

# CFA Institute ESG-Investing QUESTIONS: A TERRIFIC EXAM PREPARATION SOURCE [2026]

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## CFA ESG Certificate - Practice Exam Questions With Correct Answers

Companies who are UN Global Compact and PRI signees will have investment strategies that? - Answer Incorporate ESG into the investment process

What is an indirect environmental impact of a paper company cutting trees and transporting them to production plants? - Answer A natural regulator of carbon dioxide is destroyed

What is the result of an analyst failing to correctly model risks and opportunities associated with ESG - Answer systematic underestimation of high ESG performers and over estimation of low ESG performers

What are you least likely to take into consideration when deciding to vote on shareholder resolutions - Answer whether the resolution falls under governance or not

What corp governance structures do the US and France have in common? - Answer CEO and Chairman of the board are usually one person

Responsible investing is best described as - Answer ESG factors taken into account to manage risk and deliver financial return

Companies could improve climate resilience in the near-term by... - Answer improving adaptation methods

Which comment on ESG databases and integration is most accurate? - Answer incomplete data CAN be material

When analyzing a bond portfolio PRI suggests starting with - Answer largest holdings that have low ESG scores

Exclusionary screening is most common where? - Answer Europe

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## CFA Institute ESG-Investing Exam Syllabus Topics:

Topic	Details
Topic 1	<ul style="list-style-type: none"><li>Investment Mandates and Portfolio Analytics: This domain explains to ESG Analysts the importance of constructing mandates to support effective ESG investment results. This section highlights key aspects, such as transparency and accountability, which are essential for asset owners and intermediaries to align portfolios with ESG priorities.</li></ul>

Topic 2	<ul style="list-style-type: none"> <li>• Overview of ESG Investing and the ESG Market: This section tests ESG Investment Managers and delves into responsible investment strategies, examining how environmental, social, and governance (ESG) elements shape the investment ecosystem.</li> </ul>
Topic 3	<ul style="list-style-type: none"> <li>• ESG Integrated Portfolio: This section discusses the application of ESG analysis across multiple asset classes, exploring strategies for incorporating ESG criteria into portfolio management.</li> </ul>
Topic 4	<ul style="list-style-type: none"> <li>• Social Factors: This section focuses on analyzing social factors, including their systemic effects and material impacts. This section also provides methodologies for assessing social risks and opportunities at country, sector, and organizational levels.</li> </ul>
Topic 5	<ul style="list-style-type: none"> <li>• Understanding Governance Factors: This section includes governance elements for ESG Investment Consultants, including core characteristics, governance models, and material impacts. It discusses how governance factors influence investment choices.</li> </ul>

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## CFA Institute Certificate in ESG Investing Sample Questions (Q507-Q512):

### NEW QUESTION # 507

Which of the following is an example of the internalization of negative externalities?

- A. An electronics manufacturer retaining more employees after improving working conditions
- B. A farmer paying taxes based on the level of soil degradation on its farmland
- C. A car manufacturer receiving subsidies for electric car production

**Answer: B**

Explanation:

Internalizing negative externalities refers to a situation where a company must bear the costs of the negative environmental or social impacts it causes. In this case, a farmer paying taxes based on soil degradation reflects internalization, as the farmer is being penalized for harming the environment.

ESG Reference: Chapter 3, Page 169 - Environmental Factors in the ESG textbook.

### NEW QUESTION # 508

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

**Answer: A**

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 # 509

Which of the following factors is most relevant to the performance outlook of a military equipment manufacturer?

- A. Artificial intelligence
- B. Gender equality
- C. Offshoring

Answer: A

Explanation:

The factor most relevant to the performance outlook of a military equipment manufacturer is artificial intelligence (AI). AI plays a critical role in the defense sector, influencing product development, operational efficiency, and competitive advantage.

Technological Advancements: AI is pivotal in developing advanced military technologies such as autonomous vehicles, drones, surveillance systems, and cybersecurity solutions. These advancements can significantly impact the performance and growth prospects of a military equipment manufacturer.

Operational Efficiency: AI can enhance manufacturing processes, improve supply chain management, and optimize maintenance and logistics. These improvements can lead to cost savings and increased production capabilities.

Competitive Edge: Incorporating AI into military equipment provides a competitive edge by offering cutting-edge solutions that meet the evolving needs of defense customers. Staying ahead in technological innovation is crucial for maintaining market leadership and securing contracts.

Reference:

MSCI ESG Ratings Methodology (2022) - Discusses the impact of technological factors, including AI, on the performance outlook of companies in various sectors, including defense.

ESG-Ratings-Methodology-Exec-Summary (2022) - Highlights the importance of AI in driving innovation and competitiveness in the defense industry.

## NEW QUESTION # 510

A challenge to ESG integration at the asset allocation level when using mean-variance optimization is that it:

- A. is highly sensitive to baseline assumptions
- B. requires specialist knowledge to make informed judgments about future risk.
- C. could introduce an additional source of estimation errors due to the need for dynamic rebalancing

Answer: A

Explanation:

A challenge to ESG integration at the asset allocation level when using mean-variance optimization is that it is highly sensitive to baseline assumptions. Here's why:

\* Baseline Assumptions:

\* Mean-variance optimization relies on assumptions about expected returns, risks, and correlations among different asset classes. These assumptions are often based on historical data, which may not accurately predict future performance, especially when integrating ESG factors.

\* Sensitivity:

\* Small changes in the baseline assumptions can lead to significantly different portfolio allocations.

This sensitivity can be problematic when integrating ESG factors, as the data and methodologies for assessing ESG risks and

opportunities are still evolving and can introduce additional variability .

\* Dynamic Rebalancing:

\* While dynamic rebalancing can introduce estimation errors, the primary challenge remains the sensitivity to initial assumptions.

Specialist knowledge is essential for making informed judgments about future risks, but this is secondary to the issue of assumption sensitivity .

CFA ESG Investing References:

\* The CFA ESG Investing curriculum covers the complexities of integrating ESG factors into asset allocation models, particularly the challenges posed by the sensitivity of mean-variance optimization to baseline assumptions .

## NEW QUESTION # 511

Concerns about the capital structure and financial viability of an investee are most likely reflected in an active investor's voting decisions in relation to:

- A. The auditor's compensation
- B. Share buybacks
- C. The reelection of non-executive board directors

**Answer: B**

Explanation:

Share buybacks impact a company's capital structure, and investors may vote against excessive buybacks if they weaken financial stability or reduce reinvestment in sustainable growth.

\* Auditor compensation (B) and board elections (C) are important but do not directly affect capital structure decisions.

References:

\* CFA Institute Shareholder Voting & Capital Allocation Guide

\* MSCI Corporate Governance Reports

\* Principles for Responsible Investment (PRI) Stewardship Framework

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## NEW QUESTION # 512

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