ESG, Impact, and Greenwashing in PE and VC

Differentiating among philosophies of ESG and Impact investing

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Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis
Anikka Villegas Analyst, Fund Strategies and Performance
anikka.villegas@pitchbook.com
pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Julia Midkiff**

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Introduction

Most people would agree that vegetables are good for you. They provide valuable vitamins, minerals, and fiber and can help prevent heart disease, stroke, and several types of cancer. Some folks just like the way vegetables taste. But how people incorporate vegetables into their diet varies dramatically, despite guidance from expert organizations, physicians, and nutritionists. “Eating your vegetables” can mean converting wholly to veganism, eating salads twice a week, munching on the tiny corn cobs in take-out pad thai, or, according to some,[1] devouring a few slices of pizza. Now, imagine you could be rewarded $100,000 for eating your vegetables—but the cash pool is limited. Of course, nearly everyone would claim to eat their vegetables, but there would be plenty of disagreement about what should qualify for the reward. Some people would simply lie about their veggie consumption just to receive the cash. Mistrust would abound, and soon, people would be saying the word “vegetables” is too loaded to use in describing their diet.

This hypothetical is not unlike the situation in which the sustainable investing community finds itself. Based on countless conversations with industry participants, responses to our sustainable investment survey, and copious public discourse on the topic, it is clear that there is a need for greater clarity around what it means to “do” sustainable investing, environmental, social, and governance (ESG), and Impact. Even among market participants further along in their sustainable investment journeys, disagreement about what these terms mean has resulted in confusion, frustration, and loss of legitimacy for the sustainable investing movement. Accusations of greenwashing have been hurled—in many cases, not because there was intent to deceive but because there was a difference in philosophy about what “doing” ESG should mean.

Three schools of thought, or philosophies, have evolved to make sense of key differences in approach to ESG and help the investment world discern what is a disagreement in philosophy versus an intentional miscommunication or lack of follow-through resulting in greenwashing. In addition, a conversation about greenwashing in the private markets would be incomplete without a discussion of the differences in implementation and substantiation of ESG and Impact in PE versus VC. The three philosophies and their corresponding

1: “Pizza Is a Vegetable? Congress Says Yes,” NBC News, Mary Clare Jalonick, November 15, 2011.

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implementation and substantiation guidance can be used to help align expectations around what sustainability-oriented programs should look like when investing in companies of various sizes, maturities, and operational complexity. Understanding the various philosophies of ESG and Impact and their implications can reduce confusion around why legitimate ESG and Impact programs can result in such different-looking portfolios. This discussion of ESG and Impact may be useful to investors trying to establish an ESG policy or Impact framework by helping them understand how they conceptualize ESG or Impact and offering suggestions for tools to meet the corresponding expectations.

It is worth noting there is no single "right" philosophy. All of them represent the points of view of investors seeking to advance the transition to a more sustainable economy. Further, while there may be some overlap, each point of view can take a different approach to sustainability issues, depending on the industries and types of companies involved. Some investors will only be interested in companies with well-managed ESG risks, while others will be more inspired to roll up their sleeves to make material improvements to companies with largely unmitigated risks. Thus, a distribution of investors across the philosophical spectrum allows for ESG advancement in all industries and at companies with varying levels of ESG sophistication.

Definitions

Sustainability: In the context of corporate sustainability, "sustainability" refers to the ability of an entity to consistently create and protect value over the long-term. For investors, that means less downside because risks are mitigated and a potential upside through capitalizing on relevant opportunities. In the context of social and environmental sustainability, "sustainability" refers to the support of human and ecological well-being, health, and vitality over time.[2] To complicate matters, companies claiming to be focused on sustainability may mean the first, the second, or both definitions and often use them interchangeably. While many believe the meanings are inextricably connected, there are some who argue the first can exist without the second, which is part of the debate occurring across the industry. Uniting the two definitions, "sustainable investing" is the umbrella under which ESG and Impact fall, with ESG heavily associated with corporate sustainability and both ESG and Impact tied to social and environmental sustainability.

