ESG Data Convergence Initiative: FAQs

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What is the ESG Data Convergence Initiative?

A group of leading general partners (GPs) and limited partners (LPs), led by the California Public Employees' Retirement System (CalPERS) and global investment firm Carlyle, publicly announced on September 30th, 2021, that it has convened to form the private equity industry's first-ever collaboration to advance an initial standardized set of ESG metrics and mechanism for comparative reporting.

The initial group, representing more than $4 trillion in AUM, includes:

- LPs: AlpInvest Partners, APG, CalPERS, CPP Investments, Employees' Retirement System of Rhode Island, PGGM, PSP Investments, The Pictet Group, and Wellcome Trust.
- GPs: Blackstone, Bridgepoint Group Plc, Carlyle, CVC, EQT AB, Permira, and TowerBrook.

As of July 2022, there are more than 195 GPs and LPs committed to the effort, representing more than $22T in AUM and ~1,800 portfolio companies.

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

Why was the ESG Data Convergence Initiative created? Aren't there already too many ESG frameworks and ratings providers? Is this just another framework?

The ESG Data Convergence Initiative is not a new framework. The objective of this initiative is i) to catalyze convergence towards consistent reporting on material ESG metrics, leveraging already existing and thoughtful frameworks as a guide for determining which metrics to report on, and ii) to create a collaborative mechanism to improve this process every year.

Many ESG reporting frameworks have emerged over the past few years, each with various areas of focus or oriented towards specific stakeholder groups. However, there has historically been a lack of convergence towards an initial core set of ESG metrics for private companies. Investors, private equity firms, and their underlying portfolio companies report using one, some, or a portion of several frameworks, resulting in a lack of critical mass of usable data in any single set of ESG metrics across private companies.

Consequently, aligning on a core, standardized set of metrics and a mechanism for comparative reporting will allow GPs and portfolio companies to benchmark their current position and generate progress toward ESG improvements, and enable greater transparency and more comparable portfolio information for LPs.

How does this work interact with ESG technology providers / data platforms?

The ESG Data Convergence Initiative is technology provider and data platform agnostic. The initiative is focused on advancing a standardized set of ESG metrics and a mechanism for comparative reporting, not on creating a new technology provider / data platform. GPs and LPs can continue to use their existing data systems to transmit, aggregate and report ESG data from the Data Convergence Initiative.

We are aware that GPs and LPs often use separate technology providers, so identifying one provider to replace all existing platforms would prove to be challenging. Our approach has been to be tech platform agnostic and focus on harnessing energy to report on metrics in a standardized way.

What are the benefits of standardized ESG reporting for GPs / LPs / portfolio companies?

GPs:

- Creates stronger, clearer portfolio company accountability
- Leads to greater understanding of ESG performance compared to peers
- Focuses efforts on more targeted ESG improvements
- Adds an additional analytical lens to direct future investments
- Differentiates from other GPs
- Simplifies investor reporting, enabling more resources to focus on implementing ESG improvements

LPs:

- Leads to stronger, clearer GP accountability
- Increases transparency into underlying holdings and improves understanding of ESG performance across the entire portfolio
- Improves understanding of the relative performance of GPs on ESG, especially over time
- Adds an additional analytical lens to direct future investments
- Enables more comprehensive ESG reporting to support broader ESG goals

Portfolio companies:

- Enables a clearer understanding of relative performance and stakeholder areas of focus
- Identifies targeted areas for improvement
- Enables, potentially, a cheaper cost of capital (e.g., through ESG-linked financings)
- Enhances, potentially, valuations for companies seen as a market leader on ESG dimensions
- Prepares companies for more comprehensive ESG reporting
- Positions companies to meet public market expectations ahead of potential public market listing

What are GPs and LPs committing to when joining the ESG Data Convergence Initiative?

GPs will:

- Determine which funds / strategies to initially include in the initiative
- Change internal collection systems for participating funds / strategies to track the initial core set of ESG metrics using the standardized definitions and technical protocols
- Abide by the "ESG Metrics for Investor Reporting Handbook" to the extent possible, and explain instances of deviation if needed
- Supply the metrics to LPs invested in a given strategy, as requested, preferably using the standard template
- Provide, by April 30th of each year, the required ESG metrics and a series of normalization metrics for the previous calendar year, anonymized by company, to a third-party aggregator

LPs will:

- Change current ESG data requests to GPs to align with the required ESG metrics of the initiative (or eliminate those requests and collect through the standard template), when relevant / overlapping requests exist
- Continue to converge ESG reporting requests to encourage more comparable ESG data, where appropriate
- Publicly support the effort and encourage underlying GPs to report via the agreed ESG metrics

Which ESG metrics are being used?

