ESG 考前练习题（二）

1.Which of the following best represents factors least considered by credit ratings agencies (CRAs)?

A. Bankruptcy risk, standard credit ratio analysis, litigation risk.

B. Bankruptcy risk, litigation risk, human capital risk.

C. Environmental risk, religious or ethical risk.

D.Environmental risk, standard credit ratio analysis, governance risk.

2.Which of the following factors is generally considered the most important when evaluating ESG considerations around sovereign debt?

A. Environmental factors.

B. Social factors.

C. Governance factors.

D. Human capital factors.

3.Which of the following statements best describes a green bond?

A.Bonds that finance green projects.

B. Bonds that meet certain ratings criteria.

C.Bonds that get the green light based on governance guidelines.

D. Bonds that are evergreen and roll on for a specified duration.

4.Which of these is NOT an ESG-integrated valuation technique?

A. Adjusting sales growth assumptions due to weak employee engagement scores.

B. Adjusting cost of capital due to poor govenance ratings.

C. Adjusting cash flows due to cash tax adjustments.

D. Changing fair value price/earnings (PE) ratio due to strong sustainability scores.

5.An analyst assesses a company as below average on ESG metrics. All other matters being equal, she is most likely to:

A. Give a PE premium to the stock.

B. Increase the company's cost of capital.

C. Increase the terminal growth rate assumption in a DCF model.

D. Reduce the risk of default in her forecast models.

6.Which of these does NOT describe an approach within ESG portfolio integration?

A. Impact investing

B. Positive screening.

C. Green securitisation.

D. Negative screening.

7. Which of these topics are not generally expected to be addressed by the portfolio management-related section of an ESG policy?

A. Stewardship and active engagement efforts.

B. Corporate social responsibility activities such as community volunteering.
C. ESG risk within the risk management function.
D. All of the above.

8.Which of the following is NOT achallenge surrounding ESG?
A. Data availability and credibility
B. Diversification of portfolio.
C. Characterisation of risk-returm profile of ESG funds.
D. Standardisation of cross-industry ESG definition and measurability metrics.

9.Classes of ESG-oriented fixed income debt issuance include:
A. Green bonds.
B. Blue bonds.
C. Green collateralised loan obligations (CLOs).
D. All of the above.

10. A portfolio manager would optimise their portfolio for ESG considerations for the purpose of:
(a) Enhancing the risk-return profile.
(b) Eliminating correlations between risk premia.
(c) Benchmarking.
(d) Tackling skewness in ESG datasets.

11.Which of the following is NOT a reason for an asset owner to implement an exclusionary screening approach?
A. Reflects a fundamental value of the asset owner's beneficiaries.
B. Reflects a global or regional norm.
C. To improve the portfolio's diversification benefits.
D. Simplest approach

12.Which of the following does NOT represent the function(s) of ESG indices?
A. Investing to facilitate cash management at the multi-asset level.
B. To measure sustainability of non-conventional ESG companies.
C. To allow seamless deconstruction and reconstruction of benchmarking tools to include ESG screening.
D. All of the above.

13.Which of the following is an active quantitative approach to embed ESG within a portfolio?
A. Weighting ESG as an idiosyncratic factor in a multi-factor stock selection algorithm.
B. Consideration of ESG scoring and relevant metrics in security-specific investment decisions.
C. Minimising tracking error against benchmark indices.
D.Solving the mean-variance optimisation problem to arrive at the best sectors for asset allocation.

14.Amongst 1) Black-Litterman model, 2) Brinson attribution model 3) risk factor attribution, which is/are metric(s) to measure the effectiveness of ESG integration?
A.1 and 3.
B. 2 and 3.
C.None
D.All three.

15. Which of the following statements is false?
A. ESG integration at the equity selection level, automatically ensures ESG compliance at portfolio and asset-allocation levels.
B. Lack of standardisation of ESG measurability methods negatively impacts unified investor consensus.
C. There is little academic proof of positive correlations between ESG integration in the portfolio and positive returns.
D. Sub-components of ESG are uncorrelated, orthogonal factors.

16.Which of the following statements is true?
A. Sovereign debt is susceptible to distortion effects based on ESG ratings.
B. ESG is a standalone component within the entire investment process.
C. It is well understood that the long-term returns on equities outweigh the short-term risks associated with the adoption of ESG by companies as well as funds.
D. Proprietary ESG data is often a real differentiator for investment firms.

17.Which of the following is NOT a macro-economic climate consideration?
A. Asset class sensitivity to interest rates.
B. Heterogeneity and wide-ranging risk/return profile.
C. Weighted-average carbon intensity for a single issuer position.
D. Ability to add low or inverse correlation relative to market returns.

18.What ESG feature is often overlooked in screening approaches for collective investment funds?
A. Negative screening approaches like 'socially conscious'.
B. Position-weighted ESG portfolio score.
C. Portfolio carbon exposure.
D. Stewardship.

