Quiz Sustainable-Investing - Professional Sustainable Investing Certificate (CFA-SIC) Exam Exam Overviews

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CFA Institute Sustainable-Investing Exam Syllabus Topics:

Topic	Details
Topic 1	• Governance: This section assesses skills of Governance Analysts and Compliance Officers concerning governance structures. It covers key characteristics and models of governance, material impacts, diversity, equity, and inclusion considerations, and shareholder rights.
Topic 2	• Social Factors:Focused on Social Analysts and Corporate Social Responsibility (CSR) Professionals, this domain reviews social factors impacting investments. It includes systemic relationships and material impacts related to labor practices, diversity, equity, inclusion, and social opportunities at multiple levels.
Topic 3	• Environmental Factors: This section measures skills of Environmental Analysts and Sustainability Specialists by exploring environmental issues such as climate change, resource management, biodiversity, and pollution. It covers systematic relationships, material impacts, and methodologies for environmental analysis at country, sector, and company levels.
Topic 4	• Engagement and Stewardship: Designed for Asset Managers and Stewardship Professionals, this domain covers investor engagement strategies and stewardship principles. It highlights the purpose, importance, key principles, and practical application of engagement tactics within responsible investing frameworks.

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Sustainable-Investing Latest Exam Forum & Interactive Sustainable-Investing Questions

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CFA Institute Sustainable Investing Certificate (CFA-SIC) Exam Sample Questions (Q17-Q22):

NEW QUESTION # 17
The perpetual compound annual rate that a company's cash flow is assumed to change by after the discrete forecasting period is referred to as the:

- A. discount rate
- B. terminal growth rate
- C. required rate of return

Answer: B

Explanation:
Terminal Growth Rate Definition:
The terminal growth rate is the perpetual compound annual rate at which a company's cash flow is assumed to grow after the discrete forecasting period.
It is a critical input in the discounted cash flow (DCF) model used to estimate the present value of a company.
Usage in DCF Analysis:
After forecasting free cash flows for a specific period, typically 5-10 years, a terminal value is calculated to capture the value of the business beyond the forecast period.
The terminal growth rate is applied to the final year's cash flow to estimate this terminal value.
Importance of Terminal Growth Rate:
It represents the expected long-term growth rate of the company and significantly impacts the valuation.
Assumptions about this rate must be reasonable and aligned with long-term economic growth projections.
References:
The terminal growth rate is a well-established concept in financial analysis and valuation, particularly within the context of the DCF model, as outlined in various CFA Institute materials on valuation and financial analysis.

NEW QUESTION # 18
Which of the following statements about corporate governance is most accurate?

- A. Most markets lack an official corporate governance code
- B. The Sarbanes-Oxley Act was the world's first formal corporate governance code
- C. Corporate scandals have been a powerful driver for the development of corporate governance codes

Answer: C

Explanation:
The most accurate statement about corporate governance is that corporate scandals have been a powerful driver for the development of corporate governance codes.
Corporate scandals (C): High-profile corporate scandals, such as Enron and WorldCom, have exposed significant governance failures and have led to the development and strengthening of corporate governance codes around the world. These scandals highlight the need for robust governance frameworks to protect shareholders and ensure corporate accountability.
Lack of official corporate governance code (A): Most markets have developed official corporate governance codes to provide

guidelines for good corporate practices.
Sarbanes-Oxley Act (B): The Sarbanes-Oxley Act, enacted in 2002 in the United States, was not the world's first formal corporate governance code, but it was one of the most influential, particularly in response to corporate scandals.
Reference:
CFA ESG Investing Principles
Historical development of corporate governance codes

NEW QUESTION # 19
Which of the following statements about corporate governance is most accurate? Companies with a more diverse board of directors are most likely associated with

- A. less investment in research and development.
- B. lower profitability
- C. lower stock return volatility.

Answer: C

Explanation:
Companies with a more diverse board of directors are most likely associated with lower stock return volatility. This relationship is based on the following factors:
Improved Decision-Making: A diverse board brings a range of perspectives and experiences, leading to more comprehensive and balanced decision-making processes. This can result in better risk management and more stable corporate performance.
Enhanced Reputation and Trust: Diversity on the board can enhance a company's reputation, leading to greater trust from investors, customers, and other stakeholders. This can contribute to more stable stock performance.
Risk Mitigation: Diverse boards are better equipped to identify and mitigate risks, including ESG-related risks. Effective risk management can reduce the likelihood of negative events that could cause stock price volatility.
Long-Term Focus: Companies with diverse boards are often better at focusing on long-term strategic goals rather than short-term gains. This long-term perspective can contribute to more consistent and stable stock returns.
References:
MSCI ESG Ratings Methodology (2022) - Provides evidence that companies with strong governance, including board diversity, exhibit lower volatility in their stock returns due to better risk management and decision-making.
ESG-Ratings-Methodology-Exec-Summary (2022) - Highlights the positive impact of board diversity on corporate performance and stability, supporting the link between diverse boards and lower stock return volatility.

NEW QUESTION # 20
If an index excludes companies that earn revenues from gambling, the index is most likely using:

- A. Idiosyncratic exclusions.
- B. Faith-based exclusions.
- C. Conduct-related exclusions.

Answer: C

Explanation:
Conduct-related exclusions (Option C) filter out companies based on unethical or controversial business activities, such as:
Gambling, tobacco, weapons, fossil fuels, and human rights violations.
Used in ESG-focused and socially responsible investing (SRI) indices.
Option A (Faith-based exclusions) are religion-specific (e.g., Islamic finance avoiding alcohol or pork-related businesses).
Option B (Idiosyncratic exclusions) refer to custom exclusions tailored to investor preferences, not general ESG norms.
References:
MSCI ESG Exclusionary Screening Guidelines
S&P Dow Jones Sustainability Index Exclusion Criteria
PRI Guide to Negative Screening

NEW QUESTION # 21
The potential impacts of climate risk on asset allocation strategies are:

- A. systemic but not local.
- B. local but not systemic.
- C. both local and systemic.

Answer: C

Explanation:
Climate risks have both local and systemic impacts on asset allocation. Local risks pertain to specific regions or industries, while systemic risks can affect the entire financial system due to the global nature of climate change. (ESGTextBook[PallasCatFin], Chapter 3, Page 139)

NEW QUESTION # 22

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