CFA Institute

EXPOSURE DRAFT

CFA INSTITUTE ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

May 2021

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CFA Institute is developing voluntary, global industry standards—the CFA Institute ESG Disclosure Standards for Investment Products (the "Standards")—to establish disclosure requirements for investment products with environmental, social, and governance (ESG)-related features. The purpose of the Standards is to provide greater transparency and consistency in ESG-related disclosures, resulting in clearer communication regarding the ESG-related features of investment products. The goal for this Exposure Draft is to elicit feedback on the proposed principles, requirements, and recommendations within the Standards. Please refer to the "Providing Feedback" guidelines for submitting comments. **All comments must be received by 14 July 2021 in order to be considered.**

Providing Feedback

Public commentary on this Exposure Draft will help shape the final version of the Standards, which is expected to be issued in November 2021. Comments should be provided in the designated Response Form and submitted to standards@cfainstitute.org. Questions for the Standards' intended users are posed in the Introduction. You may address as few or as many of the Exposure Draft's questions as you wish. A complete list of the Exposure Draft questions appears in Appendix C. This Exposure Draft and the designated Response Form are available here on the CFA Institute website.

The deadline for providing feedback is 14 July 2021. **Comments received after 14 July 2021 will not be considered.** Unless otherwise requested, all comments will be posted on the CFA Institute website.

Guidelines for Submission

Comments are most useful when they:

- directly address a specific issue, provision, or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

Positive comments are equally as helpful as comments that provide constructive suggestions for improvement.

Requirements for Submission

In order for comments to be considered, please adhere to the following requirements:

- Insert responses to numbered questions in the designated areas of the Response Form.
- Assign a unique file name to your Response Form before submitting.
- Provide all comments in English.
- Submit the Response Form as a Microsoft Word document.

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INTRODUCTION

CFA Institute began formally exploring the need for an environmental, social, and governance (ESG) disclosure standard for investment products in 2019. The substantial interest in investment products with ESG-related features had prompted a growing number of investment professionals and market participants to call for the development of a global standard to help investors understand which ESG-related investment products align with their needs and preferences. CFA Institute heard from many market participants that a great deal of confusion and misunderstanding exists with respect to ESG-related terminology and investment approaches and that this confusion may, over time, lead to an erosion of investors' trust in the industry.

In January 2020, CFA Institute formed a volunteer ESG Working Group composed of industry professionals to explore concepts for a standard that would provide a consistent set of information and enough transparency to help investors understand and compare investment products with ESG-related features. The ESG Working Group's efforts led to the August 2020 release of the *Consultation Paper on the Development of the CFA Institute ESG Disclosure Standards for Investment Products*, which solicited industry feedback on the concepts proposed by the ESG Working Group. (The Consultation Paper can be viewed in its entirety here.)

Responses to the Consultation Paper validated the need for a standard. Question 1 of the Consultation Paper asked, "Do you agree that a standard is needed to help investors better understand and compare investment products with ESG-related features?" Ninety-one percent of those who provided a comment letter responded to this question. Of those respondents:

- 71% agreed without qualification,
- 18% agreed but expressed a concern that typically related to overlap or conflict with regulations/other standards or cost to produce disclosures,
- 6% disagreed that a standard was needed or felt that CFA Institute was not the right organization to produce such a standard, and
- 4% of the responses were unclear.

Over the Consultation Paper's two-month comment period from 19 August 2020 to 19 October 2020, CFA Institute received 111 comment letters totaling more than 3,000 comments from 30 different countries and a variety of industry groups. Comment letters were posted on the CFA Institute website unless the respondent requested otherwise. Figure 1 shows breakdowns of comment letters by user group and geographic region.

The Consultation Paper contained 44 questions. CFA Institute staff reviewed and analyzed all comments and presented the ESG Working Group with summaries for discussion. The ESG Working Group provided recommendations for addressing the questions posed in the Consultation Paper and the issues raised by respondents. The ESG Working Group's planned one-year term ended in January 2021.

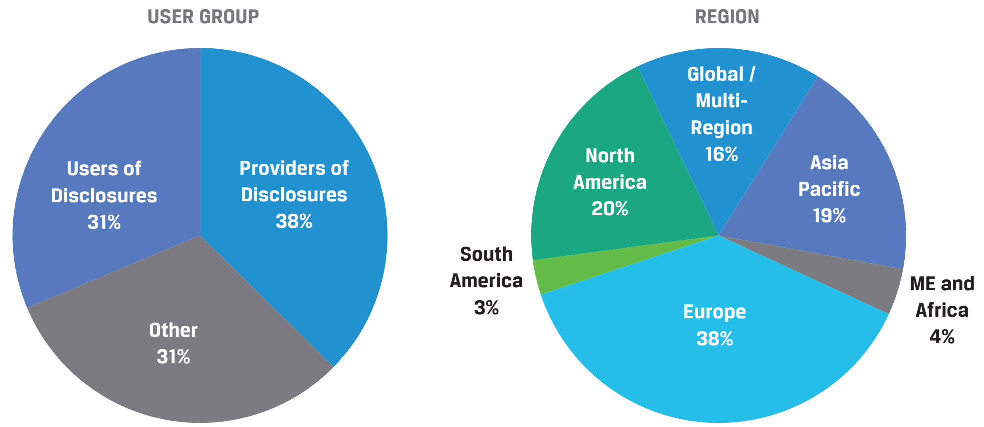

Figure 1: Comment Letters by User Type and by Region[1]

Development of the Exposure Draft

In November 2020, CFA Institute formed two new volunteer bodies, the ESG Technical Committee and the ESG Verification Subcommittee, to support the next phase of the Standards' development. The ESG Technical Committee is responsible for guiding the development of the Standards' provisions (principles, requirements, and recommendations). The ESG Verification Subcommittee is responsible for guiding the development of the Standards' examination procedures.[2]

The comment letter summaries that were presented to the ESG Working Group were also presented to the ESG Technical Committee along with the ESG Working Group's recommendations. The ESG Technical Committee made decisions on how to address the feedback on the questions posed in the Consultation Paper and the issues raised by respondents. CFA Institute staff then prepared an initial draft of provisions that was reviewed and revised with the ESG Technical Committee over a period of months. This process culminated in the Exposure Draft of the Standards.[3] The aim of this Exposure Draft is to solicit feedback on the draft provisions of the Standards.