An ESG-oriented investor seeks to identify and mitigate material ESG risks and capitalize on value creation opportunities to improve returns.

ESG: ESG refers to environmental, social, and governance risk factors and value creation opportunities. ESG-aligned investing is concerned with both inward-facing and internal risks and opportunities and how they affect company performance. An ESG-oriented investor seeks to identify and mitigate material ESG risks and capitalize on value creation opportunities to improve returns. Every company experiences some degree of ESG risk exposure and value creation opportunity, regardless of how "clean" the company or industry may be. What differentiates weak, moderate, and strong ESG performance is how well the company has mitigated those risks and capitalized on ESG opportunities, as well as how it continues to do so. ESG comprises a vast variety of issues, including energy management, ecological impacts, data privacy and security, product quality and safety, labor practices, supply chain management, and business ethics.

2: "What is Sustainability?" UCLA Sustainability, 2022.

Impact: Impact refers to the environmental and social influences a company has on the external world and is concerned with outward-facing effects on society. Impact investing seeks a double bottom line of positive financial returns and positive environmental or social returns. Impact investing may, for some investors, involve accepting concessionary returns, although many Impact investors feel it is completely within reason to target market returns. Impacts can fall into a multitude of categories, including improving access to quality education, clean energy, gender and racial equality, the sustainability of agriculture or food systems, and waste management.

Greenwashing: Generally, greenwashing refers to branding around or claiming to "do" sustainability, whether through ESG, Impact, or other means, but not following through on the efforts stated or implied by those claims. Given the multiple approaches to sustainability, ESG, and Impact, policing those claims can be quite difficult and often falls to the mercy of individual observers. As was suggested in the introduction, there is a need to shift the definition to avoid penalizing differences in philosophies, which are abundant, and instead use the term more properly to call out inconsistencies, inaccurate information, and failure to follow through on sustainability commitments.

Philosophies of ESG

It may be helpful to break down the spectrum of ESG perspectives into three philosophies—purist, pragmatist, and pluralist—so as to clarify and simplify the major differences and their implications for implementation and substantiation. Key differences among the philosophies lie in 1) risk tolerance to unmanageable ESG risk from broad industry sustainability (that is, willingness to invest in companies in high-risk industries such as oil, coal, and gas or medium-risk industries such as food product manufacturing and textile production), 2) willingness to invest in companies with moderate or high levels of unmanaged manageable ESG risk (that is, companies that could be mitigating ESG risks but are not) and 3) accepted manageable risk profile at exit (that is, the threshold for what qualifies as having "done" ESG).[3]

Accepted risk levels and required risk mitigation by philosophy

Key: A green dot signifies low levels of risk; a yellow dot, moderate levels; and a red dot, high levels.

3: For more information on manageable versus unmanageable risk, please refer to "ESG Risk Ratings: A Consistent Approach to Assess Material ESG Risk," Sustainalytics, 2021.

ESG effort required during investment process and potential value-add by philosophy

	Pre-acquisition required effort level	Holding period required effort level	Potential for added exit value
Purist ESG philosophy	High	Low	Low to Moderate
Pragmatist ESG philosophy	Moderate	Low to High	Low to High
Pluralist ESG philosophy	Low	Low to High	Low to High

Because ESG purists' investment diet consists of companies that are already clean, there is less opportunity for their portfolios to experience the benefits that come from substantial ESG improvements.

The purist ESG philosophy

Vegans are the purists of the dietary world. They demand food that has a very low risk of containing meat, fish, or dairy products. Like vegans, ESG purists want an investment diet that has low levels of risk—specifically, low levels of unmanageable risk due to broad industry sustainability and low-to-moderate levels of unmanaged manageable ESG risk. Put plainly, this means that ESG purists invest only in companies operating in green industries, such as alternative energy, sustainable agriculture, and healthcare technology, foregoing investments in companies in industries that are not green and aren't at least moderately well-performing with respect to each of the E, S, and G areas. They also believe that investors' priority should be to maintain or improve ESG performance during the holding period. Because ESG purists' investment diet consists of companies that are already clean, there is less opportunity for their portfolios to experience the benefits that come from substantial ESG improvements. This philosophy, at times, seems to combine ESG and Impact, as it is focused on the idea that capital should not be allocated to companies that do not contribute to a sustainable future through their operations and products or services. This is the most restrictive of the philosophies of ESG, and its proponents are the most likely to look at the other approaches and claim greenwashing.