19.Why have passive ESG indices been criticised as being more active than they are presented?
A.Higher costs than traditional passive indices.
B.Opaque methodology and construction of ESG indices may include space for human judgment and bias.
C.Index inclusion may create crowding and overvaluation in specific securities.
D.Carbon constraints represent a higher tracking error than ESG score constraints.

20.Which of the following by itself is the LEAST naturally-suited investment strategy to

accommodate the United Nations' Sustainable Development Goals (SDGs)?
A. Thematic investment fund.
B. Impact fund.
C. Negative screening.
D. Positive screening.

21.Which of the following, according to the Brunel Asset Management Accord, is NOT in itself a likely cause for concern?
A. Failure to manage risk appropriately.
B. A change in the expected investment style.
C. Short-term underperformance.
D. Lack of understanding of reasons for underperformance.

22. What behavioural step needs to be taken to reinforce the length of the client mandate in order for fund manager time horizons to lengthen to those sought by their clients?
A. Clients assess investment performance less frequently and predictably.
B. Clients assess investment performance more frequently and unpredictably.
C. Clients raise questions about the ESG characteristics of each company newly purchased by a fund manager.
D. Clients raise questions about the ESG characteristics of each company that is sold by a fund manager.

23. How might a fund manager demonstrate to clients that it is addressing the challenge of resourcing of stewardship activities?
A. Detail the processes by which it prioritises engagements.
B. Set out how it is adding stewardship staff and building expertise among its fund managers.
C. Demonstrate its active participation in one or more formal collective engagement vehicles.
D. All of the above.

24. Which of the following is NOT a typical way in which asset managers integrate ESG?
A. Using ESG as a threshold requirement before investment can be considered.
B. Using ESG as a factor that informs the valuation.
C. Using ESG as a risk assessment that offers a level of confidence in the valuation.
D. Using ESG as a basis for explaining investment holdings to clients.

25.Which of the following are expected to be reported by the Pensions and Lifetime Savings Association (PLSA) disclosure guide for public equities?
A. ESG integration and stewardship.
B. Social impact and stakeholder engagement.
C. ESG risk and carbon footprint.
D. Social risk and board engagement.

26.Which of the following is NOT one of McKinsey's proposed dimensions of investing for the purposes of applying sustainable investing practices?

A. Investment beliefs and strategy.
B. Regulatory and policy environment.
C. Performance management
D. Public reporting.

27.Which of these forms of asset owner is most likely to apply an exclusion policy barring investment in all assets exposed to a particular business area?
A. Defined benefit (DB) pension scheme.
B. General insurance business.
C. Charitable foundation.
D. Sovereign wealth fund.

28.Why might a fund manager disagree with an external researcher's ESG analysis of a particular asset in its portfolio?
A. The fund manager may have greater insight from its direct dialogue with the asset than is available in public disclosures on which the research is based.
B. The fund manager may believe that the asset has an active programme of improvement that is likely to be recognised in a diferent rating in due course.
C. Both a and b.
D. Neither a nor b.

29.What is the clearest risk from an asset owner leaving voting decision-making in the hands of its fund managers?
A. Fund managers will fail to align the votes with their investment thesis.
B. If a company is held by more than one fund manager, the asset owner's shares may be voted differently.
C. Votes are more likely to be lost in the voting system.
D.This reduces fund manager accountability for their decisions.

30.Which of the following is NOT a driver for clients to seek ESG investment, at least for one class of client?
A. Fiduciary duty.
B.Reputational risk.
C. Personal ethics.
D. A belief that social issues are unimportant.

31.Why might a client concentrate their attention on ESG outliers in their active monitoring and assessment of fund manager performance?
A. Because companies with weak ESG performance will test how effective fund manager ESG integration is in practice.
B. Because allowing the fund manager to choose which case studies are focused on in discussions may lead to less insight.
C. Because the client can focus on ESG factors of most concern to them at a given time.
D. All the above.

32.Which of the following is NOT a way of assessing whether a fund manager effectively integrates ESG factors, according to the PLSA?

A. Examples of where and why the manager is prepared to take either stock or sector ESG risks or where it sees opportunities.

B. How much financial return is directly attributable to ESG factors.

C. Quantitative or qualitative examples of material ESG factors identified in fundamental analysis and stock valuation.

D. Identification of long-term ESG secular trends and themes and the extent to which they have influenced portfolio construction decisions.

33.Which of the following is likely to be a primary ESG driver for a European defined benefit pension scheme?

A. Reputational risk.

B. Fiduciary duty.

C. Personal ethics.

D. Founding aims.

34.Which of the following investors will most likely have the lowest risk tolerance?

A. Life insurer.

B. Sovereign wealth fund.

C. General insurer

D. Foundation.

35.Which two ESG specific areas of disclosure are requested by the International Corporate Governance Network (ICGN) Model Mandate?

A.A breakdown of the return on investment for each stakeholder group and details of how each form of ESG risk type has been hedged by the portfolio manager.