[1] Users of disclosures include investors, investor associations, consultants, advisors, and regulators. Providers of disclosures include investment managers and investment manager associations. "Other" includes CFA Institute member societies, standard setters, and non-governmental organizations (NGOs).

[2] An examination is a process by which a verification firm tests one or more compliant presentations that an investment manager has created using the provisions of the Standards.

[3] The Exposure Draft represents the overall views of CFA Institute and the ESG Technical Committee. Although it represents such a consensus it may not necessarily, with respect to all details, reflect the individual views of ESG Technical Committee members or their employers.

Purpose of the ESG Disclosure Standards for Investment Products

The purpose of the Standards is to provide greater transparency and consistency in ESG-related disclosures, resulting in clearer communication regarding the ESG-related features of investment products. CFA Institute has undertaken this effort because it aligns with the organization's mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Setting standards for client communication and disclosures is consistent with that mission.

The CFA Institute Code of Ethics and Standards of Professional Conduct, to which all members of CFA Institute (including CFA charterholders and CIPM certificants) and candidates for the CFA designation and the CIPM certificate must adhere, states that members and candidates must:

- Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes. (V.B.1)
- Disclose to clients and prospective clients significant limitations and risks associated with the investment process. (V.B.2)
- Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients. (V.B.3)
- Distinguish between fact and opinion in the presentation of investment analysis and recommendations. (V.B.4)

The CFA Institute Asset Manager Code, a voluntary principles-based code that outlines a firm's ethical and professional responsibilities to clients, states that managers must:

- Ensure that disclosures are truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively. (F.1)
- Disclose the investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage. (F.4.c)
- Disclose valuation methods used to make investment decisions and value client holdings. (F.4.g)
- Disclose shareholder voting policies. (F.4.h)

The ESG Disclosure Standards for Investment Products support the Code of Ethics and Standards of Professional Conduct and the Asset Manager Code. The Standards offer more detailed guidance about how to fulfill these requirements when aspects of an investment product's strategy use ESG information or address ESG issues.

Scope of the ESG Disclosure Standards for Investment Products

Following a review of regulations and standards in existence or in development, CFA Institute's initial exploration of market needs led to the conclusion that the Standards must be:

1. Global (i.e., they should be applicable to as many markets as possible without conflicting with local laws and regulations)
2. Voluntary
3. Focused primarily on the ESG-related features of investment products
4. Suitable for all types of investments that an investment product may hold (e.g., listed equities and bonds, private equity, private debt, infrastructure, real estate, and other investments)
5. Suitable for all types of investment products (e.g., pooled funds, strategies for separately managed accounts, partnerships, and certain types of contracts)
6. Suitable for active and passive strategies
7. Suitable for all types of ESG strategies (e.g., exclusions, ESG integration, impact, and others)

With guidance from the ESG Working Group, the following additional decisions were made:

8. The Standards would take a disclosure-based approach to describe individual investment products as they are, rather than a prescriptive-based approach that would dictate features that an investment product must have, types of investments that the product could or could not make, or best practice for a particular investment approach.

   This decision was validated by responses to the Consultation Paper. Question 4 asked, "Do you agree that a disclosure-based approach would be more helpful to achieve the Standard's goals of transparency and comparability than a prescriptive-based approach?" Of those who responded to this question, 72% agreed, 16% agreed but with some qualification, 7% disagreed, and 5% provided a response that did not clearly take a position. This decision does not imply that labels or certifications are not helpful to investors. Disclosures and labels can work in harmony, and investors might be best served when both are available and used in the investment product marketplace. The Exposure Draft recommends that an investment manager disclose an investment product's labels and certifications.
9. Disclosure requirements for the ESG-related aspects of an investment product's strategy would be developed before disclosure requirements for periodic reporting of holdings, portfolio-level ESG characteristics, stewardship activities, or outcomes related to environmental or social issues.

   It was acknowledged that periodic reporting of holdings, portfolio-level ESG characteristics, stewardship activities, or outcomes related to environmental or social issues is extremely valuable to investors when they are evaluating investment products. It can be difficult, however, to evaluate an investment product's holdings or outcomes without first understanding the investment product's strategy. Therefore, disclosure requirements and recommendations pertaining to the investment strategy have been developed first and are presented in this Exposure Draft. Disclosure requirements for periodic reporting may be addressed in the future if a market need continues to exist for such information.

10. The Standards would allow investment managers the flexibility to base the depth and breadth of technical details in their disclosures on the investment product's typical investor.

It was acknowledged that an investment manager's disclosures under the Standards are likely to include technical details that may be unfamiliar to many retail investors. At the same time, it was acknowledged that many retail investors have a good understanding of finance and investing and may want technical details on some, if not all, aspects of an investment product's strategy. The Standards therefore allow investment managers to determine for themselves the level of detail they provide in their disclosures and the specific format of the disclosures.

At the time the Consultation Paper was issued, it was envisioned the Standards would consist of:

- fundamental requirements and disclosure requirements for investment products with ESG-related features,
- procedures for independent examination of disclosures, and
- a classification of ESG-related features by investor need.