Implementation and substantiation in PE: Implementation of ESG under this philosophy is the most burdensome during the pre-investment due diligence stage for PE, as practitioners require investment in already well-performing companies with respect to ESG, and PE target companies tend to be organizationally more mature, slightly larger, and have more complex operations. Because of this, investors will need to ensure they have a strong understanding of the ESG risks derived from the industry in which the company operates and engage in thorough due diligence surrounding the company's manageable ESG risk exposure and mitigation practices. If they do not, they may end up investing in a company that does not meet their high ESG performance standards. Investors subscribing to this philosophy and implementing it in PE will have the most to gain from harnessing ESG scores or ratings should they become widely available for private companies, as they will aid in screening out undesirable entities during the early stages of diligence. In addition, PE purists closely monitor biannual or annual ESG metrics reports to ensure performance is maintained and any planned improvements are pacing appropriately to meet deadlines.

Implementation and substantiation in VC: As VC target companies tend to be smaller, less organizationally mature, and have fewer complex operations, the burdens associated with evaluating ESG risk profile at entry are lower than in PE. However, purists still seek green companies that have shown some attention to ESG issues or other sustainability themes through policies and procedures or through product or service development. Screening for any ESG red flags, which at that stage typically center on poor governance practices, is appropriate for companies with this level of organizational maturity. Further, purists will expect their VC target companies to have or develop a plan for addressing how ESG risks change as the company's operations scale up. During the holding period, policies and procedures related to ESG improvements may be implemented proactively (that is, before they are made necessary by the company's risk profile) to ramp up in preparation for an IPO or period of rapid growth. While some might feel that young companies should not be burdened with ESG-related policies, this can be a judicious use of resources, as there are some ESG policies and procedures that are easier to implement when a company is small compared to the burden of retrofitting or correcting policies at a more mature organization.

What purists call greenwashing: ESG purists would opine that any of the following qualifies as greenwashing if one claims to engage in ESG: investing in companies in socially or environmentally harmful industries, investing in companies that do not contribute to sustainability, investing in companies that are not mid- to well-performing with respect to each of the ESG areas, investing in companies that cannot validate their sustainability, failing to improve a company with ESG deficiencies, and any ESG performance deterioration in a portfolio company. In many cases, greenwashing accusations from purists are likely to be false positives, where the accused ESG approach simply aligns with a different philosophy and is in fact transparent about its intentions and execution. It may only seem misleading if the purist assumes that the only portfolio that should arise from an ESG approach is a pure one.

Purist ESG activity by investment phase for PE vs VC

	Pre-acquisition	Holding period	At exit
Private equity	Intensive ESG due diligence focused on industry-level risks and company-level risk and mitigation	Potential light ESG gap assessment and light ESG improvement program Biannual or annual monitoring to ensure ESG performance is maintained and light improvements made	None
Venture capital	Moderate ESG due diligence focused on industry-level risks and company-level risk and mitigation	Moderate-intensity ESG gap assessment with forward-looking analysis concerned with risks at scale, light-to-moderate ESG improvement program to address current or anticipated risks Quarterly or biannual monitoring to ensure ESG performance is maintained and light-to-moderate improvements are made	Potential light ESG assessment at exit to evaluate company's current risk exposure, mitigation, and posture to address future risks, especially if IPO is anticipated post-exit

