second year of the initiative (2023) the Steering Committee has refined the metric guidance, and included one additional metric (gender diversity in C-suite)

Opportunity | Growing participation among PE firms

- Since its formal launch in October 2021, over 250 GPs/LPs have signed onto the project, representing over \$25T in AUM and ~2,000 submitted PortCos
- Interested GPs and LPs can sign up for the project at any time

OBJECTIVE AND VALUE PROPOSITION | INITIATIVE FOCUSED ON STANDARDIZING SET OF ESG METRICS FOR PRIVATE MARKETS

Objective of the EDCI

Create a **critical mass** of meaningful, performance-based **ESG data** from private companies by converging on a **standardized set** of ESG metrics for private markets

The standard will allow GPs and portfolio companies to **benchmark** their current position and generate progress toward **ESG improvements**, while enabling greater **transparency** and more comparable portfolio information for LPs/ Investment Managers

Value proposition for stakeholders



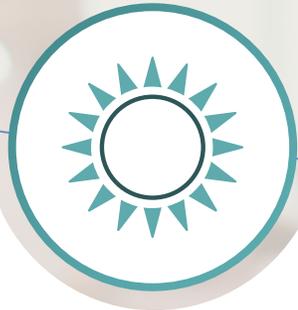
ESG METRICS | THE ESG DATA CONVERGENCE INITIATIVE ALIGNED ON TRACKING THE FOLLOWING 6 CATEGORIES OF METRICS



GHG Emissions

- Scope 1
- Scope 2
- Scope 3 (optional)

— New metrics added for 2023



Renewable energy

- % Renewable energy use



Work-related injuries

- Injuries
- Fatalities
- Days lost due to injury



Net new hires

- New hires (organic and total)
- Turnover



Diversity

- % women on board
- % under-represented groups¹ (optional)
- % LGBTQ (optional)
- % women in c-suite (optional)



Employee engagement

- Employee survey (Y/N)
- Employee survey response (optional)

Environmental

Social

Governance



1. Required for US only in 2021/2022 cycle, optional for rest of world, optional for LGBT
Source: EDCI

EDCI ENGAGEMENT | EDCI HAS BROUGHT TOGETHER 250+ COMMITTED FIRMS WITH ~\$25TN OF AUM IN INAUGURAL YEAR

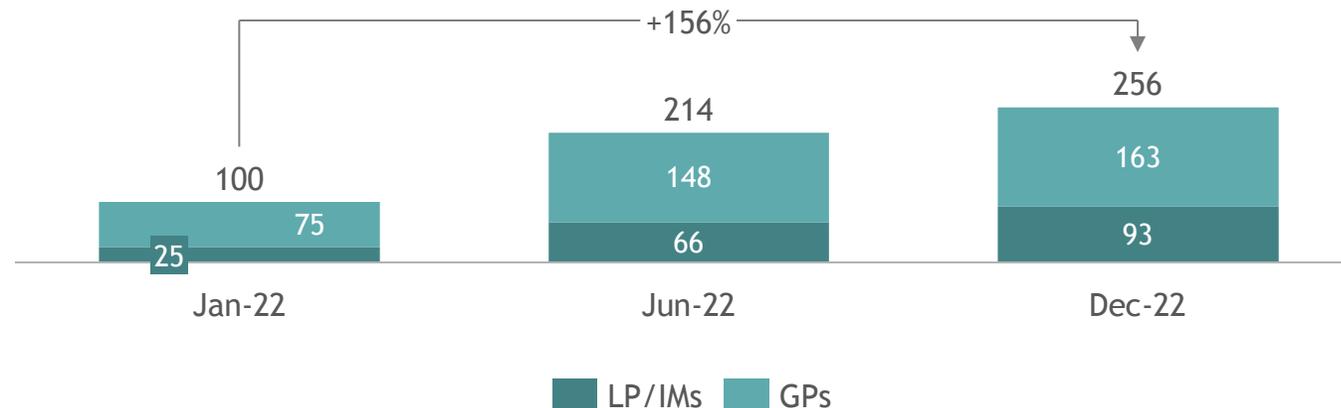
250+
Committed
GPs and LPs

~\$25Tn
AuM

156%
Growth in
firms in 2022

315+
Interested
firms

EDCI firm commitment as of Dec 19th, 2022



“ Fantastic initiative. Standardization of metrics across the industry is very helpful. *This initiative has a credible set of backers and is getting much traction.*
—EDCI GP Member