This Exposure Draft addresses fundamental requirements and disclosure requirements for investment products with ESG-related features. Procedures for independent examination of disclosures will be addressed by an exposure draft that is expected to be released in July 2021. Classification of ESG-related features may be revisited after the Standards are finalized. It was initially thought that classification of ESG-related features should trigger certain related disclosure requirements. During the development of the Standards' provisions, however, it became apparent that it would be better to de-couple disclosure requirements and classification of ESG-related features. As a result, this Exposure Draft does not address the topics of investor ESG-related needs and preferences or classification of ESG-related features.

With respect to investment product disclosures, the Consultation Paper sought feedback on two fundamental questions. The first was whether the Standards should include only product-level disclosure requirements as opposed to both product- and firm-level disclosure requirements. After reviewing comments provided on Question 5 in the Consultation Paper, the ESG Technical Committee decided the Standards would:

11. Establish disclosure requirements at the product level only.

One reason for not including firm-level disclosure requirements in the Standards is that the Principles for Responsible Investment (PRI) has a well-established reporting framework in which signatories report on their responsible investment activities annually at the entity level. Including firm-level disclosure requirements in the Standards would be largely duplicative. Another reason is that investors need information specifically about the particular investment product in which they are investing. Often, firm-level information is not specific enough, particularly when an investment manager offers different types of investment products to different types of investors in different regions. Of those who provided a response to Question 5, a slight majority (54%)

agreed that the Standards should focus only on product-level disclosures. This decision does not imply that an investment manager may not disclose information about firm-level policies and processes. On the contrary, if a firm-level policy or process is relevant to a disclosure provision, such as a firm-level stewardship policy, information about that policy or process must be disclosed. Nor does this decision imply that firm-level disclosure requirements cannot or will not be added at some point in the future if market needs change.

The second fundamental question in the Consultation Paper with respect to investment product disclosures was, "What topics need to be addressed by the disclosure requirements?" Questions 13, 14, 15, 19, 23, 27, 31, 34, and 38 in the Consultation Paper asked about disclosure topics. The feedback provided on these questions informed the requirements and recommendations in this Exposure Draft.

Applicability of the Standards

Question 6 in the Consultation Paper asked whether an investment manager must apply the Standards to all of their investment products that have ESG-related features or whether they should be permitted to choose the investment products to which they apply the Standards. Of those who provided an opinion on Question 6, 40% believed that an investment manager should be permitted to choose the investment products to which they apply the Standards. An additional 8% thought so as well but with some qualifications. In contrast, 45% thought investment managers should be required to apply the Standards to all applicable investment products, and 7% did not take a clear position.

Because the Standards apply to investment products, the ESG Technical Committee decided that an investment manager should be able to choose the investment products to which it applies the Standards. Therefore, there will be no firm-wide claim of compliance. The only claim of compliance that an investment manager will be able to make is that it has prepared and presented a set of disclosures for a specific investment product in compliance with the CFA Institute ESG Disclosure Standards for Investment Products.

Single vs. Multiple Disclosure Documents

Question 9 in the Consultation Paper asked, "Should the Standards require that all disclosures be made in a single document? If disclosures were spread across multiple documents, would that pose a challenge for investors to understand and compare investment products?" Of the respondents who provided an opinion on Question 9, 73% thought all disclosures required by the Standards should be contained in a single document, whereas 15% thought the Standards should leave this decision to the discretion of investment managers.

Based on the responses, the ESG Technical Committee decided that all disclosures required by the Standards must be contained within a single document. In the Exposure Draft, a document that contains all the applicable, required disclosures is referred to as a compliant presentation.

Importantly, however, a compliant presentation need not be a standalone document; it could be a distinct section, such as an appendix, within a larger document.

Relationship to Regulations and Other Codes and Standards

The most frequent concern expressed about the Standards pertains to conflicts with or duplication of regulations and other codes and standards. Question 3 in the Consultation Paper asked which regulations and standards should be considered in the development of the Standards to avoid duplication or conflict. Thanks in part to the responses provided, CFA Institute staff has now assessed approximately 125 ESG/socially responsible investing (SRI)/sustainability regulations, principles, codes, standards, guides, reports, white papers, methodologies, classifications, labels, assessment tools, and questionnaires. Even this long list is not comprehensive, but the question of where the Standards fit can be answered with a high degree of confidence.

The global financial system is of course large and complex, with many different participants in many different regions undertaking many different types of activities. Therefore, it is not surprising that many regulations and voluntary codes and standards exist worldwide. Because the Standards narrowly focus on disclosure of investment product strategies, they do not overlap or conflict with the vast majority of these regulations and voluntary codes and standards. Figure 2 illustrates that the Standards apply only to investment product disclosures produced by investment managers and provided to institutional investors, high-net-worth individuals, and retail investors (i.e., "end" investors).