B. A materiality map identifying the ESG impact of all investments and a detailed disclosure of the voting record of all executive and non-executive directors.

C. A detailed disclosure of stewardship engagement and voting activity must be made, and the manager's assessment of ESG risks must be embedded in the portfolio.

D. A pro-rata environmental footprint of all investments must be estimated and the impact of all externalities from investments must be identified.

36.A majority of the research papers on the topic find that companies with long standing good practice in terms of sustainability tend to

A. Outperform their peers in both accounting performance and stock markets returns.

B. Underperform their peers in accounting performance and stock markets returns.

C. Outperform their peers in accounting performance but underperform in stock market returns.

D. Underperform their peers in accounting performance and outperforms in stock markets returns.

37. Justin runs an equity fund for a large insurance company which has signed on to the UN

Global Compact Principles and the Principles for Responsible Investment. His investment strategy will need to

i. avoid companies which do not adhere to Task Force on Climate-related Financial Disclosures guidelines

ii. screen the portfolio on environmental issues

iii. incorporate ESG issues into the investment process

iv. invest in companies which adhere to human rights principles

A. iii.

B. i and ii.

C. ii and iii.

D. iii and iv.

38. Which UK body is responsible for issuing the Stewardship Code?

A. The Financial Conduct Authority (FCA).

B. The Financial Policy Committee (FPC).

C. The Financial Ombudsman Service (FOS).

D. The Financial Reporting Council (FRC).

39. A Sovereign Wealth Fund selecting an investment manager with an ESG strategy is likely to focus more on the manager’s approach to:

A. ESG engagement and stewardship.

B. Integrating MSCI data while ESG scoring the portfolio.

C. Liquidity of the portfolio and short-term performance.

D. Quantitative analysis of portfolio attribution vs. the benchmark.

40. Which of these least reflects how qualitative ESG data is used in company analysis?

A. By adjusting a valuation.

B. By adding an opinion to an investment thesis.

C. By modifying a financial model.

D. By determining the Value at Risk for the company.

41. Adjusting the Discounted Cash Flow when integrating ESG into traditional financial analysis is:

A. Not valid at country level.

B. Valid at the level of company, sector or country.

C. Valid only at the level of specific company.

D. Not valid at sector level.

42. Which action would be undertaken first by an investor wanting to follow an engagement strategy with a company in a cost-effective way?

A. Defining the scope of engagement and prioritising engagement activities.

B. Developing a clear process which articulates realistic goals.

C. Adapting the engagement process to the local context.

D. Framing the engagement topic into a broader strategy discussion.

43. Which of the following ESG factor adjustments should increase an analyst's valuation of a company relative to its peers?
A. Higher staff satisfaction.
B. Higher future impairments.
C. Higher safety breaches.
D. Higher carbon tax costs.

44. A private wealth manager uses a data provider to screen out companies involved with tobacco and finds that the process eliminates nearly all consumer companies. As consumer companies are a large percentage of the benchmark index, the manager would prefer not to eliminate the whole sector.
What method would be the most precise to reduce the number of companies which are screened out?
A. Global Industry Classification Standard focused on tobacco companies.
B. ESG rating agency data regarding the financial materiality of tobacco.
C. Percentage of company revenue related to tobacco as agreed with the client.
D. Standard industry classification for tobacco companies.

45. What is an indirect environmental impact of a paper company cutting trees and transporting them to its production plant?
A. Carbon emissions from the haulage lorries.
B. A natural regulator of carbon dioxide is destroyed.
C. Deforestation.
D. Local species are disturbed.

46. Which approach is most likely to result in an analyst aggregating data into an ESG score?
A. Company specific research.
B. Fundamental analysis.
C. Stock picking.
D.Quantitative modelling.

47. What impact will a high ESG rating have on a company's cost of capital?
A. A lower cost of capital.
B. No change to the cost of capital.
C. A higher cost of capital.
D. A more volatile cost of capital.

48. Which of the following sectors have the greatest risk of increased insurance costs due to physical climate change?
A. Construction and materials.
B. Food and beverage.
C. Media and technology.
D. Travel and leisure.

49. ABC Investment Management owns a 2% stake in a large telecom company, which is in the media, about a surge of employee suicides attributed to pressures in the workplace. Mary, a senior analyst at ABC Investment Management, would like to engage with the company on the issue and sees that a quarterly earnings conference call is coming up.

What should Mary do before the quarterly conference call?

A. Arrange a pre-meeting call with the company's investor relations representative.

B. Contact the Investor Forum.

C. Establish clear objectives.

D. Request a meeting with the Chairperson of the Board.

50. Which of the following statements is generally accepted as not true for companies which score well on ESG metrics relative to companies scoring less well?