“ I think it is *the best executed benchmark process in the industry* and created a great basis to work from.
—EDCI GP Member

“ The *EDCI* allows us for the first time to collect, analyze and aggregate ESG data from across our portfolio in an effective manner.
—EDCI LP Member

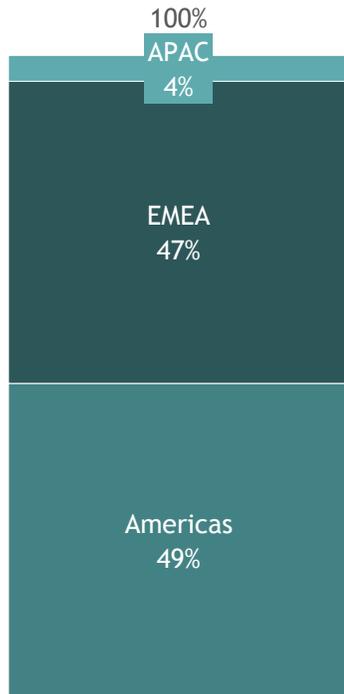
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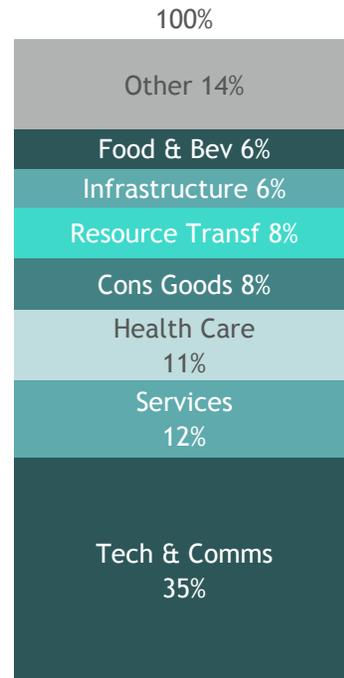
EDCI ENGAGEMENT | GPs CONTRIBUTED DATA ON NEARLY 2,000 PORTFOLIO COMPANIES, WHICH ARE DIVERSE ACROSS SECTORS, SIZES AND LOCATIONS

105 GPs, 1,991 PortCos

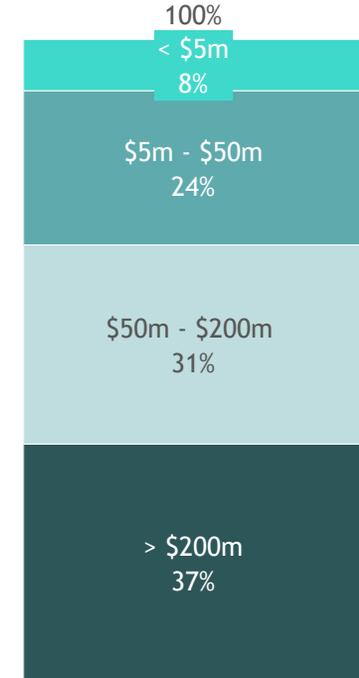
By Region



By Sector



By Revenue



KEY LEARNINGS | THERE ARE FIVE KEY INSIGHTS FROM THE INAUGURAL YEAR OF THE EDCI

- 1 **Gathering data:** With effective alignment around what metrics GPs need to collect, more than 80% of portfolio companies have been able to submit data for mandatory metrics
- 2 **Lagging indicators:** On average, private companies are starting from a lower ESG baseline than their public peers
- 3 **New perspectives:** Private companies have, on average, seen higher levels of job creation than their public peers
- 4 **Making progress:** The private equity investment model is effective at enabling significant improvement on ESG topics
- 5 **The performance advantage:** Initial data suggests that firms that proactively invest in ESG improvements will likely see significant financial returns from these investments