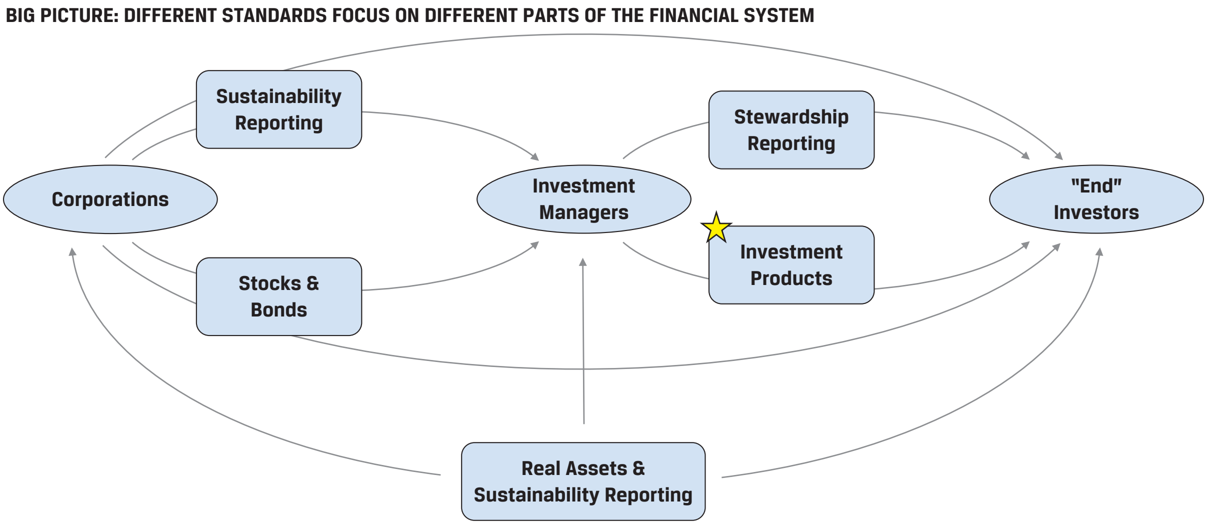

Figure 2: Illustration of the Financial System

Zooming in on investment products narrows the number of relevant regulations and voluntary codes and standards from about 125 to about 40. Figure 3 shows that different regulations and voluntary codes and standards focus on different aspects of investment products—such as product names, labeling and certification, classification, transparency and disclosures, and measurement—and that most of these efforts have been undertaken at a national or regional level.

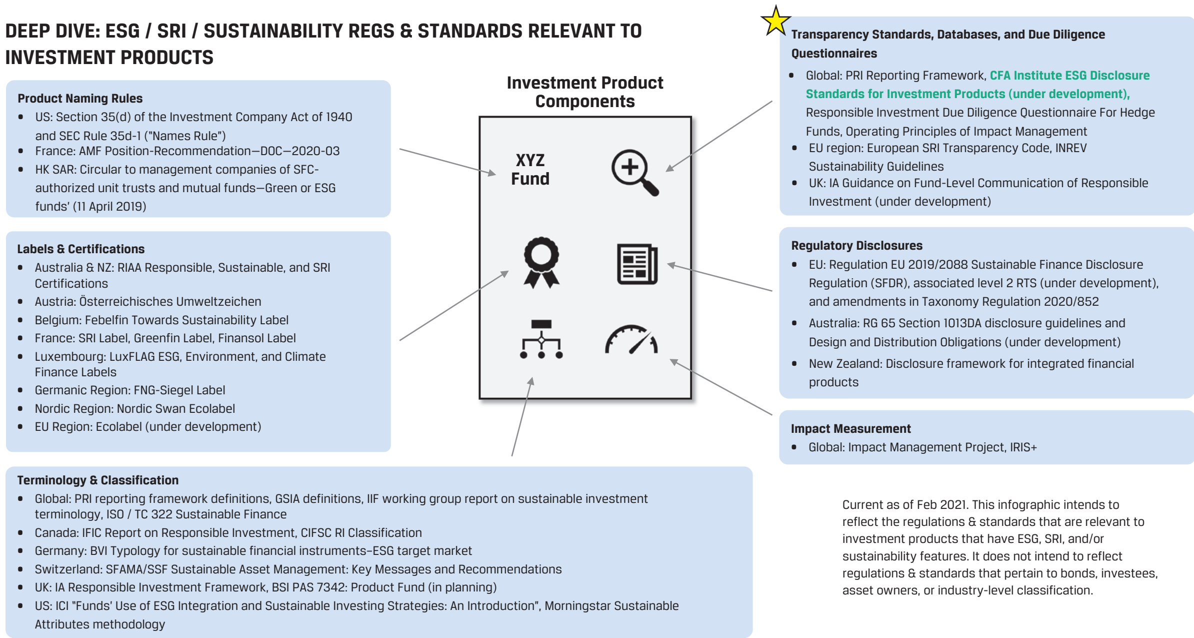

Figure 3: Regulations and Voluntary Codes and Standards Relevant to Investment Products

The Standards will not conflict or overlap with naming rules, labeling and certification programs, classification systems, and assessment methodologies because the following decisions have been made:

- The Standards will neither require nor prohibit the use of particular terms in investment product names, descriptions, or presentations.

  The Standards are not intended to be a naming or labeling standard, nor are they intended to be a universal glossary of terms. Based on responses to the Consultation Paper, no clear consensus exists on the definitions of ESG or sustainability terms. Rather than try to define these terms, the Standards use plain language and encourage investment managers to do so as well in their disclosures. Furthermore, a growing number of regulators are establishing rules for particular terms that can or cannot be used for certain types of investment products. Such rules do not conflict with the Standards' provisions to disclose information about an investment product. If the Standards were to require or prohibit the use of particular terms, the Standards would inevitably conflict with local regulations and would not be globally applicable as intended.

  One important result of this decision is that the provisions in the Exposure Draft do not follow the same architecture presented in the Consultation Paper. Instead, provisions are organized primarily by the components that make up an investment strategy (e.g., objectives, benchmarks, constraints, security selection, financial analysis and valuation, portfolio construction, and stewardship).

- The Standards will not require investment products to have specific ESG-related features or require or prohibit specific types of investments.

  The Standards do not establish a "minimum threshold" for labeling an investment product as an ESG, responsible, sustainable, or impact investment product. Labeling and certification standards will likely benefit from the Standards because use of the Standards by investment managers will provide clearer and more consistent information for the evaluation of investment products.

- The Standards will not establish methodologies for rating investment products nor for measuring their ESG characteristics or impacts on environmental or social issues.

  The Standards are not intended to be a rating or measurement standard; there are other standards and frameworks designed for these purposes.

Taking a closer look at transparency standards and regulatory disclosures, the number of relevant regulations and voluntary standards drops from about 40 to about 10. Figure 4 shows six of these, plus the Standards, for comparison. Of the six, two—the PRI Reporting Framework and the Responsible Investment Due Diligence Questionnaire (DDQ) for Hedge Funds—are included in this comparison because they are well known and may be relevant to investment product evaluation and comparison. Neither of these, however, have product-level disclosure requirements.

