
BOOK REVIEW



Mark Kritzman, Senior Editor

REVIEW – THE PUZZLE OF SUSTAINABLE INVESTMENT: WHAT SMART INVESTORS SHOULD KNOW¹

Lukasz Pomorski

(Review by Yaoyun Zhang)

Suppose two equally skilled portfolio managers focus on the same investments with the only difference being that one manager refuses to look at any information regarding sustainability, while the other considers criteria related to ESG (environmental, social, and governance). If you were to invest, which one of these managers would you choose?

“The Puzzle of Sustainable Investment” starts by doing this simple, yet powerful thought experiment. The author, Lukasz Pomorski, an experienced researcher and practitioner, thoroughly examines the concepts and controversies in the

field of ESG, with empirical evidence and real-world examples, addressing ESG buzz words such as ESG integration, sin-premium, greenium, carbon footprint, net zero, etc. Drawing from academic literature and years of experience designing and overseeing sustainable portfolios, Pomorski offers refined perspectives in this book based on a wealth of data.

One of the book’s key strengths is the framework, tools, and economic intuitions, built by and repeatedly employed throughout the book. Readers are left with a toolbox for how they should think about sustainability problems and how to navigate the current issues and the evolving landscape of the ESG space. Below are a few of examples:

(1) Pomorski shows that investors can balance their

financial goals (risk-return objectives) with their non-financial goals, which reflect their sustainability values. Does ESG integration help or hurt investment returns? What are the tradeoffs? These questions are answered by Pomorski with the ESG-efficient frontier, a powerful framework based on modern portfolio theory, that brings valuable insights to the table. For example, portfolios may be greened up meaningfully with only a modest penalty to the risk-return tradeoff.

(2) Pomorski also discusses how markets react to and price ESG information. This analysis addresses market efficiencies and market transitions—a shift from ESG-unaware, to ESG-aware, or even ESG-motivated.

(3) Pomorski describes the tools practitioners can deploy to increase their confidence

in ESG data, particularly regarding environmental data, which often invites skepticism. The key is to conduct due diligence to examine the ESG data and ensure that the ESG ratings are suitable for the needs of their portfolios.

(4) Pomorski discusses two channels by which investors can impact company behavior: first, directly through voting rights and engagement, and second by impacting financing costs through price pressure.

Finally, Pomorski extends the analysis beyond stocks and

bonds to consider how sustainable investing might affect commodity futures and other derivatives.

A key strength of this book is its accessibility, owing to Pomorski's ability to break down the intricacies of sustainable investing into clear and digestible explanations. Analytically focused readers will appreciate the book's organization.

Overall, the book serves as a comprehensive and practical guide to those who are new to the world of sustainable

investing. It takes a middle-of-the-road position among hotly debated viewpoints and polarized arguments by remaining balanced and analytical. Pomorski's blend of academic rigor and practical insight makes this book a valuable resource for investors, academics, and policymakers seeking to navigate the complexities of sustainable investing.

Note

- ¹ A Comprehensive and Practical Introduction to Sustainable Thinking and Investing.