A. They are better able to anticipate environmental change risks and opportunities.

B. They enjoy valuation premiums due to changing investor concerns and preferences.

C. They are more disposed to longer term strategic thinking and planning.

D. They are more likely to grow rapidly and offer higher short term returns.

51. What is the result of an analyst failing to correctly model the risks and opportunities associated with ESG?

A. Systematic underestimation of high ESG performers and overestimation of ESG under performers.

B. Systematic overestimation of both high ESG performers and ESG under performers.

C. Systematic underestimation of both high ESG performers and ESG under performers.

D. Systematic overestimation of high ESG performers and underestimation of ESG under performers.

52. Several questions are associated with the following case study. The material given in the case study will not change.

CBT’s Annual General Meeting (AGM) is two months away. Patrick Weeze is a portfolio manager who owns a significant number of CBT shares in his portfolio. His fund is a concentrated portfolio with high idiosyncratic risk and, as a result, Patrick believes that a detailed analysis of the governance of each of his portfolio holdings is paramount to its long-term performance. He reviews the relevant documentation regarding CBT’s AGM and notes the following:

- CBT provides information on the total amount of CEO remuneration, but no detail on the Key Performance Indicators (KPIs) that influence variable compensation. The CEO’s total compensation last year was GBP 1.2 million, 30% of which comprised fixed salary.
- CBT currently has 10 individuals sitting on its board, 3 of whom are independent. The Chairman is the former CEO who stepped down last year.
- One of the resolutions to be voted at the AGM was put forward by a minority shareholder. The investor asks the company to produce a report on how climate change may affect the company’s strategy and financial stability in the long-term.

Patrick is discussing CBT's financial model with his financial analyst. He asks the analyst to consider how the model may take into account the KPIs for the CEO's variable remuneration which are not disclosed. He is presented with 4 options.

Which one is he most likely to select to implement?
A. Increase the company's estimated costs for next year by an additional GBP 1.2 million to account for the lack of transparency regarding the KPIs.
B. Reduce the company’s current total costs by GBP 360,000, as there are no concerns regarding the fixed salary portion of the compensation.
C. Increase the cost of capital from 4.6% to 4.8% to reflect the increased risk stemmed from uncertainty around alignment of interest.
D. Decrease the cost of capital from 4.6% to 4.4% to reflect the reduced level of certainty around alignment of interest.

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Patrick believes that the Chair cannot be considered as an independent member of the board. He schedules an engagement meeting with the Chair to discuss the matter.
What could be the most favourable outcome from a governance perspective?
A. The Chair steps down and the CEO assumes the chairmanship, and one of the independent directors becomes the lead independent director.
B. The Chair steps down and remains on the board, and one of the existing independent directors is elected Chair.
C. An additional independent director is added to the board to increase the level of independence.
D. The Chair steps down from the Chair role, and a newly elected independent director is appointed Chair.

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When Patrick attempts to set up a call with CBT's Investor Relations to discuss governance matters, they push back suggesting that these have no relevance to the company.

Which argument can Patrick use to best highlight the importance of appropriate governance to enterprises?

A. A meta study by Friede, Busch and Bassen has shown that the majority of studies showed a positive correlation between governance and corporate financial performance.

B. The CFA Institute's 2017 ESG survey showed that governance has the strongest correlation with company margin growth.

C. Enron's case provides evidence that governance is simple and failures usually link to one single factor.

D. Bernile, Bhagwat and Yonker's 2017 study concludes that board diversity adds to governance complexity, thus destroying company value.

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What is Patrick least likely to take into consideration when making a decision regarding his vote on the shareholder resolution?

A. The extent to which the company and its business model is exposed to climate
change risks.

B. To what extent, the company already provides information on the topic of climate change risk.

C. The company's response on whether it supports the resolution and why.

D. Whether this resolution falls under the category of governance.

56. What do corporate governance structures in France and the US have in common?
A. Chief Executive and Chairman of the Board are typically one person.
B. National corporate governance codes.
C. Statutory auditors in addition to independent auditors.
D. Two-tier boards.

57. Which of the following is an example of climate change mitigation?
A. Building a flood defence.
B. Developing drought resistant crop.
C. Retrofitting a building.
D. Desalinating water.

58. Sienna reviews a large retailer faced with a sex equality law suit with a potential £4 billion in pay out claims. How should she adjust her financial model?
A. Adjust the employee expense line to reflect £4 billion in pay out over 10 years.
B. Do nothing as the company has a good case and may not have to pay.
C. Lower the discount rate to reflect the risk of payouts.
D. Raise the cost of capital to reflect the risk of payouts.

59. Which of these statements best describes responsible investing?
A. Targeted investment returns with certain investments being negatively screened.
B. ESG factors taken into account to mitigate risk with a focus on financial return.
C. Investments made in a way that captures returns while achieving an intentional effect.
D. ESG factors taking into account to mitigate risk with a focus on capturing ESG opportunities.

