HEXAWARE

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The Portfolio ESG Data Management Problem No One's Pricing In

Why PE firms are sitting on an unquantified ESG data risk — and what AI-native traceability changes

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Key Takeaway

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Private equity (PE) firms face a systemic, unpriced risk: their Environmental, Social, and Governance (ESG) commitments far outpace the quality, traceability, and auditability of their portfolio ESG data. As regulatory, investor, and market pressures intensify, only those who embrace AI-native traceability and cloud-native data architectures will future-proof value creation, compliance, and competitive advantage.

Executive Summary

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PE firms have spent the last three years building ESG policies, appointing responsible investment leads, and making limited partners (LP) commitments on sustainability. Yet, most have not solved the underlying data problem that renders these commitments operationally hollow. Across a typical mid-market PE portfolio, each portfolio company operates on disparate Environment, Health, Safety (EHS) and ESG systems — or often none at all. Reporting cycles are misaligned, materiality frameworks vary, and the general partners (GP) lacks a consolidated, real-time view of environmental incidents, social data, or governance compliance across its holdings.

This isn't just a reputational gap. It's a valuation gap — one that's now being compounded by regulatory frameworks like the Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR) Article 8/9, and the Institutional Limited Partners Association (ILPA) ESG template. And it's not being priced into deals.

This isn't just a reputational gap; it's a valuation gap. And it's not being priced into deals. This paper draws on practitioner experience across ESG advisory, Big 4 consulting, and enterprise technology to explore the portfolio ESG data problem: what it is, why existing approaches have failed, and how an AI-native traceability model changes the landscape for GPs and portfolio companies.

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Key Findings

- Systemic Data Risk: ESG considerations are now integrated across most private equity investment processes, yet only about one-third of firms incorporate ESG factors into valuation models, highlighting persistent ESG data and measurement gaps that can increase regulatory, investor, and valuation risks.

- Manual, Fragmented Processes: ESG reporting remains largely manual, with data scattered across spreadsheets and disconnected systems, undermining auditability and decision-making.

- Regulatory Escalation: Mandates like SFDR, CSRD, California SB 253/261, and International Sustainability Standards Board (ISSB) require granular, auditable ESG data — with steep penalties for non-compliance.

- AI-Driven Transformation: AI-native ESG platforms enable real-time data traceability, audit-grade reporting, and scalable portfolio integration without replacing existing systems.

Executive Recommendations

1. Invest in AI-native, cloud-based ESG data platforms with audit-grade traceability.

2. Adopt a phased transformation roadmap: diagnostics, pilots, scaling, and assurance integration.

3. Strengthen data governance, executive accountability, and cross-portfolio integration.

4. Position ESG data as a source of financial intelligence, not just compliance.

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Industry Context

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Market Evolution

ESG has shifted from a niche concern to a mainstream imperative for private equity. ESG-related assets under management are projected to reach $33.9 trillion by 2026, representing 21.5% of global Assets Under Management (AUM), according to a report. Regulatory mandates, LP expectations, and societal scrutiny have driven PE firms to formalize ESG policies and reporting frameworks. However, most ESG initiatives remain focused on policy rather than operational execution. GPs often lack the data infrastructure required to translate ESG commitments into measurable outcomes, leaving portfolios exposed to unquantified risks and missed opportunities for value creation.

Current Disruption Forces

- Regulatory Acceleration: Frameworks like SFDR, CSRD, ISSB, and California SB 253/261 demand granular, auditable ESG data across value chains.
- Investor Sophistication: LPs increasingly demand transparent, traceable ESG reporting as a condition for capital commitments.
- Technology Inflection Point: AI/ML and cloud-native architectures are transforming ESG data management, enabling automation, traceability, and real-time insights.

Competitive Landscape

The ESG data and analytics market has seen rapid growth and consolidation, with providers like MSCI, S&P, Novata, and Persefoni offering diverse solutions. However, many platforms fail to address the unique challenges faced by PE firms, such as portfolio-wide integration and audit-grade traceability.

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The Commitment Gap at GPs

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The LP pressure is real — but the data infrastructure isn't

LPs, particularly European institutional investors, pension funds, and sovereign wealth funds, now require ESG data from GPs as part of annual reporting obligations, including ILPA templates, EDCI adoption, and Article 8/9 SFDR compliance. The GP makes the commitment, but the data resides across 15–25 portfolio companies, each operating on different systems, platforms, and reporting cadences. The current solution is typically a once-a-year data request to portfolio company CFOs or sustainability leads, manually aggregated into a spreadsheet and presented to LPs.