COMPARISON: KEY TRANSPARENCY STANDARDS, DATABASES, DDQs, AND REGULATIONS

Shading indicates strength / weakness as a global investment product disclosure standard	PRI Reporting Framework	European SRI Transparency Code	**ESG Disclosure Standards for Investment Products**	Responsible Investment DDQ For Hedge Funds	Operating Principles for Impact Management	INREV Sustainability Reporting Guidelines	SFDR
Purpose	Signatory reporting and benchmarking	Advance investment product transparency and comparability	Advance investment product transparency and comparability	Assist investors when assessing external hedge fund managers on their responsible investment policies and practice	Standard for impact investors on the design and implementation of their impact management systems	Advance investment product transparency and comparability	1) Implement EU policy / Sustainable Finance Action Plan, and 2) advance investment product transparency and comparability
Methodology	Database	Principles & DDQ template	Principles, disclosure specifications, examination procedures	DDQ template	Principles	Disclosure specifications	Principles, disclosure specifications
Information providers	Institutional investors, investment managers, and service providers	Retail investment managers (primarily pooled funds)	All investment managers	Hedge fund managers	Asset Owners, Asset Managers, Development Finance Institutions	Non-listed real estate investment managers	All investment managers
Information consumers	Institutional investors, investment managers, and service providers	Retail investors	All institutional, private wealth, and retail investors	Institutional investors	Primarily institutional investors	Primarily institutional investors	All institutional, private wealth, and retail investors
Market coverage	Global	Europe	Global	Global	Global	Europe / Global	EU
Organization level and product level coverage	Organization level only	Both	Product level only	Organization level only	Product level only	Both	Both
Asset class coverage	All	Assumes investments are primarily equities, debt, monetary assets, and structured funds	All	Hedge Funds	All	Non-listed real estate vehicles	All
ESG / SRI feature coverage	All	All	All	Unclear	Impact only	Unclear	All
Strategy and reporting coverage	Not Applicable	Strategy only	Strategy only (may expand to reporting)	Strategy only	Strategy only	Strategy and reporting	Strategy and reporting

Figure 4: Comparison of Well-Known Regulations and Voluntary Codes and Standards Relevant to Investment Product Disclosures

Now, it can clearly be seen that only three voluntary frameworks have tackled investment product transparency and comparability for certain types of investment products—namely, the European SRI Transparency Code (for European retail funds), the Operating Principles for Impact Management (for impact strategies), and the INREV Sustainability Reporting Guidelines (for non-listed real estate strategies). These three efforts address a number of important disclosure topics that should be elevated and incorporated into a global standard. Readers who are familiar with these efforts will recognize the positive influence these efforts have had on the development of the Exposure Draft. Yet even when taken together, these three voluntary codes and standards do not cover all types of investment products and all regions. Therefore, it can be seen that the current state of product-level ESG disclosure has two problems—fragmentation (i.e., there are multiple standards that narrowly address certain parts of the global investment product market) and gaps (i.e., no standards exist for certain types of investment products and in certain regions). Because the Standards have been designed to be suitable for all markets and for all types of investment vehicles, asset classes, and ESG strategies, the Standards simultaneously solve both problems.

It is evident from the analysis above that only one significant regulation addresses disclosure of the sustainability aspects of an investment product's strategy—the European Union (EU) Sustainable Finance Disclosure Regulation (SFDR),[4] discussed next. A handful of other markets have laws or regulations that address disclosure of the ESG-related aspects of an investment product's strategy, but none are as extensive as SFDR. SFDR was created within an existing legal and regulatory framework to achieve specific policy objectives. It is not a trivial task to figure out how SFDR would be implemented in other legal and regulatory jurisdictions. The Standards offer a path forward that is aligned with SFDR in terms of transparency but is completely independent of any specific legal and regulatory framework and wholly impartial to investors' or policymakers' objectives. And because the Standards are voluntary, they offer a solution that can be implemented more quickly than what is typically possible through legislative and regulatory processes.

Readers who are familiar with the Global Investment Performance Standards (GIPS®) will recognize the similarities between the GIPS standards and the ESG Disclosure Standards for Investment Products. Both are global, voluntary standards that are based on the principles of fair representation and full disclosure and both aim to improve transparency and comparability. The major difference between the two standards is that the GIPS standards pertain to the preparation and presentation of past investment performance whereas the ESG Disclosure Standards for Investment Products pertain to the disclosure of the ESG elements in an investment product's strategy.

The analysis above is a snapshot of the current environment; the landscape of regulations and standards is very much in flux. Standards can quickly become obsolete if they are not maintained to keep pace with innovation, technological advances, industry evolution, and regulatory changes. It is the role of the ESG Technical Committee to guide both the development and ongoing maintenance of the Standards. Individuals on the ESG Technical Committee serve for definitive

[4] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

time periods, but the committee itself has an indefinite lifespan. The governance model for the Standards will largely follow the governance of the GIPS standards, which CFA Institute has financially supported and maintained for more than 20 years.

European Union Sustainable Finance Disclosure Regulation

The second most frequently expressed concern about the Standards pertains to conflicts with or duplication of SFDR. Both the Standards and SFDR aim to foster transparency in investment product disclosures. Because SFDR is part of the EU's action plan for financing sustainable growth, however, it also has the goals of reorienting capital flows towards sustainable investment, mainstreaming sustainability into risk management, and fostering long-termism in financial and economic activity. The Standards do not have these additional goals.

Because SFDR is focused on sustainability, it goes further than the Standards in requiring disclosure of sustainability-related information. Because the Standards aim to address all investment products that have ESG-related features, they go further than SFDR in requiring disclosures for investment products that are not necessarily promoted as "sustainable"—for example, faith-based investment products and impact investment products that do not necessarily meet all of the requirements of Article 9 in SFDR.