60. Bill is a philanthropist who is approached by four charitable organisations that each claim to have a solution that reduces mortality by 15% in their specific area of focus if they receive $300 million. Bill's aim is to reduce mortality rates as much as possible. Which one of the following charities should he choose?
A. A charity focusing on drought.
B. A charity focusing on malaria.
C. A charity focusing on pollution.
D. A charity focusing on violence.

61.How can climate-related scenario analysis be used as an effective tool in portfolio management?
i. By pricing climate risk.
ii. By assessing the portfolio's alignment with the Paris Agreement temperature target.
iii. By bottom-up analysis of individual companies in the portfolio.
iv. By producing standardised data for performance measurement.
A. i
B. i and ii
C. i, ii and iii
D. i, ii, iii and iv

62. Several questions are associated with the following case study. The material given in the case study will not change.

Daniel Stinner was asked by the head of Research at Lopse Ratings to propose a methodology to rate sovereigns. Lopse Ratings is a well regarded rating agency, but it has been falling behind its peers because, whilst it has integrated ESG within corporate issuers, it has not yet integrated ESG within sovereign issuers.

After a few months of research in the industry and within Lopse, Daniel proposed the following to the Head of Research:

E, S and G weights to a final ESG score reflect the extent that the individual factor is a driver from a credit perspective.

Scores range from factors that individually are adequately managed or contributing to the sovereign’s financial capacity (5) to those which may impose a significant strain on financial streams (1). They do not make value judgments on whether a sovereign engages in 'good' or 'bad' ESG practices. Instead, they draw out how E, S and G factors are influencing the credit rating decision.

Political risk, rule of law and corruption have been key drivers of rating actions in the past, indicating that governance was already playing a role in the rating model. It should be made explicit that these are governance-related matters, and thus considered as the ‘G’ within ESG.No other governance issue was deemed material across all types of sovereigns. Data could be gathered from the World Bank's Governance Indicators (WBGI) and Transparency International.

Social factors also have an important influence on sovereign ratings. Certain factors are related to government’s accountability, while others impact the longer-term productivity, and thus growth (plus indirectly, taxing capability) of the country. These factors are considered as the ‘S’ within ESG. Environmental risks, the ‘E’ within ESG, were identified as more idiosyncratic to each country based on their location and dependency.

The weighted average of the factors within each of the E, S and G pillars provide the score for that pillar, and the weighted average of the pillars provide the final ESG score
for the sovereign issuer.

Daniel provided examples of the rating system applied to two different sovereigns, as detailed below.

In order to provide his boss with greater context of the ESG rating for each of the countries, Daniel briefly describes a few characteristics of each.

Which of the below are most likely part of the description for each company?

A. 1

B. 2

C. 3

D. 4

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Weighted average of the factors within each of the E, S and G pillars provide the score for that pillar, and the weighted average of the pillars provide the final ESG score for the sovereign issuer.
Daniel provided examples of the rating system applied to two different sovereigns, as detailed below.
What might be a reasonable distribution of weight among each of the E, S and G pillars?
A. E = 33.3%, S= 33.3%, G= 33.3%
B. E = 33.3%, S= 44.4%, G= 22.2%
C. E = 40%, S= 40%, G= 20%
D. E = 20%, S= 30%, G= 50%

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What might explain a downward trend in Country B’s water score?

A. Rising sea levels close to industrial zones.
B. Increased drought in agricultural areas.
C. Reduced access of low-income populations to water and sanitation.
D. Increased river discharge due to longer rainy season.

65. Several questions are associated with the following case study. The material given in the case study will not change.

Daniel Stinner was asked by the head of Research at Lopse Ratings to propose a methodology to rate sovereigns. Lopse Ratings is a well regarded rating agency, but it has been falling behind its peers because, whilst it has integrated ESG within corporate issuers, it has not yet integrated ESG within sovereign issuers.

After a few months of research in the industry and within Lopse, Daniel proposed the following to the Head of Research:

E, S and G weights to a final ESG score reflect the extent that the individual factor is a driver from a credit perspective. Scores range from factors that individually are adequately managed or contributing to the sovereign’s financial capacity (5) to those which may impose a significant strain on financial streams (1). They do not make value judgments on whether a sovereign engages in 'good' or 'bad' ESG practices. Instead, they draw out how E, S and G factors are influencing the credit rating decision.

Political risk, rule of law and corruption have been key drivers of rating actions in the past, indicating that governance was already playing a role in the rating model. It should be made explicit that these are governance-related matters, and thus considered as the‘G’ within ESG. No other governance issue was deemed material across all types of sovereigns. Data could be gathered from the World Bank's Governance Indicators (WBGI) and Transparency International.

Social factors also have an important influence on sovereign ratings. Certain factors are related to government’s accountability, while others impact the longer-term productivity, and thus growth (plus indirectly, taxing capability) of the country. These factors are considered as the‘S’ within ESG. Environmental risks, the‘E’within ESG, were identified as more idiosyncratic to each country based on their location and dependency.