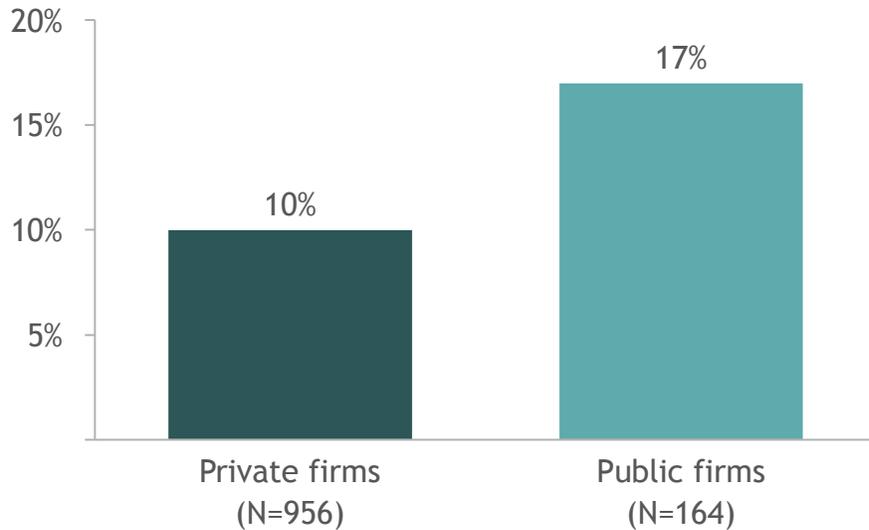
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LAGGING INDICATORS | ON AVERAGE, PRIVATE COMPANIES ARE STARTING FROM A LOWER ESG BASELINE THAN THEIR PUBLIC PEERS

Example: Renewable energy usage

On average, private companies lag public companies in their renewable energy usage

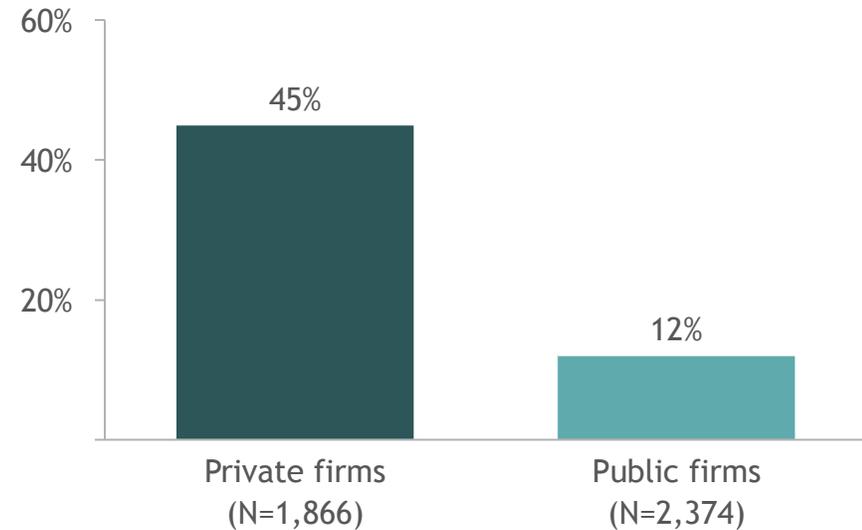
Median % of energy usage from renewables