Regarding the scope of disclosures, there are three key differences. First, SFDR requires entity-level disclosures and product-level disclosures, whereas the Standards require only product-level disclosures. Second, SFDR has disclosure requirements related to an investment product's strategy and periodic reporting; the Standards cover only an investment product's strategy (periodic reporting may be addressed in the future if there is market demand). Third, SFDR has disclosure requirements for pre-contractual documents and for websites; the Standards require only one set of disclosures, which can be provided to investors in multiple ways.

In addition to this discussion of SFDR, CFA Institute has provided a comparison between SFDR and the Standards, "Mapping of SFDR Requirements to the Exposure Draft Provisions," which can be found **here**. This mapping provides a detailed comparison of the specific information required to be disclosed by the Standards with respect to the information required to be disclosed by SFDR and the draft Regulatory Technical Standards issued by the Joint Committee of the European Supervisory Authorities on 2 February 2021.

Structure of the Exposure Draft

The Exposure Draft is organized as follows:

- General Principles for Investment Product Disclosures

  This section lists general principles for investment product disclosures. Principles are helpful because they can be used in a variety of situations. Principles and requirements are complementary, and often both are necessary when addressing complex issues such as investment product disclosures.

- Fundamental Requirements and Recommendations

  Fundamental provisions pertain to the manner in which an investment manager prepares and presents compliant presentations. The Standards' fundamental requirements are based on the fundamental requirements of the GIPS® standards. Requirements are mandatory and listed first. Recommendations are optional and listed second. A number of the provisions in the Exposure Draft are followed by notes to assist readers in their understanding of the provision.

- Disclosure Requirements and Recommendations

  Disclosure provisions pertain to the content of compliant presentations. Requirements are mandatory and listed first. Recommendations are optional and listed second. Following certain provisions, notes are provided to assist readers in their understanding of the provision.

- Glossary

  Within the provisions are terms that appear in small capital letters. This indicates defined terms that can be found in the Glossary. Readers are strongly recommended to read the Glossary first and refer to it often.

- Sample Compliant Presentations

  Sample compliant presentations are complete examples of compliant presentations. Investment managers' compliant presentations need not be in the exact format or style as the sample compliant presentations.

- Appendixes

  Appendix A contains a list of the ESG Technical Committee members. Appendix B contains a mapping of ESG-related features defined in the Consultation Paper to sections of the Exposure Draft. Appendix C contains a list of all questions asked in the Exposure Draft.

Users and Benefits

The Standards are expected to have four primary types of users: investment managers, investors, consultants and advisors, and database providers. The intended benefits, for all users, are clarity and efficiency when presenting, identifying, comparing, or discussing investment products with ESG-related features. In addition, the Standards may be helpful to regulators and investment professionals.

Investment Managers

The Standards are intended for use by all investment managers who offer investment products with ESG-related features. The Standards seek to benefit investment managers by providing them with a means to:

- more clearly communicate the ESG-related features of an investment product to investors,
- save time and effort when responding to questionnaires and due diligence requests,
- demonstrate a voluntary commitment to best practices, and
- adhere to the disclosure-related principles of the CFA Institute Asset Manager Code when offering investment products with ESG-related features, provided the organization claims compliance with the Asset Manager Code.

Questions for Investment Managers

1. Are the draft provisions helpful in establishing or clarifying the type of information that should be included in an investment product's disclosures regarding the ESG-related aspects of the investment product's strategy?
2. To what extent are the draft provisions supportive of and complementary with local laws and regulations and other codes and standards? Would preparing and presenting a compliant presentation in any way hinder your ability to comply with local laws and regulation or with other codes and standards?
3. Do you expect it will be feasible and practical for your organization to provide the information required by the draft disclosure provisions and adhere to the draft fundamental provisions?
4. To what extent would a compliant presentation proactively provide to asset owners, consultants, and advisors the ESG-related information they commonly request in their requests for proposals (RFPs), due diligence questionnaires (DDQs), and other questionnaires?
5. Would it be helpful if the Standards contained a recommended format or template for compliant presentations?

Investors and Asset Owners

The Standards are intended for use by all institutional and individual investors as well as their consultants and advisors. Institutional investors include, but are not limited to, public and private pension funds and schemes, public entities, endowments, foundations, family offices, provident funds, insurers and reinsurers, and sovereign wealth funds. Individual investors include private wealth clients, high-net-worth clients, and retail investors. The Standards seek to benefit investors by providing them with a means to:

- more easily understand investment products with ESG-related features,
- save time and effort when evaluating and comparing investment products with ESG-related features,
- know whether there have been material changes to the ESG-related features of an investment product since its inception, and

- have greater confidence that an investment product's disclosures are a fair representation of the investment product's ESG-related features, particularly if the compliant presentation for the investment product has undergone an independent examination.

Questions for Investors and Asset Owners

1. After reviewing the draft provisions and the sample compliant presentations, do you think a compliant presentation would help you understand how and why an investment product uses ESG information or addresses ESG issues?
2. To what extent would a compliant presentation provide the ESG-related information that you typically request in RFPs, DDQs, and other questionnaires? Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
3. Would the provision of compliant presentations by investment managers complement, streamline, or otherwise improve any of your existing processes, such as due diligence, certification, or reporting?
4. Would you find it helpful if the Standards contained a recommended format or template for compliant presentations?

Consultants and Advisors

Consultants and advisors can use the Standards to understand, evaluate, and compare investment products with ESG-related features. Ideally, consultants and advisors will benefit from being able to more clearly discuss their clients' ESG-related needs and more accurately and efficiently evaluate investment products with ESG-related features. The Standards seek to benefit consultants and advisors by providing them with a means to:

- more easily understand and evaluate an investment product's ESG-related features,
- know if there have been material changes to the ESG-related features of an investment product since its inception,
- save time and effort spent on investment product searches and comparisons,
- have greater confidence that an investment product's disclosures are a fair representation of the investment product's ESG-related features, particularly if the compliant presentation for the investment product has undergone an independent examination, and
- have greater confidence that investment product recommendations align with investors' ESG-related needs and preferences.