Weighted average of the factors within each of the E, S and G pillars provide the score for that pillar, and the weighted average of the pillars provide the final ESG score for the sovereign issuer.

Daniel provided examples of the rating system applied to two different sovereigns, as detailed below.

How might Country A improve its score for Climate Resilience in the short to medium-term?

A. Improve adaptation methods.

B. Improve mitigation methods.

C. Reduce the number of stranded assets.

D. Align itself with the Paris Agreement.

66. Several questions are associated with the following case study. The material given in the case study will not change.

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Daniel provided examples of the rating system applied to two different sovereigns, as detailed below.

What might explain the different trends Country A and Country B are experiencing with regards to demographics?

A. In developed markets, such as Country A, the ratio between the active and inactive part of the workforce drops.

B. In developed markets, such as Country B, the ratio between the active and inactive part of the workforce rises.

C. In developing markets, such as Country B, the ratio between the active and inactive part of the workforce drops.

D. In developing markets, such as Country A, the ratio between the active and inactive part of the workforce drops.

67. A company which produces bottled water and pledges to use 50% recycled plastics is using

A. A circular economy approach.

B. A natural capital approach.

C. A supply chain disruption approach.

D. A use, make, dispose economy approach.

68. Which comment on the data included in ESG integration databases is most accurate?

A. ESG data must be audited to be valid.

B. Input data across similar asset classes is consistent.

C. Data outputs will correlate with data from other ESG databases.

D. Incomplete ESG data used can be material.

69. Alex is a corporate bond analyst at AVX Investment Management and is responsible for a £4 billion portfolio of utility bonds with a range of credit ratings and ESG scores. He has been directed to engage with all the utility companies, whose bonds TBD holds, on their plans to reduce carbon emissions.

Using the PRI’s guide for ESG engagement, Alex should start with the

A. Largest holdings with high credit ratings.

B. Largest holdings with low ESG scores.

C. Smallest holdings with low credit ratings.

D. Smallest holdings with high ESG scores.

70. Several questions are associated with the following case study. The material given in the case study will not change.

Lemon is a Japanese telecommunications company which recently acquired a local company, TTN, that manufactures smart phones, in an effort to integrate vertically and provide clients with a better offer. A significant part of Lemon’s clientele acquisition strategy is a focus on older individuals, and it wants to provide them with phones that better address their needs.

TTN, unlike most of its peers, owns the manufacturing plants which supply parts for its phones. 80% of TTN’s manufacturing personnel are contractors, while the industry average is 40%. Two years ago, TTN was subject to a non-governmental organisation (NGO) campaign requesting that it offered contractors working conditions and pay similar to that of employees. TTN agreed to most of the NGO’s requests.

Which social mega trend is most likely to affect Lemon's revenues?

A. TTN is most likely to benefit from increased demand from offshoring as globalisation increases.

B. Costs will decrease as manufacturing jobs are cut due to increased automation.

C. The innovation of additional services demanded by an older clientele that lives longer.

D. Increase in social media will naturally lead to increased advertisement sale by TTN.

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Which of the following company-specific characteristics, describe how Lemon's risks to labour rights are impacted?

A. Its risks are lower than industry average because a lower percentage of its work force is directly employed.

B. Its risks are fully mitigated by addressing concerns raised by NGO’s.

C. Risks are reduced because older individuals have less concerns about corporate social responsibility than the younger generation.

D. Insourcing its manufacturing enables retention of greater control of its supply chain and thus, risks.

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How might a portfolio manager interpret the financial implications of TTN agreeing to offer contractors the same working conditions as employees?

A. Cost increases in the short and long-term, and lower share price volatility due to reduced risk of labour disruption

B. Potential financial implications cannot be estimated without the company disclosing the change to contractors' salaries.

C. Only employees' salary and working conditions impact the company, hence costs and risks remain the same.

D. The cost of capital is increased in the financial model as a result of providing greater labour rights to contractors.

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Lemon publicises on its website and in its annual report that it regularly performs audits across its operations to ensure compliance with the International Labour Organisation(ILO)'s International Labour Standards.

Which of the following actions would be a breach of the Standards?

A. Taking a pro-union stance while negating the right of employees to negotiate individually.

B. Advocate the implementation of equal remuneration for equal work.

C. Abolishing child labour even though that would generate jobs.

D. Publishing a policy against discrimination in employment or occupation.

74. Exclusionary screening is historically most common in which of these regions?

A. Europe.

B. United States.

C. Asia.

D. Canada.

75. The Bangladesh Investor Initiative is intended to address which social factor?

A. Forced labour.

B. Freedom of association.

C. Health and safety.

D. Living wage.

76. How have companies not benefitted from changes in family structures?
A. Diversified workforces are more effective.
B. Coverage during maternity leave adds to expenses.
C. Women now able to remain in full time work after child birth.
D. Women often enter the workforce at lower pay rates than men.

