CFA Institute Sustainable-Investing Practice Questions

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Question 1

Question Type: MultipleChoice

Which of the following statements about good corporate governance is most accurate?

Options:

A- No one model of corporate governance is better than another
B- A single-tier board structure is preferred over a two-tier board structure
C- A two-tier board structure is preferred over a single-tier board structure

Answer:

A

Explanation:

Good corporate governance recognizes that no single model is universally better than others. Corporate governance practices vary by region and industry, and what works best in one context may not be suitable for another. Effective governance practices are those that fit the specific needs and challenges of the company.ESG Reference: Chapter 5, Page 236 - Governance Factors in the ESG textbook.

Question 2

Question Type: MultipleChoice

main ESG data can be sourced:

Options:

A- Only from public documents.
B- Only directly from companies.
C- Both from public documents and directly from companies.

Answer:

C

Explanation:

Primary ESG data is obtained from both public documents and direct company disclosures (Option C), including:

Sustainability reports, financial filings, regulatory disclosures (public documents).

Company surveys, management interviews, direct engagement (company sources).

Option A is incorrect because ESG analysts often require direct engagement to get non-public data.

Option B is incorrect because some ESG data (e.g., emissions data, labor policies) is publicly disclosed in regulatory filings.

GRI Sustainability Reporting Standards

PRI ESG Data Guide (2022)

CDP Climate and Water Disclosures

Question 3

Question Type: MultipleChoice

Considering ESG integration, an advantage relevant to private real estate markets but not equities and fixed income is most likely:

Options:

A- majority ownership
B- coverage of assets by ESG rating agencies
C- adherence to the Global Real Estate Sustainability Benchmark (GRESB) rather than the Sustainability Accounting Standards Board (SASB) framework

Answer:

C

Explanation:

In ESG integration, private real estate markets have specific characteristics that differ from

equities and fixed income. One of the key distinctions is the framework used for sustainability assessment and reporting:

Majority ownership (A): Majority ownership is not unique to private real estate markets; it can also be relevant to equity markets, particularly in cases of private equity investments or controlling stakes in public companies.

Coverage of assets by ESG rating agencies (B): ESG rating agencies cover a wide range of asset classes, including equities, fixed income, and real estate. While the extent of coverage and focus may vary, it is not a distinctive advantage unique to private real estate markets.

Adherence to the Global Real Estate Sustainability Benchmark (GRESB) rather than the Sustainability Accounting Standards Board (SASB) framework (C): The GRESB is specifically designed for assessing the sustainability performance of real estate assets and portfolios. This benchmark provides a comprehensive framework tailored to the unique aspects of real estate, such as energy efficiency, water usage, and building certifications. In contrast, the SASB framework is more general and applies to a broad range of industries, including equities and fixed income. Therefore, the adherence to GRESB is an advantage particularly relevant to private real estate markets and not typically applicable to equities and fixed income.

Global Real Estate Sustainability Benchmark (GRESB)

CFA ESG Investing Principles

Sustainability Accounting Standards Board (SASB)

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Question 4

Question Type: MultipleChoice

Which of the following statements about green bonds and sustainability-linked bonds (SLBs) is most accurate?

Options:

A- A global consensus exists on the types of capital projects that fit in the scope of green bonds
B- Green bonds allow issuers more flexibility in achieving sustainability targets compared to SLBs
C- Issuers of SLBs agree to pay a higher coupon to investors if they fail to achieve a sustainability-linked target

Answer:

C

Explanation:

Sustainability-linked bonds (SLBs) include a financial incentive for issuers to achieve specific sustainability targets. If the issuer fails to meet these targets, they agree to pay a higher coupon (interest rate) to investors, making the bonds more expensive and incentivizing issuers to fulfill their commitments.ESG Reference: Chapter 7, Page 362 - ESG Analysis, Valuation & Integration in the ESG textbook.

P2P exams

Question 5

Question Type: MultipleChoice

Compared to developed markets, ESG investing in emerging markets is most likely characterized by:

Options:

A- less data and greater variability between countries and companies.
B- easier portability of approaches and principles methods from developed markets.
C- fewer opportunities for investors to engage with companies and improve ESG performance.

Answer:

A

P2P exams

Explanation:

ESG investing in emerging markets is more challenging due to limited availability of data, variability in reporting standards, and differences in governance practices between countries and companies. (ESGTextBook[PallasCatFin], Chapter 2, Page 61)

Question 6

Question Type: MultipleChoice

Stewardship teams with a governance heritage tend to:

Options:

A- be organized by sector.
B- focus first on individual companies.
C- start the dialogue with investor relations and then escalate upward.

Answer:

C

Explanation:

Stewardship teams that evolved from governance practices generally start engagement bycommunicating with investor relations teams---the designated point of contact---and thenescalate discussions to senior executives or board membersif concerns persist or intensify. This phased escalation reflectstypical engagement protocolsand stewardship codes outlined by CFA.

Question 7

Question Type: MultipleChoice

The credit team of an asset manager develops its own quantitative score to measure ESG risk. Which of the following factors might lead to an improvement in their ESG score for an oil producer?

Options:

A- A decrease in water reuse
B- An increase in cash flow projections
C- A decrease in injury frequency per million man-hours

Answer:

C

Explanation:

A decrease in injury frequencyreflects improvedworker safety practices---acore ''S'' (social) factorin ESG risk scoring. Cash flow projections relate to financial analysis (B) but not ESG directly. A decrease in water reuse (A) wouldworsenenvironmental performance, not improve it.

Question 8

Question Type: MultipleChoice

Top-down engagement is most closely aligned with:

Options:

A- an active investment strategy.
B- company-focused engagement.
C- broadly diversified investment portfolios.

Answer:

C

Explanation:

Top-down engagementtypically occurs at amacro level, such as throughcollaborative initiativesorindustry-level policy dialogues. This approach is most suited tobroadly diversified portfolioswhere investors cannot engage deeply with every individual company but can influencesystem-level issues(like climate policy, supply chain labor standards) across many holdings.

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