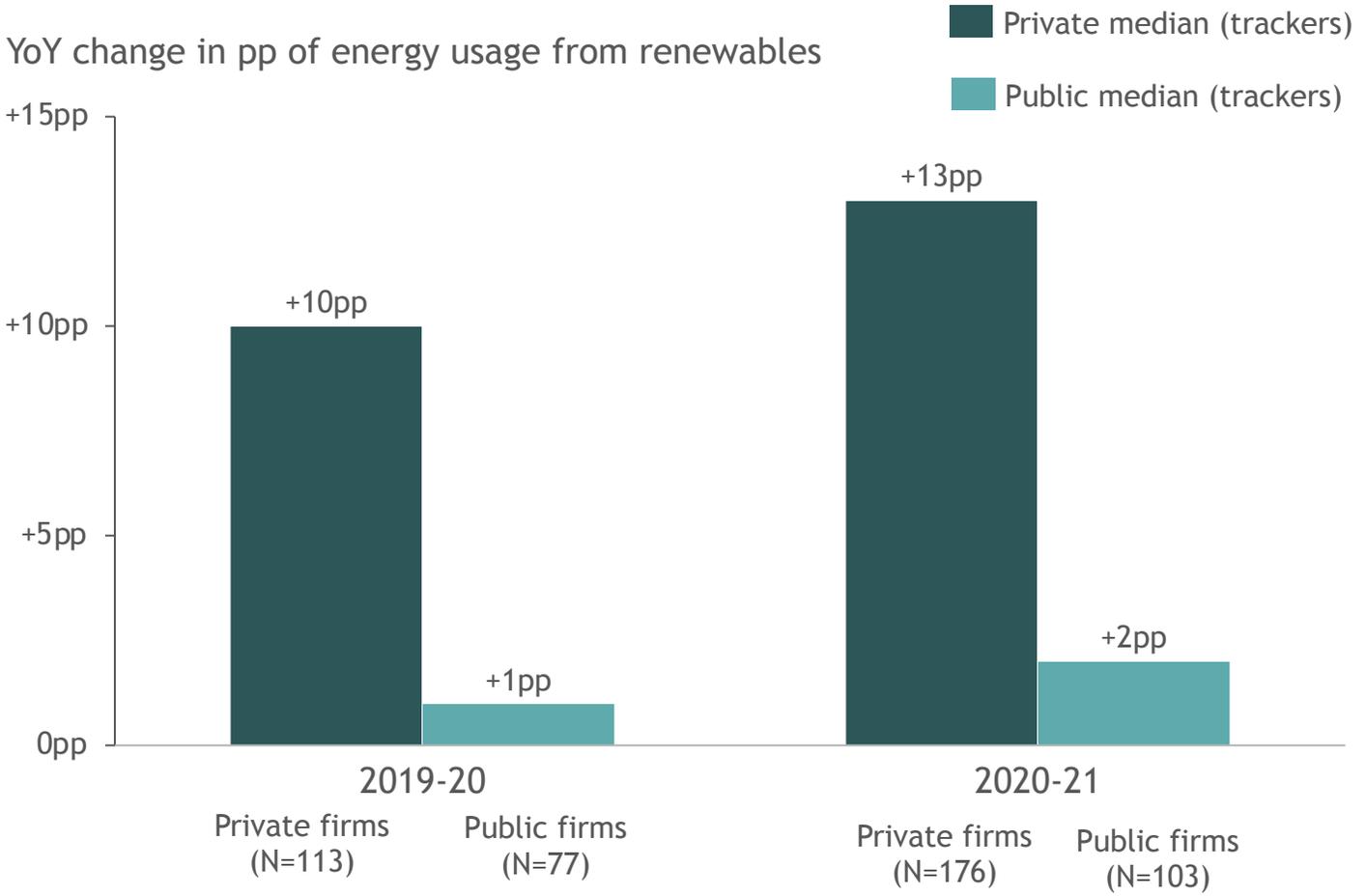
Example: Gender diversity on boards

On average, privately owned companies have fewer women on their boards than their public peers

% of companies with no women on their boards



4 MAKING PROGRESS | PRIVATELY OWNED COMPANIES HAVE BEEN EFFECTIVE IN DRIVING GREATER UPTAKE OF RENEWABLE ENERGY



Key insights

Private companies that have tracked their renewables usage over time have increased their share of renewables more rapidly than equivalent public companies