77. Which form of risk will not be lowered by the integration of ESG into a firm's investment process?
A. Market risk.
B. Firm level reputational risk.
C. Investment risk.
D. Investment level reputational risk.

78. Why do most corporate governance codes require audits?
A. To guarantee there is no fraud in a company's financial statements.
B. To provide a detailed list of accounting anomalies to shareholders.
C. To provide an independent review of financials prepared by management.
D. To verify the financials of all subsidiaries of a company.

79. What name is given to a company's failure to manage ESG risk which is manageable?
A. Sustainability decomposition.
B. Management exposure.
C. Sustainability gap.
D. Management gap.

80. Which of these ESG service providers does not produce company-level ESG ratings?
A. Real Impact Tracker.
B. Inrate.
C. Thomson Reuters.
D. MSCI.

81. What should be included in the process for directors to be made accountable to shareholders?
A. Automatic rollover of the financial auditor’s services each year.
B. Board report to be approved by independent directors only.
C. Review of the accounts by the Board at the Annual General Meeting (AGM).
D. Setting executive remuneration in line with industry standards.

82. Which of these ESG issues included in a materiality map would be best described as a Social factor?
A. Resource management.
B. Business ethics and culture.
C. Executive remuneration.
D. Health and safety.

83. Scores from an ESG factor scorecard will always be:
A. Adjusted by practitioners before use.
B. Determined by the investment analyst.
C. Scaled between zero and ten.
D. Quantitative rather than qualitative.

84. An ongoing situation for a company which has negative ESG implications is called a:
A. Chronic case.
B. Controversy case.
C. Current case.
D. Catastrophic case.

85. Given that an analyst is able to judge the materiality of an ESG factor, which of the following is true?
A. It will then be possible to assess the level of impact of the ESG factor.
B. Other analysts with the same data will make the same materiality judgement.
C. The interaction of the ESG factor with financial performance will still be uncertain.
D. Cultural factors are unlikely to play a part in their judgement of materiality.

86. Several questions are associated with the following case study. The material given in the case study will not change.
J Justin Deyzak is conducting a review of the food industry and came comes across two companies which are interesting investment opportunities. Because he is aware that agricultural companies can be highly exposed to climate risk, he investigates Company A and Company B’s business models in order to assess those risks. Below is the summary of his findings.
Company A
Company A’s main products are premium cookies and cakes, which it sells retail in niche markets across the Middle East. It has a franchise model in which it maintains the design and recipe of its product in-house, while outsourcing raw material and production to partners. Suppliers for the key raw material, flour, are based in Yemen and Libya, which have been plagued with water scarcity in the past few years.
Company B
Company B is based in Mexico and produces chocolate paste. To ensure the standard of quality required by its clients, the company owns all of the farms that supply the cocoa. The company has been growing through acquiring farmland acquisitions. It identifies locations where water sources and soil are of high quality but poor farming techniques have led to inefficiencies. It purchases the land and then works with the farmers to help them transition to more sustainable and productive farming methods.
Which of the following below best describes how Justin should assess the physical risk of the companies under review?
A. Company A has high physical risk because its key input is harvested in areas of water scarcity.
B. Company B has no physical risk because the soil on purchased land is of high quality.

C. Company B has high physical risk because farming techniques may result in physical harm to workers.
D. Company A and B have similar physical risks as a result of being classified as part of the food industry.

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Which of the following statements is true regarding transition risk?
A. Company A has lower transition risk because it is a B2C (business-to-consumer) company which outsources its agricultural production.
B. Company B has higher transition risk because it is a B2B (business-to-business) company that needs to educate farmers about other farming methods.
C. Transition risk related to changing consumer expectations regarding agricultural methods should be considered for both B2B (business-to-business) and B2C (business-to-consumer) companies.
D. Justin does not need to review regulation on deforestation in the three countries as these would not impact transition risk.

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Justin would like to estimate the carbon footprint of each of the companies. Which of the below should he ignore?

A. Emissions by the agricultural production of the outsourced flour producers in Company.

B. Emissions by the trucks which deliver purchased chocolate paste to clients of Company B.

C. Emissions by employees of Company A when they fly to Yemen to conduct a supplier audit.

D. Emissions saved by the CEO of Company B flying on a commercial plane rather than on a private jet.

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In what way is Justin least likely to conduct scenario testing to refine his assessment of the companies’ climate risk?

A. Justin could impose a shadow carbon tax in his financial model to quantify any potential impact on the companies' margins.

B. Justin could obtain information on how a 2.1 degree Celsius change would impact agricultural output in the countries to which both companies are exposed and include that in the financial model.
C. Justin could quantify the short-term impact of extreme weather events on both companies' preparedness for physical disruptions in his financial model
D. Justin could incorporate the impact of climate change and risk purely on the socio- economic conditions of workers in the affected regions.