Questions for Consultants and Advisors

1. After reviewing the draft provisions and the sample compliant presentations, do you think a compliant presentation would help you understand how and why an investment product uses ESG information or addresses ESG issues?

2. Would a compliant presentation help facilitate client discussions regarding ESG-related needs and preferences and identify suitable investment products?
3. To what extent would a compliant presentation provide the ESG-related information that you or your clients typically request in RFPs, DDQs, and other questionnaires? Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
4. Would the provision of compliant presentations by investment managers complement, streamline, or otherwise improve any of your existing processes, such as investment product due diligence or overall assessments of investment managers' capabilities?
5. Would you find it helpful if the Standards contained a recommended format or template for compliant presentations?

Database Providers

Investment managers may not have the time or resources to provide all databases with a complete set of required product information in a timely manner. The Standards seek to benefit providers of investment product databases by offering them a means to:

- obtain more complete and useful information on the ESG-related features of investment products from investment managers who prepare compliant presentations,
- allow consultants and advisors to more efficiently search for investment products based on a standardized set of information regarding the ESG-related features of investment products or strategies, and
- increase the database's value to users by providing greater transparency, consistency, and comparability of information for investment products and strategies with ESG-related features.

Questions for Database Providers and Users

1. To what extent would a compliant presentation provide the ESG-related information that users are currently seeking?
2. Is it necessary, or would it be helpful, for compliant presentations to be in a standardized format? Would it be helpful if a machine-readable template were to be developed?

Regulators and Investment Professionals

Although regulators are not direct users of the Standards, they may nonetheless benefit from the Standards. Regulations will always supersede voluntary standards, but voluntary standards play an important role in the industry as well. Regulations generally take a long time to be developed and are limited to the jurisdiction in which they are developed. Although voluntary global standards cannot compel action as do regulations, they can be developed more quickly and can help generate consensus among regions. At times, regulators may benefit from allowing an independent standard setter to set the standards for an industry, with regulators taking on the role of enforcement. Such is the case for accounting standards. The Standards are being designed so as not to conflict with regulations and to generate consistency in disclosures across jurisdictions. The Standards seek to benefit regulators by providing them with a resource to:

- support the development of local regulations pertaining to the disclosure of the ESG-related features of investment products or other aspects of investment products, including but not limited to naming, labeling, and advertising, and
- discern areas where additional investor protections may be needed.

Investment professionals may also benefit from the Standards. Investment professionals are tasked with the serious responsibility of making decisions that ultimately have a direct financial impact on an organization or an individual. The overwhelming majority of investment professionals strive to carry out their duties with care, integrity, and in an ethical manner. Investment professionals who adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct, in particular, have specific responsibilities that relate to disclosure of investment analysis, investment processes, and client recommendations. The Standards seek to benefit these investment professionals by providing them with additional guidance on how to fulfill certain obligations regarding communication with clients and prospective clients in Section V.B of the CFA Institute Code of Ethics and Standards of Professional Conduct. The Standards seek to benefit all investment professionals by providing them with a means to:

- adhere to their commitment to professional excellence when communicating with clients,
- adhere to their commitment to professional excellence when making investment recommendations, and
- aid in protecting the reputation of the investment management industry and building trust with investors and other stakeholders.

Questions for Regulators and Investment Professionals

1. Are the draft provisions helpful in establishing or clarifying the type of information that should be included in an investment product's disclosures regarding the ESG-related aspects of the investment product's strategy?
2. Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
3. Would the Standards be helpful in maintaining a commitment to professional ethics and integrity?

4. Would the Standards be helpful in providing investor protection through product transparency?
5. Would the Standards be useful in serving as a mechanism to help investors align their ESG-related objectives with those of suitable investment products?
6. Would the Standards be useful in serving as a mechanism to develop investment product labeling in your country?

GENERAL PRINCIPLES FOR INVESTMENT PRODUCT DISCLOSURES

The CFA Institute ESG Disclosure Standards for Investment Products are based on the principles of fair representation and full disclosure and include the following general principles:

- Investment product disclosures are complete. All the information that is relevant and necessary for an investor to understand the investment product is disclosed by the investment manager. Material information is not omitted or withheld.
- Investment product disclosures are reliable. The information presented to investors is a fair representation of the investment product. The information is truthful, accurate, proportionate, and current; it is not false or misleading.
- Investment product disclosures are consistent. Information presented to investors in regulatory disclosures, advertising materials, websites, or any other type of presentation is not contradictory.
- Investment product disclosures are clear and concise. The ability of the investment product's typical investor to understand the investment product is not inhibited by overgeneralization, excessive detail, or terminology that is not defined in disclosures or readily understood.
- Investment product disclosures are accessible. Information about the investment product is made readily available to investors and is presented in a format that communicates the information effectively.

FUNDAMENTAL REQUIREMENTS AND RECOMMENDATIONS

1. FUNDAMENTALS OF COMPLIANCE

1.A. Fundamentals of Compliance—Requirements

1.A.1 The INVESTMENT MANAGER MUST:

- **a.** Document its policies and procedures used to establish and maintain compliance with the REQUIREMENTS of the CFA Institute ESG Disclosure Standards for Investment Products, as well as any RECOMMENDATIONS it has chosen to adopt, and apply them consistently.
- **b.** Document its policies and procedures to monitor and identify changes and additions to the CFA Institute ESG Disclosure Standards for Investment Products and INTERPRETATIVE GUIDANCE.