The pragmatist ESG philosophy

Salad eaters are pragmatic. They know they need vegetables in their diet to minimize the risk of heart disease, stroke, cancer, and a host of other health problems. However, salad eaters, like many people, may also enjoy eating meat. So, they commit to reducing their health risks by eating salad twice a week, but they may also try to make their meat-based dishes healthier by using smaller portions of meat, leaner cuts, and more fish and poultry. ESG pragmatists are the salad eaters of the ESG investment spectrum: They invest in companies with low-to-moderate unmanageable ESG risk due to broad industry sustainability and any level of unmanaged manageable risk at entry. These would include companies in industries such as food product manufacturing and textile production, which neither inherently harm nor contribute to a more sustainable economy. Pragmatists may invest in companies with sterling ESG records, but their investment diet might also include companies with high levels of unmanaged manageable ESG risks. Pragmatists recognize the value that can be created by vastly improving ESG performance at higher-risk companies. Investors that subscribe to this philosophy and invest in companies that have ESG red flags (such as excessive litigation around discrimination and harassment or substantial and repeated violations from OSHA over many years) aim to materially improve ESG performance during the holding period. Achieving an acceptable risk profile at exit is core to this philosophy, likely motivated in part by ethics but largely by profit, as companies with better risk profiles can be sold for higher valuations.

Pragmatists may invest in companies with sterling ESG records, but their investment diet might also include companies with high levels of unmanaged manageable ESG risks. Pragmatists recognize the value that can be created by vastly improving ESG performance at higher-risk companies.

Implementation and substantiation in PE: Implementation of this ESG philosophy in PE creates a fairly even distribution of effort across the pre-investment process, holding period, and exit process. Prior to acquisition, the investor will need to gain an understanding of ESG risks derived from the industry in which the company operates versus the company's individual operations. The investor may choose to engage in an in-depth ESG gap assessment with implementation recommendations to identify and execute on opportunities for improvement where there are material risks. This can occur either during pre-investment due diligence or post acquisition. During the holding period, quarterly or biannual monitoring of progress is important for these investments, where comprehensive programs across ESG issue areas may need to be established or heavily modified and then rolled out. Documentation of all ESG improvements made to the company during the holding period and/or use of an exit assessment are the final stage in the process, as they substantiate follow-through on the established performance improvement goals.

Implementation and substantiation in VC: For the same reasons as mentioned in the purist philosophy, implementation and substantiation of ESG in VC is a lesser lift compared to PE under a pragmatist philosophy. Pre-investment due diligence on the ESG risks derived from broad industry sustainability, slightly less-intensive pre- or post-acquisition identification of manageable risk mitigation gaps and opportunities, and evaluation of how scale will influence sustainability and ESG are all appropriate. So, too, are proactive implementation of ESG-related policies and procedures and quarterly

monitoring, although claims of greenwashing are less likely to arise in VC, as companies operate with fewer expectations due to smaller size, lack of maturity, and fewer consumer touchpoints.

What pragmatists call greenwashing: ESG pragmatists believe that claiming to engage in ESG and then investing in companies with high levels of unmanageable ESG risk derived from industry sustainability or failing to bring manageable risk to a low level during the holding period qualify as greenwashing. While this may appear to provide only a few areas vulnerable to greenwashing accusations, it is a difficult task to invest in ESG underperforming companies and improve their risk profiles and management capacity. Often, swift action is required after the acquisition of high-risk companies to ensure that previous mismanagement does not belie a lack of execution on ESG promises by recent investors. Use of short-, medium-, and long-term agendas is especially helpful in avoiding this outcome.

Pragmatist ESG activity by investment phase for PE vs VC

	Pre-acquisition	Holding period	At exit
Private equity	Moderate ESG due diligence focused on industry-level risks, assessment of company-level risks, and mitigation if desired	Intensive ESG gap assessment, especially if no diligence on company-level risk and mitigation conducted Intensive ESG improvement program where high risk detected, moderate where moderate risk detected, light where light risk detected Quarterly or biannual monitoring to ensure intensive, moderate, or light improvements are made	Moderate-to-intensive ESG assessment at exit depending on risk level at entry
Venture capital	Moderate-to-light ESG due diligence focused on industry-level risks, assessment of company-level risks, and mitigation if desired	Moderate-intensity ESG gap assessment with forward-looking analysis concerned with risks at scale, especially if no diligence on company-level risk and mitigation conducted Intensive ESG improvement program where high risk detected, moderate where moderate risk detected, light where light risk detected Quarterly monitoring to ensure intensive, moderate, or light improvements are made	Light-to-moderate ESG assessment to evaluate company's current risk exposure, mitigation, and posture to address future risks, especially if IPO is anticipated post-exit

