# Article information:

Sustainable investing with ESG rating uncertainty - ScienceDirect  
<https://www.sciencedirect.com/science/article/pii/S0304405X21003974>

# Article summary:

1. Sustainable investing considers ESG factors in portfolio selection and management, but investors often face uncertainty about a firm's true ESG profile due to incomplete and opaque data.

2. ESG uncertainty can negatively affect the demand for equities and the risk-return trade-off, but its impact on the market premium is inconclusive.

3. The negative return predictability of ESG ratings may not hold when there is high uncertainty, highlighting the importance of considering ESG uncertainty in analyzing sustainable investing.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article "Sustainable investing with ESG rating uncertainty" provides a comprehensive analysis of the implications of ESG uncertainty for portfolio decisions and asset pricing. The authors highlight the importance of considering ESG uncertainty when analyzing sustainable investing, as it can negatively affect the risk-return trade-off, social impact, and economic welfare.

The article is well-researched and provides valuable insights into the challenges faced by investors in assessing the true ESG profile of a firm. The authors acknowledge that there is substantial divergence across ESG rating agencies, which makes sustainable investing riskier and reduces investor participation.

However, the article could benefit from a more balanced discussion of the potential benefits and drawbacks of sustainable investing. While the authors acknowledge that sustainable investing has experienced exponential growth in recent years, they do not explore why this trend has emerged or what benefits it may offer to investors beyond nonpecuniary benefits.

Additionally, while the authors provide empirical evidence to support their model predictions, they do not explore potential counterarguments or alternative explanations for their findings. For example, they suggest that ESG uncertainty could tilt the ESG-performance relation and serve as a potential mechanism to explain opposing findings on return predictability. However, they do not consider other factors that may influence return predictability or how these factors interact with ESG uncertainty.

Overall, while this article provides valuable insights into the challenges faced by investors in assessing ESG performance, it could benefit from a more balanced discussion of both the potential benefits and drawbacks of sustainable investing and a more thorough exploration of alternative explanations for their findings.

# Topics for further research:

* Benefits of sustainable investing beyond nonpecuniary benefits
* Drivers of exponential growth in sustainable investing
* Criticisms of ESG rating agencies and their methodologies
* Factors influencing return predictability in sustainable investing
* Impact of ESG uncertainty on different asset classes
* Role of government policies in promoting sustainable investing

# Report location:

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