The EU's CSRD (Corporate Sustainability Reporting Directive) has widened the reporting scope to include value chain emissions, requiring many portfolio companies to comply during the hold period. GPs must now ensure that even smaller companies in their portfolio meet these standards

Insight:

Beyond LP commitments, the regulatory environment is accelerating. LPs are asking for more than policy disclosures — they're asking for data lineage and auditability. This is the operational gap GPs must close."

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What ESG Data Looks Like Across a Portfolio

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The real data estate across a typical portfolio

A realistic snapshot of the ESG data landscape across a mid-market PE portfolio reveals significant variation:

Dimension	Range
EHS Systems	0–4 platforms; some companies use spreadsheets only
Scope 1/2 GHG Tracking	Inconsistent; some ESOS-compliant, some not
Social Data	Different definitions, thresholds for incidents
Governance Data	Largely unstructured
Reporting Cycles	Vary from annual to ad hoc

Without a unified data architecture, GPs rely on manual aggregation, which takes 6–8 weeks and produces data of variable quality. This fragmentation exposes portfolios to compliance risks and limits their ability to leverage ESG data for value creation.

The hidden EHS gap is particularly significant: most PE ESG frameworks are built around environmental and governance data, leaving occupational health and safety data — incidents, near-misses, enforcement actions — poorly captured and rarely consolidated. The financial liability here is rarely quantified but increasingly material.

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Why This Is a Valuation Problem, Not Just a Reporting Problem

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Entry Diligence

ESG data rooms are becoming standard in deals. Poor data quality — or absence of data — increasingly impacts negotiations.

An industrial company unable to produce CSRD-compliant Scope 1/2/3 data, consolidate its incident history, or demonstrate regulatory compliance is now at a measurable disadvantage in M&A negotiations

Value Creation

Operational improvement programs now include ESG efficiency as a value lever — energy reduction, safety culture, and supply chain de-risking.

Energy reduction, safety culture improvements, and supply chain de-risking — all now standard ESG value levers — depend on foundational data that many GPs currently lack.

Exit

ESG data quality is increasingly reflected in exit multiples. A portfolio company with auditable ESG data commands a premium, while undisclosed EHS liabilities can lead to warranty claims post-acquisition.

Warranty and indemnity claims driven by undisclosed EHS liabilities post-acquisition are an increasingly common and costly issue.

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What AI-Native Traceability Changes

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The architecture shift — from reporting to tracing

The AI-native traceability model shifts the focus from reporting (producing disclosures) to tracing (knowing where every number originates in real time). The AI layer automates regulatory compliance mapping for frameworks such as SFDR, CSRD, and ILPA, proactively flagging gaps to portfolio companies and the GP.

The Traceability Model

1. System Integration: Connect to existing EHS, ERP, and energy management systems without replacing them.
2. AI Normalization: Use AI/ML to normalize and reconcile data across disparate sources.
3. Audit Trail: Create an immutable audit trail for every data point.
4. Real-Time Insights: Provide GPs with a real-time dashboard of portfolio ESG performance.

The Economic Shift: Zero License

Traditional ESG platforms charge per user and per module, making rollout across diverse portfolios expensive and contentious. A zero-license AI model eliminates per-seat costs, enabling scalable portfolio integration without requiring portfolio companies to adopt new platforms. By removing per-seat licenses, the AI model enables GPs to avoid both the cost and managerial resistance of forcing new systems onto portfolio companies

Future-State Operating Model

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Capability	Description
AI/ML Automation	Automates data extraction, validation, and reporting
Cloud-Native Data Fabric	Centralized ESG data management
API Integration	Seamless connection to finance, HR, and operations
Audit-Grade Traceability	Ensures defensibility and compliance readiness

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Conclusion

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The window is narrowing

The ESG problem in private equity is not a strategy problem. Most GPs have good intentions and reasonable policies. It's a data architecture problem — and data architecture problems have solutions. The GPs who build real data infrastructure now will have a compounding advantage: better diligence, stronger value-creation levers, cleaner exits, and stronger LP relationships.

Call to Action

Hexaware is running a Portfolio ESG Data Architecture assessment for PE firms — a structured half-day diagnostic that maps the current state to future maturity.

If you're a GP reassessing your portfolio ESG data capability, we'd welcome a candid conversation — no pitch deck required.

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With offices across the world, we empower enterprises to realize digital transformation at scale and speed by partnering with them to build, transform, run, and optimize their technology and business processes.

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