The pluralist ESG philosophy

The pluralists of the dietary world are willing to eat plenty of foods that carry a high level of risk to their health but try to improve them by adding just a dab of something healthy—such as the tiny corn cobs in takeout pad thai or mushroom and green pepper on a slice of deep-dish pizza. Likewise, the ESG pluralists' investment diet is high-risk. ESG pluralists believe investing in companies with high levels of unmanageable ESG risks from operating in socially or environmentally harmful industries such as oil, coal, and gas or tobacco product manufacturing can still qualify as ESG investments as long as some ESG improvements are part of the GP's investment diet. For example, an investment in a coal-fired power plant, which is environmentally

While an investment's overall risk profile may still be high at exit due to unmanageable ESG risks from industry exposure, pluralists aim to sufficiently mitigate manageable risks to bring them to a moderate level.

harmful, may still be considered an ESG-aligned investment if labor conditions and board diversity are improved during the holding period. It is termed pluralism as it permits a company's harmful operations, products, or services to coexist under the ESG umbrella with the benefits of related or unrelated ESG advancements. While an investment's overall risk profile may still be high at exit due to unmanageable ESG risks from industry exposure, pluralists aim to sufficiently mitigate manageable risks to bring them to a moderate level. Of the three philosophies, ESG pluralists are most frequently the targets of greenwashing claims, as many find the idea of sustainable investing in high-ESG-risk companies and socially or environmentally harmful industries paradoxical.

Implementation and substantiation in PE: This philosophy of ESG is the most flexible and thus the most open to interpretation and varied execution by its proponents. While it may still be applied and of use, the philosophy does not necessitate substantial pre-investment due diligence, as it accepts companies with high levels of manageable and unmanageable ESG risk. Advocates of this philosophy may still use pre-investment or post-acquisition ESG risk and value creation assessments to target potential improvements or opportunities, especially for companies with high levels of risk. Similar to the pragmatist philosophy, monitoring, documentation of ESG-related enhancements, and/or use of an exit assessment may all be valuable in achieving and proving value was added in this arena, with use or intensity of those activities heavily linked to risk level at entry.

Implementation and substantiation in VC: It is unlikely that a large proportion of VC falls into the "high level of unmanageable risk due to industry sustainability" category, as many of the industries considered high-risk are dominated by fewer, larger, and more mature entities, such as BP, Exxon Mobil, and Shell in the oil industry or British American Tobacco, Philip Morris, and Imperial Brands in tobacco. Nonetheless, there are exceptions to this trend, and there may still be VC investors that subscribe to the pluralist philosophy of ESG. Because less is required in terms of diligence, monitoring, and organizational maturity to implement ESG in VC compared to PE under the pluralist view, the flexibility in this philosophy means not much is mandated in terms of implementation and substantiation beyond some analysis and documentation of risk management gaps and mitigation of manageable ESG red flags.

What pluralists call greenwashing: To an ESG pluralist, greenwashing occurs where investors claim to engage in ESG but take no action to improve the company's ESG profile during the holding period and where manageable risk is not reduced to a moderate level. Some may consider failure to materially move the needle on mitigation of all manageable ESG risks greenwashing, although even this could be controversial. To combat perceptions of greenwashing under this philosophy, it is especially important to keep policies at the ready, describing what ESG means to the investor, how materiality is defined, and what steps have been taken to meet established sustainability goals. Consistency and transparency are key to minimizing these accusations (to the extent possible) for the ESG pluralist.

