CERTIFICATE IN ESG INVESTING CURRICULUM 2023

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Certificate in ESG Investing

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CONTENTS

CERTIFICATE IN ESG INVESTING 2023

Unit Aims

By the end of this unit, learners should be able to demonstrate:

- An understanding of the context for different approaches to responsible investment and specifically, consideration of environmental, social and governance (ESG) factors.
- An understanding of the underlying issues that constitute factors within each of the environmental, social and governance areas.
- An understanding of the broader sustainability context and global initiatives.
- An understanding of the ESG market: relevance, size, scope, key drivers and challenges, and risks and opportunities.
- An understanding of environmental factors, systemic relationships, material impacts, megatrends and approaches to environmental analysis at country, sector and company levels.
- An understanding of social factors, systemic relationships, material impacts and approaches to social analysis at country, sector and company levels.
- An understanding of governance factors, key characteristics, main models and material impacts.
- An understanding of engagement and stewardship.
- An understanding of ESG analysis, valuation and integration.
- An ability to analyse how ESG factors may affect industry and company performance, and security valuation across a range of asset classes.
- An understanding of ESG integrated portfolio construction and management.
- An ability to apply a range of approaches to ESG analysis and integration across a range of asset classes.
- An understanding of investment mandates, portfolio analytics and client reporting.

INTRODUCTION

This curriculum provides essential reading for candidates of the Certificate in ESG Investing, including examples, key facts and self-assessment questions.

Content is valid for examinations taken beginning 1 February 2023. Candidates must confirm that the version of the curriculum they are preparing from corresponds to and is valid for the period when they intend to take the examination.

ESG Update

Changes will be made as necessary to keep the curriculum up to date.

Details of the date of the latest change and of any outstanding corrections or amendments can be found at CFAInstitute.org.

Candidates should check the website on a regular basis to ensure their study material is up to date.

The exam is made up of one unit, covering the following topic areas:

1. Introduction to ESG
2. The ESG market
3. Environmental factors
4. Social factors
5. Governance factors
6. Engagement and stewardship
7. ESG analysis, valuation and integration
8. ESG integrated portfolio construction and management
9. Investment mandates, portfolio analytics and client reporting

The curriculum provides broad coverage and excellent preparation for the examinations.

The Certificate in ESG Investing is developed, administered and awarded by CFA Institute.

FOREWORD BY MARG FRANKLIN

Since our establishment in 1947, we have never wavered from our commitment to develop highly educated, ethical professionals who pledge to put their clients' interests first. Our founders started us down this path more than seven decades ago, and the CFA Institute we know today is a testament to their vision.

As the industry has evolved since our founding, we too have adapted to the needs of new generations of learners and professionals. We believe we are uniquely positioned to address some of the financial industry's greatest challenges as we build on the legacy of our first 75 years.

The recent pandemic brought to the fore the need to reset long-term priorities and for the industry to focus and articulate its impact, particularly within the context of environmental, social, and governance (ESG) factors. As we diversify our product portfolio and expand our impact through our ESG offerings to our candidates, members, societies, and other stakeholders, the concept of relevance underpins our efforts in this area.

In 2021, for example, concerns over potential ESG product greenwashing and a demand from investors for products and skills to support sustainable investing led CFA Institute to launch the first voluntary Global ESG Disclosure Standards for Investment Products. As the global leader in standards for the investment management profession, we used our widely adopted GIPS® model to create the standards to provide transparency, reliability, and comparability, thereby enabling investors, consultants, advisors, and distributors to better understand, compare, and evaluate ESG investment products.

Setting global industry standards to ensure transparency and safeguard trust remains integral to our mission, and we are harnessing our capabilities to educate and support investment professionals so that they can lead the industry in the critical initiatives that will shape the future of our profession. The Certificate in ESG Investing, developed in concert with CFA Society of the UK and launched globally in 2021, was the first of its kind to be introduced on this scale.

This certificate stands as a prime example of the relevance of our offerings, as well as the importance of broadening our product portfolio to meet the educational needs of today's professionals. Demand has been strong for the certificate—not only from individuals but also from global employers who want their workforce to be equipped with this knowledge for the benefit of their business and, ultimately, end investors.