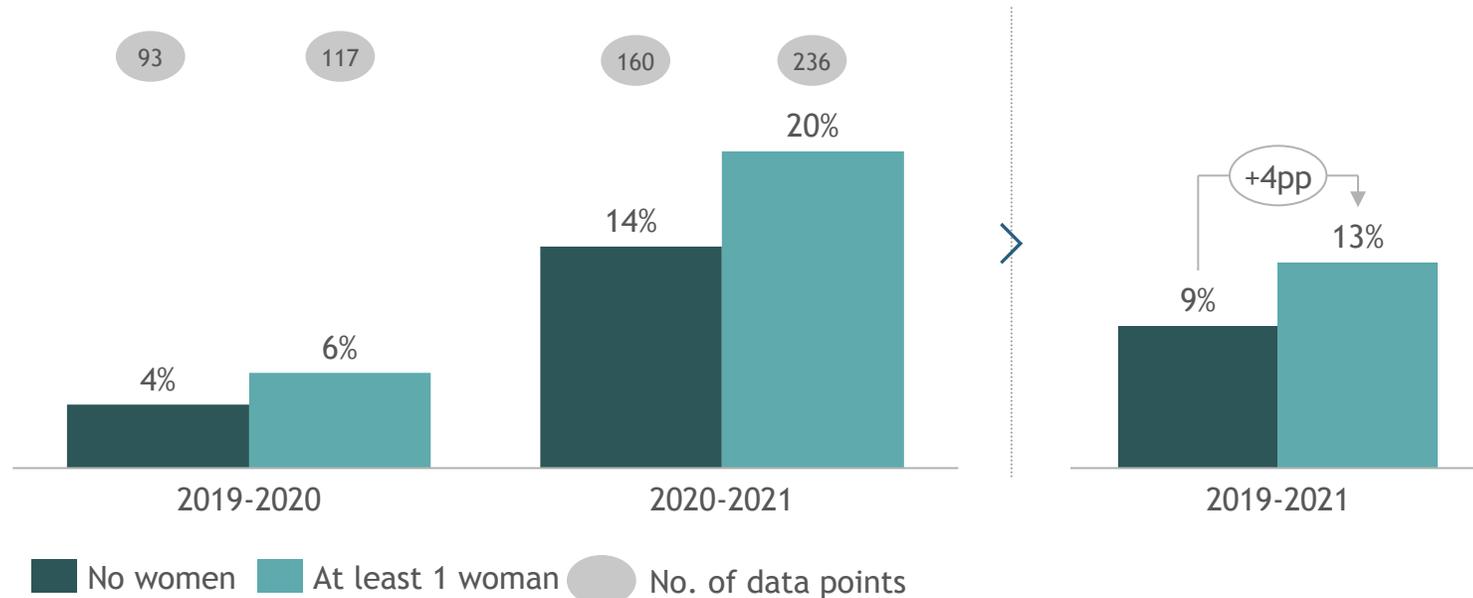
- These private “renewable trackers” outperform their public market counterparts with ~10 pp and ~13pp increase in renewable energy usage over 2019-2020 and 2020-2021 respectively
- In contrast public companies have only increased their usage by ~1 pp and ~2 pp during the same periods

5 PERFORMANCE ADVANTAGE | POSITIVE CORRELATION BETWEEN BOARD GENDER DIVERSITY & REVENUE GROWTH IN PRIVATE COMPANIES

Median revenue change by women on board

In %

Private benchmark results in line with studies on public companies (e.g., Credit Suisse) that find board gender diversity is positively linked (but with a small effect) with financial performance



Key insights

Based on early data, gender diversity on boards correlates positively (but modestly) with top-line performance for privately owned companies

- Female board representation matters: companies with **at least one woman on the board** see slightly higher revenue growth across '19-'21 (delta of +4 pp)
- This is **in line with current research in this field** which underlines a modest, positive correlation between diversity and companies' performance
- **Stronger positive correlation in '20-'21** more robust due to higher N vs. previous year



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Source: "Higher returns with women in decision-making positions" by Credit Suisse, BCG, EDCI benchmark

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INTERESTED IN GETTING INVOLVED WITH THE INITIATIVE?

What does it mean to be part of this initiative? To participate, members agree to:

General Partners

- Determine funds that will take part in the initiative
- On a best-efforts basis, track EDCI metrics, with an emphasis on mandatory metrics
- Abide by the EDCI Metrics Guidance to the extent possible, and explain deviations
- As requested, provide EDCI data to LPs, preferably using the Data Submission Template
- Submit anonymized data for participating PortCos by April 30 each year
- Agree to be publicly associated with the initiative
- Encourage LPs to align with the EDCI
- Voluntary: serve on working groups or self-nominate to join the steering committee