Pluralist ESG activity by investment phase for PE vs VC

	Pre-acquisition	Holding period	At exit
Private equity	Potential light-to-intensive ESG due diligence focused on industry-level risks, assessment of company-level risks and mitigation if desired	Moderate-to-intensive ESG gap assessment, especially if no diligence on company-level risk and mitigation conducted Moderate-to-intensive ESG improvement program where high unmanaged manageable risk detected, potential light-to-moderate ESG improvement program where moderate or light risk detected Potential quarterly, biannual, or annual monitoring to ensure intensive, moderate, or light improvements are made	Potential light-to-moderate ESG assessment at exit if desired
Venture capital	Potential light-to-moderate ESG due diligence focused on industry-level risks, assessment of company-level risks and mitigation if desired	Light-to-moderate-intensity ESG gap assessment with forward-looking analysis concerned with risks at scale, especially if no diligence on company-level risk and mitigation conducted Moderate-to-intensive ESG improvement program where high unmanaged manageable risk detected, potential light-to-moderate ESG improvement program where moderate or light risk detected Potential quarterly or biannual monitoring to ensure intensive, moderate, or light improvements are made	Potential light-to-moderate ESG assessment to evaluate company's current risk exposure, mitigation, and posture to address future risks, especially if IPO is anticipated post-exit

Philosophies of Impact

While most agree that Impact investing is an attempt to wed investment returns with positive social or environmental effects, the space is not immune to accusations or doubts about what a fund manager intends to deliver and how that compares with what is actually achieved. Although the term "greenwashing" is used less frequently with respect to Impact, it is used loosely here to cover the wide category of concerns in the industry that the investments being branded as Impact investments do not, in fact, qualify.

Quantifiable impact is Impact

Many of those most passionate about Impact investing subscribe to the view that measurement is a necessary component of an Impact investment program. This philosophy of Impact creates a higher burden of proof when it comes to establishing an investment or portfolio as Impact. Despite this insistence on measurement, it can be incredibly difficult to track the effect that a product or service has. Consider attempting to calculate how many students graduated elementary school because of a for-profit after-school program, how many residents remained in a gentrified neighborhood due to affordable housing programs, or how farming yields have increased because of a new agricultural product. Quantifiable Impact practitioners will frequently depend on models to estimate the effects of a company's products, services, and occasionally, operations. While some may dispute the methodology or validity of the models, this implementation of Impact is widely accepted as the best way to report on hard-to-capture effects.

Implementation and substantiation in PE: Even within this philosophy, there are differentiated methods of determining quantity and quality of Impact. In PE, models will typically work with existing, company-derived data based on operations and actualized Impacts. However, how comparisons are drawn using that information varies. For example, three plastic container recycling companies may all be asked to report on their Impact. While all will likely report the percentage of waste going to landfill using their service, one may compare this figure to standard waste disposal, another to traditional recycling methods, and the last to the most competitive industry peer. The baselines chosen for the model can influence how substantial an Impact seems, making it difficult to compare Impacts across companies or portfolios.

Implementation and substantiation in VC: Impact modeling can be more difficult in VC because technology is unproven and operations are less mature, making numerical Impact projections based on company data less reliable and significant assumptions necessary to discuss material levels of Impact. There are benefits to taking this approach early on, however, as companies or investors can use models to evaluate potential avenues of Impact and determine which are most compelling, in an evidence-based way, from a social or environmental standpoint. While the results of these assessments may not be determining factors in business decisions, they can provide earlier insight into the Impact potential of the company and help guide decision-making.

Greenwashing when quantifiable impact is Impact: This philosophy of Impact creates a black and white view of what constitutes greenwashing. Adherents feel that misreporting data, using a misleading model, or manipulating the model or data in order to produce more favorable numbers would all qualify as greenwashing. Transparency about what provided data means and documentation on how it was gathered and interpreted will help preclude most greenwashing claims from those aligned with this view.