A number of prominent asset managers, asset owners, wealth managers, and other firms have lent their support to the certificate, showcasing the value of this program to employers, and candidates have enrolled in promising numbers. We are proud of this achievement, and we continue to work tirelessly with our extensive society networkto set the educational standards for our industry.

Thank you again to everyone who has helped to nurture, develop, and promote these initiatives to the industry.

Marg Franklin, CFA

President and CEO, CFA Institute

CHAPTER

1

Introduction to ESG Investing

LEARNING OUTCOMES

Mastery	The candidate should be able to:
☐	**1.1.1** define ESG investment and different approaches to ESG investing: responsible investment, socially responsible investment, sustainable investment, best-in-class investment, ethical/values-driven investment, thematic investment, green investment, social investment, shareholder engagement
☐	**1.1.2** define the following sustainability-based concepts in terms of their strengths and limitations: corporate social responsibility and triple bottom line (TBL) accounting
☐	**1.1.3** describe the benefits and challenges of incorporating ESG in decision making, and the linkages between responsible investment and financial system stability
☐	**1.1.4** explain the concepts of the financial materiality of ESG integration, double materiality, and dynamic materiality and how they relate to ESG analysis, practices, and reporting
☐	**1.1.5** explain different ESG megatrends, their systemic nature, and their potential impact on companies and company practices
☐	**1.1.6** explain the three ways in which investors typically reflect ESG considerations in their investment process
☐	**1.1.7** explain the aims of key supranational ESG initiatives and organizations and the progress achieved to date

INTRODUCTION

1

There was a time when environmental, social, and governance (ESG) issues were the niche concern of a select group of ethical or socially responsible investors. That time is long gone.

The consideration of ESG factors is becoming an integral part of investment management. Asset owners and investment managers are developing ways to incorporate ESG criteria into investment analysis and decision-making processes. The emergence of responsible investment proponents, such as the United Nations Principles for Responsible Investment (PRI), has encouraged a fundamental change in investment practices whereby investors explicitly employ ESG factor analysis to enhance returns and better manage risks. Societal and client pressure and the growing evidence of the direct financial benefits of incorporating ESG analysis have led integration to become more mainstream.

This chapter provides an overview of the concept of ESG investing, as well as the different types of responsible investment and their implications. It highlights the main benefits of integrating ESG factors and identifies ways in which ESG investing is implemented in practice.

ESG investing sits within a broader context of sustainability; this chapter also highlights a number of key initiatives in the business and investment communities that seek to assist all parties to navigate the associated challenges.

2 WHAT IS ESG INVESTING?

☐ **1.1.1** define ESG investment and different approaches to ESG investing: responsible investment, socially responsible investment, sustainable investment, best-in-class investment, ethical/values-driven investment, thematic investment, green investment, social investment, shareholder engagement

ESG investing is an approach to managing assets where investors explicitly incorporate **environmental, social, and governance (ESG)** factors in their investment decisions with the long-term return of an investment portfolio in mind.

Long-Termism and ESG Investing

Many stakeholders of investment, including finance regulators, have recognized the shortfalls of **short-termism** in investment practice and have sought to increase awareness of the value of **long-termism** and encourage this approach.

Short-termism covers a wide range of activities. For the purpose of this topic, the two most relevant ones are

- trading practices, where investors trade based on short-term momentum and price movements rather than long-term value, and
- investors engaging with investee companies in a way that prioritizes maximizing quarterly financials.

These short-term investing strategies might offer rewards but may have consequences for the long term. With its disproportionate focus on quarterly returns, short-termism may leave companies less willing to take on projects (such as research and development) that may take multiple years – and patient capital – to develop. This was indeed confirmed by a review conducted on the UK equity market and long-term decision-making by Professor John Kay for the UK Government in 2012.[1] Instead of productive investment in the real economy, short-termism may promote bubbles, financial instability, and general economic underperformance. Furthermore, short-term investment strategies tend to ignore factors that are generally considered more long term, such as ESG factors. Because of the adverse effects mentioned, regulators are

1 John Kay, "The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report" (July 2012).