The group has aligned on an initial core set of six ESG categories and fifteen metrics, drawn from the private equity industry's fragmented frameworks. The six categories and metrics include:

- GHG emissions
  - Scope 1 emissions
  - Scope 2 emissions
  - Scope 3 emissions *(optional)*
- Renewable energy
  - % renewable energy use
- Diversity of board members
  - % women on the board
  - % under-represented minority on the board *(required in US, optional everywhere else)*
  - % LGBTQ on the board *(optional)*
- Work-related injuries
  - Work-related injuries
  - Work-related fatalities
  - Days lost due to injury
- Net new hires
  - Net new organic hires
  - Net new total hires
  - Attrition
- Employee engagement
  - Employee survey (Y/N)
  - Employee survey response *(optional)*

How were these metrics determined?

The ESG Data Convergence Initiative aligned on a set of guiding principles to inform the selection of the core metrics:

- Globally accepted: Selected from the most accepted and widely regarded frameworks
- Meaningful: From a financial or societal impact perspective
- Comparable: Allowing performance comparisons between portfolio companies and GPs
- Dynamic: Evolving metrics as tracking improves and understanding and materiality evolves
- Straightforward: Simple to accurately track, ensuring data quality and integrity
- Actionable: Tied to specific actions under GPs and portfolio companies' control
- Objective: Minimizing subjectivity or need for interpretation

How will the metrics be tracked and reported?

The metrics will be tracked and reported in a standardized format for the 2021 calendar year for underlying portfolio companies in covered funds. The data will be aggregated into an anonymized benchmark and might be shared directly with invested LPs.

Are these the only ESG metrics that LPs will require from GPs going forward?

No, the expectation is not that LPs will only ask for these six metrics going forward. However, when LPs ask for relevant or overlapping information, they will change the format of the questions to match the Data Convergence Initiative standardized format. We also hope that this effort will be part of broader conversations around how to converge on quantitative and qualitative ESG reporting that is more meaningful for our industry.

Will new metrics be added over time?

The group will evaluate the metrics every year through a collective “sprint” and may add new metrics or modify existing metrics each year. The group will prioritize materiality and work collaboratively to increase the sophistication and utility of the ESG reporting. The goal is to create a long-term mechanism that improves the quality, availability, and comparability of ESG data in private markets over time.

Has the group considered launching a specific set of metrics for different strategies (e.g., infrastructure, private credit)?

We believe that the partnership that we have developed through the ESG Data Convergence Initiative, and that we will continue to build, will enable interesting work in the future across different strategies. We have considered extending the existing metrics to include industry-specific data points, and we are specifically exploring applications in private credit markets.

Is the group planning to include the metrics mandated by SFDR?

We want to track metrics that align with the most prevalent frameworks and are common across a critical mass of GPs. We will strongly consider SFDR metrics given

their relevance for our industry and European funds in particular, although we are unlikely to incorporate all of SFDR metrics in a single year.

How often will the data be requested?

GPs are asked to report annually, ideally by April 30th of each year. LPs are not responsible for reporting any data.

How do GPs select which funds / strategies to include in the initiative? Do expectations differ for majority-owned companies vs. non-control investments within participating funds / strategies?

While the ultimate aspiration is for each GP to get to 100% coverage, and we encourage GPs to provide as much data as they can, this is at the discretion of each participating GP.

We acknowledge that it may be easier to collect and quality control data from majority-owned companies. To this end, each GP is selecting which funds / strategies to report on based on a commitment to provide the highest quality data. For example, many GPs are selecting their largest funds and are committing to report on data from their majority-owned companies.

Should GPs who can only collect some of the metrics still participate?

We selected fewer metrics, as we wanted to prioritize feasibility of collection, so we strongly encourage GPs to collect the maximum amount of metrics possible. While a complete dataset is most helpful, a high-quality incomplete dataset may still be useful to the initiative and for participating LPs. Please reach out to ESGmetrics@bcg.com if you would like to discuss participation in the absence of a complete, high-quality dataset.

Do portfolio companies typically have data readily available for the selected metrics?

We hope that focusing on fewer initial metrics will allow any portfolio company to collect robust and quality data. However, we acknowledge that portfolio companies vary in their understanding of and ability to collect ESG metrics. For example, some companies do not know how to measure Scope 1 and 2 emissions, which are material but complex, while others already collect the data.

Who is responsible for aggregating the data?