90. Natasha completes a review of a large UK based oil company and assigns it an improving ESG score because she is impressed by the steps it is taking to meet the Paris Agreement. Nevertheless, she is concerned about the industry ’ s long-term outlook and potential for stranded assets.
What action(s) should Natasha reflect in her valuation of the company?
A. Adjust her discounted cash flow (DCF) model to reflect a lower cost of capital due to positive ESG steps taken and assign a low price earnings ratio to reflect stranded assets in later years.
B. Adjust her discounted cash flow (DCF) model in later years to reflect write offs for stranded assets.
C. None, no action is required as the oil price is the only real variable that matters.
D. Adjust her discounted cash flow (DCF) model to reflect a higher cost of capital and adjust book value down to reflect an impairment charge made against stranded assets.

91. A credit portfolio manager is considering buying a Turkish phone company which he believes has strong credit quality as reflected in single-A credit ratings assigned by two credit rating agencies. Simultaneously, the emerging markets team is closely monitoring election results in Turkey which has led to bond market volatility.
Why would the portfolio manager decide not to buy the phone company bonds?
A. High Governance Score for Turkey.
B. Low Governance Score for the management of the phone company.
C. Low Governance score for Turkey.
D. High Governance Score for the management of the phone company.

92. What are the advantages of using mapping techniques when comparing two portfolios for ESG risk?
A. Both portfolios can be shown on the same map.
B. Increased ESG disclosure is making mapping more uniform.
C. The materiality aspect of mapping is standardised.
D. Specific elements of E, S, and G can be compared across sectors.

93. An analyst valuing a company against its peers is most likely to make which of the following adjustments to the price-to-earnings ratio (P/E) to integrate strong ESG characteristics?
A. Add a premium versus its peers.
B. Add a discount versus its peers.
C. Make no adjustment versus its peers.

D. Add either a discount or premium.

94. What are the three parts of the Triple Bottom Line?
A. Ecological, Social and Governance.
B. Social, Environmental and Financial.
C. Ecological, Governance and Financial.
D. Social, Financial and Governance.

95. Which of these Investment approaches would be most suitable for an investor who wants to ensure that his/her personal, social and moral views direct the investment decisions?
A. Ethical investing.
B. Thematic investing.
C. Impact investing.
D. Responsible investing.

96. Jane is an equity analyst at AVX Asset Management and covers a large public oil company which she needs to assign an environmental score to. The company says it is addressing carbon emissions, but refuses to disclose exactly what measures it is taking.
The most logical next step for Jane would be to
A. Look at the company’s financial statements and try to draw conclusions.
B. Recommend that AVX sell the company’s shares.
C. Suggest that AVX uses collective action to encourage the company to improve its disclosure.
D. Take the company’s word for it and assign a high environmental score.

97. The physical impacts of climate change are most likely to be identified as a key ESG driver for which form of institutional investor?
A. An actively managed mutual fund.
B. A life insurance company.
C. A pension fund.
D. A property and general insurance company.

98. Several questions are associated with the following case study. The material given in the case study will not change.
Food service operators are seeing one of the most important and growing trends in the past decade – the “gourmetisation” of fast food into a new category of food service called fast casual. One of the strongest restaurant concepts fast casual restaurants do not offer a full table service; however, they do advertise higher quality food in comparison to fast food restaurants. As a result, fast casual restaurants are perceived as an intermediate option between fast food and casual dining, and usually priced accordingly. Fast casual is now the fastest growing category in the food service industry.
The industry relies heavily on human capital for food preparation and customer services. These jobs are usually low paid and require long hours. A large percentage of food preparation and customer services jobs are filled by immigrants and young adults, respectively.

Below is information from two German companies in the fast casual restaurant sub- sector, which may or may not be material.

Which of the two companies would an analyst most probably prioritise further analysis to ensure interests between shareholders and company executives are well aligned?

A. Company A because the risks associated with the CEO' s pay are correlated with company profits.

B. Company A because of the high number of independent directors who do not represent shareholders' interests.

C. Company B because a Board with more than 12 members is at risk of being inefficient in decision-making.

D. Company B because low correlation between CEO' s variable compensation and company profits may indicate misalignment of interests.

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What conclusions might be made with regards to Company A's working conditions in comparison to Company B' s?

A. Company A has more employees and thus its risk associated with working conditions is higher.

B. Company A has better working conditions as it conducts more supply chain audits per year.

C. Company B probably has better working conditions based on its lower employee turnover and injury rate.

D. Company A and B have comparable working conditions as a similar percentage of their employees are exposed to food preparation hazards.

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Regulators are discussing a ban on single-use plastic. How might this impact Company A and Company B financially?

A. Company A’s cost of capital would increase more than Company B’s because of its higher use of single-use plastic.

B. Company A’s costs would increase by .6 multiplied by the difference between the price of the single-use plastic and its alternative.

C. Company B’s costs would reduce by .5 multiplied by the average cost of the single- use plastic used in its stores.

D. Company B’s costs would increase by .5 multiplied by the average cost of the alternative to single-use plastic.