

Review of: "A Method for Discriminating Equities Based on Sustainability Criteria in an ALM Process Designed for Practitioners"

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Potential competing interests: No potential competing interests to declare.

The area of Sustainable Equity investing and Portfolio Management is definitely a current hot topic, particularly propelled by the rise in the consciousness of traders, institutions, and governmental bodies regarding ESG.

Introduction:

It is well introduced that "...Chakrabarty and Nag, in their literature review, concluded that "We find that there is a lack of consensus about the existence of a carbon premium or an equity greenium in stock prices".

Comment: Some other recent references can be added here, like "Gurrib et al. (2023) reported that most region- and sector-specific Environmental Opportunities Equity Indices performed poorly compared to fossil fuel-based indices.

Gurrib, I.; Kamalov, F.; Starkova, O.; Makki, A.; Mirchandani, A.; Gupta, N. Performance of Equity Investments in Sustainable Environmental Markets. *Sustainability* **2023**, *15*, 7453. <https://doi.org/10.3390/su15097453>

It is also mentioned that "...Furthermore, Gibson et al. compared the ESG scores provided by seven different companies and demonstrated that these scores lack correlation with one another. Consequently, choosing one ESG score over another introduces significant model risk..." One possible future research avenue can tap into creating an index that captures the variability of these different indices, perhaps using principal component analysis.

The authors, nonetheless, propose a framework to tackle this model risk by "...To ensure full compliance with regulations, insurance companies should thus opt for objective and open-source data instead of relying solely on ESG scores..."

Data:

The authors mention "...This study has two limitations associated with the data used. First, the observed period for the equities encompasses two major crises: the COVID-19 pandemic and the Ukrainian crisis..."

Comment: Although COVID-19 had a negative impact on equity indices globally, most companies are now way ahead of pre-COVID-19 prices, e.g., the S&P 500 is at historical record highs currently. It is suspected that the same would appear in European equity indices. Similarly, the Ukrainian crisis is still ongoing and not the focus of this study.

Method:

As mentioned earlier, PCA was adopted by the authors to enhance the stability of the method as a preprocessing step on the data.