The data will be aggregated by a secure and neutral third party. For this initial cycle, the group has partnered with Boston Consulting Group (BCG) who will collect and aggregate the 2021 data by April 30th, 2022 for analysis and distribution in Q2 2022.

Will the data reported to the third party be at the portfolio company level or fund level?

GPs will report data to the third party at the portfolio company level. GPs will anonymize both the company and fund name before sending the data to the third party.

Data reported to the aggregator will only be used in an aggregated fashion, and cannot be extracted at the GP, fund, or portfolio company level. The data shared with the aggregator will be governed by the data privacy legal agreement with the third party and cannot be used for any other applications.

Data privacy and security are of the utmost importance.

How will we ensure anonymization of the data for the benchmark?

We have implemented a number of measures to ensure anonymization:

1. There is and always will be a legal benchmarking agreement in place centered on data security and privacy
2. GPs will anonymize both the company and fund names when sending to the third-party data aggregator to ensure the third party is not able to “back into” any company-specific information
3. Research, if publicly shared, will be presented only in an aggregated format that highlights industry trends

Note that non-anonymized or non-aggregated portfolio company data will continue to be transferred directly from GPs to invested LPs.

What types of benchmarks will be developed and how will they be used?

Participating GPs and LPs will have access to a set of standardized benchmarks showing industry averages, medians, and trends over time using normalizers. GPs will use the benchmarks to understand where their portfolio companies stand relative to

peers, and to identify opportunities for improvement. LPs will use the standardized benchmark to compare data points across their portfolio, and to better understand their portfolio exposure and performance on ESG domains relative to various benchmarks.

Will sector benchmarks be shared at some point?

GPs and LPs who contribute data to the initiative will have access to the aggregated sector benchmarks and will be able to compare their portfolio companies to specific sector data. Sector benchmarks will not be shared publicly.

How often will participating GPs / LPs meet to govern the ESG Data Convergence Initiative?

The group of participating GPs and LPs plans to host an annual "sprint" each spring to review the prior year's data, discuss and prioritize potential addition of new metrics, and review and improve the entire ESG benchmarking process, from data collection to reporting.

How will the Steering Committee governance operate?

Finalizing Steering Committee governance is a top priority of the existing Steering Committee for this year. Our initial thinking is the following:

- Every GP and LP formally signed on to the ESG Data Convergence Initiative will have a vote on ESG data priorities at the beginning of the 'sprint' and on the final metrics to be amended or added at the end of the sprint
- The GP/LP Steering Committee will be responsible for the more intensive collaboration and negotiation during the 'sprint'
- The Steering Committee will have an equal representation of GPs and LPs, ensuring interests and preferences of one group do not have a majority voice in deciding which metrics to add, remove or amend
- The Steering Committee for this year is comprised of the GPs and LPs that were a part of the initial work to launch the initiative. Every year, a portion of the Steering Committee will roll off, and new members will be added from the broader participating LP/GP group. A working group focused on the initiative's governance is currently detailing the mechanics of this process

The metrics and report are posted on the ILPA website. What is ILPA's connection to the initiative?

While this is not an ILPA-led or owned initiative, ILPA is supportive of the effort and is proud to serve as its Secretariat. As Secretariat, ILPA will facilitate the annual EDCI Steering Committee sprint meetings, working closely with Boston Consulting Group (BCG), which has been supporting the GP-LP led effort. ILPA will also support Steering Committee governance and elections.

ILPA believes convergence is a necessary ingredient for industry-wide progress and supports this and other initiatives aimed at streamlining existing frameworks that are fit-for-purpose and flexible enough to adapt as the market and investor needs evolve.

Do we have to join ILPA to participate? Will future information related to the initiative continue to be posted on the ILPA site?

Participants in the ESG Data Convergence Initiative are not required to be ILPA members. The ILPA website will continue to house this information unless the Steering Committee decides we should enlist a separate third-party administrator for the work.

Are members able to participate in other ESG-related initiatives?

Absolutely. This effort is designed to be complementary with the broader industry work on ESG data and it is not intended to supplant or be at odds with other efforts. This initiative aspires to be part of the industry's effort to converge around clear expectations and to drive towards greater ESG integration for LPs and GPs.

Is there involvement from ESG consultants in this group?

Many consultants have asked how they can incorporate our initiative into their approach and how they can officially express their support. Our answer to this topic is in development as we are still gathering perspectives from GPs/LPs and other industry participants. We have also hosted informational sessions to address ESG industry participants questions and will hold more sessions in the future as needed.

Is there a cost for LPs or GPs to participate?

No, there is no cost for LPs or GPs to participate.

How can other GPs and LPs get involved?

Click here for more information.