Any impact is Impact

This philosophy of Impact holds that any positive social and environmental effects derived from company operations, products, or services qualify an entity as an Impact investment. These include effects that are nonquantifiable or at least not explicitly measured. For example, investments in gender- and ethnic minority-founded businesses qualify as Impact investing under this definition, as there are positive societal outcomes associated with representation of gender and ethnic minorities in the executive teams of companies (that is, greater representation of diverse views leading to more robust decision-making, representation facilitating upward mobility for others in the minority groups, or positive outcomes of sharing economic benefits of ownership to diverse rather than homogeneous groups). This conception of Impact allows for more investment options than its counterpart, a benefit that makes it appealing to investors. This can be a double-edged sword, however, as Impact investing has, in some circles, struggled to gain acceptance among mainstream investors. Measuring outcomes can put more weight behind assertions that non-concessionary, or market-rate, returns can be a part of the double bottom line.

Measuring outcomes can put more weight behind assertions that non-concessionary, or market-rate, returns can be a part of the double bottom line.

Implementation and substantiation in PE: At more established companies such as those targeted by PE firms, there is a greater opportunity for actualizing positive Impact, even if non-quantifiable, due to the scale of operations. While investors can use models to quantify effects where possible, under this philosophy they also can provide qualitative or narrative historical explanations for companies' Impacts. Returning to the example of a gender or ethnic minority-founded enterprise, means of substantiation could include accounts of how founders have given back to their communities, consumer feedback around the benefits of buying from a company with this founder profile, or positive employee feedback related to a culture of inclusion created by these leaders.

Implementation and substantiation in VC: In some ways, not being tied to quantitative metrics lends this philosophy well to VC. Because Impact models for VC companies tend to be more theoretical (that is, based on potential effects operating under optimistic assumptions about the company's performance and reach), investing without the expectation of meeting certain numerical Impact targets later down the line reduces the risk of stakeholder disappointment. It also bears saying that VC is an area in which some of the more difficult-to-quantify Impacts experience higher visibility and magnitude—as occurs with positive effects of ownership for female founders and founders of color. Having the freedom to use qualitative and narrative-based evidence of Impact opens up investment opportunities that would not be acceptable to those who insist upon quantifiable metrics.

Greenwashing when any impact is Impact: As this conception of Impact does not necessitate quantitative evidence, it is more susceptible to claims of greenwashing from quantifiable Impact proponents. Lack of quantification does create ambiguity around what type or magnitude of Impact investors may consider too insignificant to qualify. Perhaps an indoor plant nursery could be called an Impact investment—after all, some studies show indoor plants reduce stress and make people happier.[4,5] Fewer investors, though, would be likely to call a large online retailer an Impact investment if just 2% of its revenue comes from plant sales. Removing metrics from the discussion makes it even more difficult to predict what will count as Impact. While the water is murkier under this philosophy, misreporting of company activities and data or use of misleading branding around the effects of a company's operations, products, or services certainly qualify as greenwashing. Although some gray areas still exist, documentation of intentions, reasoning, follow-through, and results can close the gap between investor expectations and reality.

Conclusion

It is evident that while the sustainable investing landscape is rapidly gaining in adoption, the philosophies, methods, and outcomes of ESG and Impact investing can vary widely. Each philosophy has advocates and skeptics, and it is unlikely that investors will ever fully coalesce around one to the exclusion of

4: "Why We Need More Nature at Work: Effects of Natural Elements and Sunlight on Employee Mental Health and Work Attitudes," Plos One, Mihyang An et al., Published online May 23, 20167.
5: "Interaction with Indoor Plants May Reduce Psychological and Physiological Stress by Suppressing Autonomic Nervous System Activity in Young Adults: A Randomized Crossover Study," Journal of Physiological Anthropology, Min-sun Lee et al., published online April 28, 2015.

the others. As such, while greenwashing claims may continue to fly, investors should do their own diligence to determine whether a fund manager is being intentionally misleading, inaccurate, or negligent in their branding or if they are legitimately offering what they claim, which may not be to everyone's taste. To help reduce confusion and disappointment, GPs, LPs, and target companies must communicate proactively about intent and action to determine if sustainability strategies are philosophically aligned. The coexistence of the various perspectives can help ensure that the full spectrum of industry participants finds satisfaction in how their investments are doing well by doing good.