Limited Partners/Investment Managers

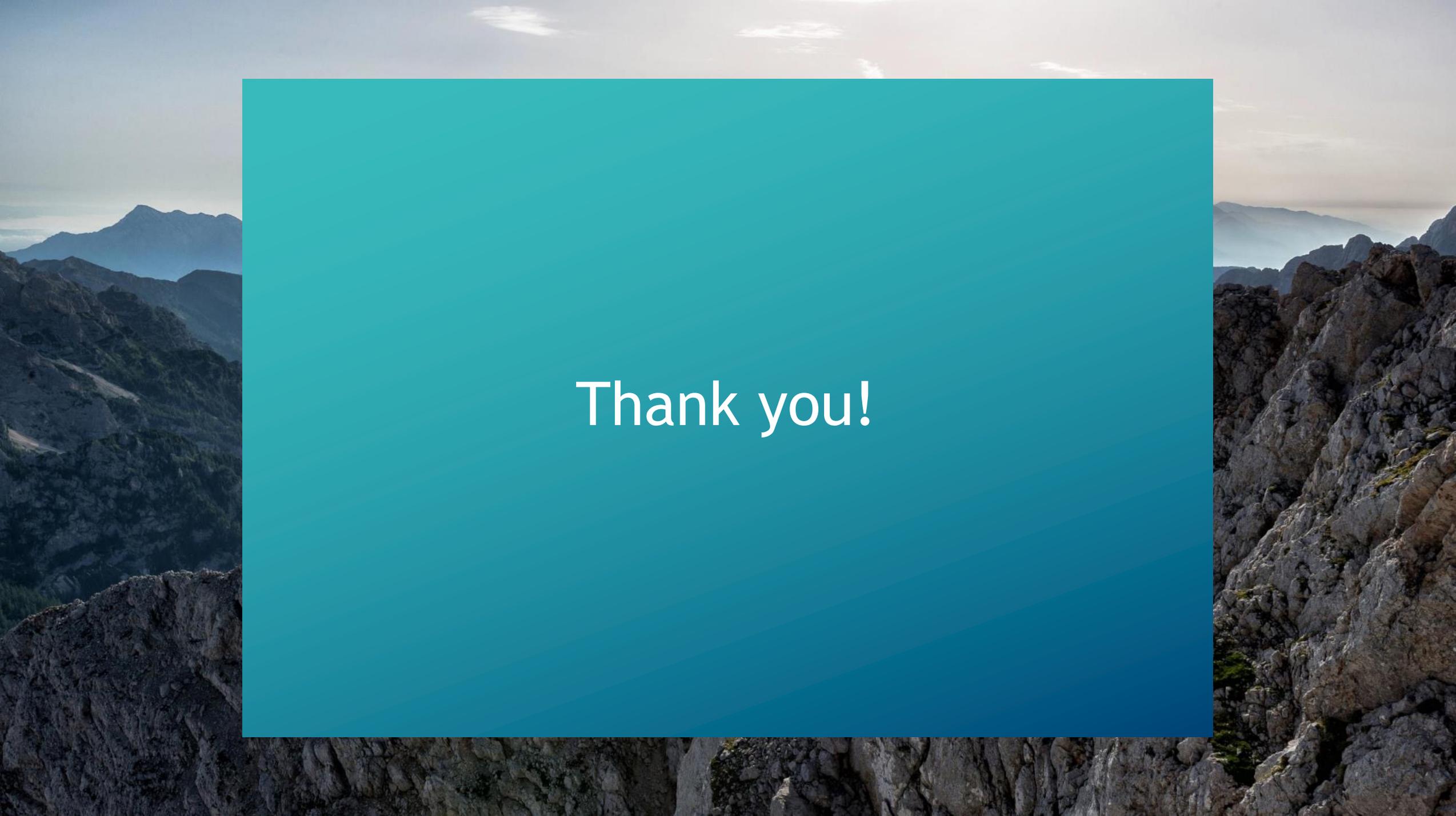
- On a best efforts basis, where LP has relevant / overlapping ESG data requests to GPs, align definitions with the EDCI's definitions
- Encourage underlying GPs to align with this effort
- On a best efforts basis, encourage additional industry efforts to drive ESG information/data request convergence on a best-efforts basis
- Agree to be publicly associated with the effort
- Voluntary: serve on working groups or self-nominate to join the Steering Committee

The initiative is open to any GP, LP, or Investment Manager who wishes to join and agrees to support the principles of the work

To learn more about the initiative please visit our website [here](#)

To join the initiative, click [here](#)

If you have any questions, please reach out to us on info@esgdc.org with questions

A scenic mountain landscape with a large teal overlay containing the text "Thank you!". The background shows rugged, rocky mountain peaks under a soft, hazy sky. The teal overlay is a large, semi-transparent rectangle that covers most of the image, with the text "Thank you!" centered in white. The text is in a clean, sans-serif font. The overall mood is peaceful and appreciative.

Thank you!