<u>Notes:</u>

Investment managers must actively determine the applicability of the requirements of the Standards and document their policies and procedures accordingly.

1.A.2 The INVESTMENT MANAGER MUST choose the INVESTMENT PRODUCTS to which it applies the CFA Institute ESG Disclosure Standards for Investment Products.

<u>Notes:</u>

The Standards apply to investment products with ESG-related features. Not all investment products have ESG-related features, and therefore, the Standards do not apply to all investment products. Investment managers are permitted to choose the investment products with ESG-related features to which they apply the Standards.

1.A.3 The INVESTMENT MANAGER MUST prepare a COMPLIANT PRESENTATION for each INVESTMENT PRODUCT to which it has chosen to apply the CFA Institute ESG Disclosure Standards for Investment Products.

1.A.4 The INVESTMENT MANAGER MUST NOT omit material information about the ESG-RELATED FEATURES of an INVESTMENT PRODUCT from the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION.

<u>Notes:</u>

Meeting this requirement may require the disclosure of more information than is required by the Standards. To fully explain the ESG-related features of an investment product, investment managers are encouraged to present all relevant information, beyond required and recommended information, that will help an investor understand the information presented in the compliant presentation as well as the investment product itself.

1.A.5 The INVESTMENT MANAGER MUST NOT present information in a COMPLIANT PRESENTATION that is false or misleading.

Notes:

All disclosures must be proportionate, with no overstatement of either the effect of an investment product's ESG-related features on ESG issues or the effect that ESG information has on any aspect of an investment product.

1.A.6 The INVESTMENT MANAGER MUST NOT present information in a COMPLIANT PRESENTATION that contradicts information contained in the documents that govern the INVESTMENT PRODUCT or information contained in disclosures or filings REQUIRED by law or regulation.

Notes:

The Standards may require disclosure of information that laws or regulations do not, or vice versa. The investment manager must not present information more favorably in the compliant presentation than it is presented in disclosures or filings required by law or regulation.

1.A.7 The INVESTMENT MANAGER MUST NOT communicate information about the INVESTMENT PRODUCT in a COMPLIANT PRESENTATION in a manner that is likely to inhibit a typical INVESTOR's understanding of the INVESTMENT PRODUCT.

Notes:

Disclosures about the ESG-related features of an investment product must be as clear and concise as possible so that investors can determine if the investment product is suitable for their needs and preferences. Terms that are likely to be unfamiliar to an investment product's typical investor must be well-defined or avoided. A compliant presentation must not generalize information to the degree that material details are obscured. Similarly, a compliant presentation must not present excessive inconsequential or irrelevant details such that key information is easily overlooked.

1.A.8 The INVESTMENT MANAGER MUST NOT present information in a COMPLIANT PRESENTATION in a manner that makes it difficult for an INVESTOR to locate all of the information REQUIRED by applicable REQUIREMENTS of the CFA Institute ESG Disclosure Standards for Investment Products.

Notes:

Provision 1.A.8 will be most easily achieved if the compliant presentation is a standalone document. Investment managers are permitted, however, to integrate the information required by the Standards into an existing document. When integrating required disclosures into existing documents, investment managers can most easily comply with Provision 1.A.8 by placing the disclosures in a clearly identified section within the existing

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document. Having a separate document or separate section of a document that includes all of the required disclosures makes it easy for investors to identify the information needed to readily compare investment products with ESG-related features.

1.A.9 The INVESTMENT MANAGER is responsible for its statements of compliance with the CFA Institute ESG Disclosure Standards for Investment Products and MUST ensure that the records and information provided by any third party on which the INVESTMENT MANAGER relies meet the REQUIREMENTS of the CFA Institute ESG Disclosure Standards for Investment Products.

1.A.10 The INVESTMENT MANAGER MUST update an INVESTMENT PRODUCT'S COMPLIANT PRESENTATION when:

a. Changes are made to CFA Institute ESG Disclosure Standards for Investment Products REQUIREMENTS or INTERPRETATIVE GUIDANCE that apply to the INVESTMENT PRODUCT.

b. Changes are made to the INVESTMENT PRODUCT that affect information included in the COMPLIANT PRESENTATION.

<u>Notes:</u>

As soon as a change to an investment product becomes effective, or a change to the Standards' requirements or interpretive guidance becomes effective, the compliant presentation for that investment product must reflect the change.

1.A.11 The INVESTMENT MANAGER MUST capture, maintain, and make available within a reasonable time frame all documents and records necessary to support all information included in a COMPLIANT PRESENTATION.

<u>Notes:</u>

Although many investment managers look for a precise list of the minimum documents and records that must be maintained, there is no single list of records that will suffice in all situations. Each investment manager must determine for itself which records must be maintained. Documents and records that investment managers should consider maintaining include but are not limited to:

- product disclosures and filings required by law and regulation,
- documentation of the investment product's strategy,
- policies that address the use of ESG information or that address ESG issues,
- investment process documentation,
- ESG information, as of the date it was used in the investment process or stewardship activities,
- ESG-related exclusion criteria and the associated effective dates,
- ESG-related portfolio-level criteria and the associated effective dates,
- proxy voting records,

- records of engagements with investees,
- account notes and meeting notes documenting that a particular compliant presentation was given to an investor, and
- dates that compliant presentations were posted to a website.

1.A.12 If the INVESTMENT MANAGER has prepared a COMPLIANT PRESENTATION for an INVESTMENT PRODUCT, the INVESTMENT MANAGER MUST make every reasonable effort to provide the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION to all INVESTORS prior to their initial investment in the INVESTMENT PRODUCT.

Notes:

The investment manager must not choose to which investors it presents a compliant presentation. When the investment product is offered through a distributor or advisor, providing the compliant presentation to the distributor or advisor satisfies Provision 1.A.12. When not prohibited by local laws and regulations, an investment manager can provide a compliant presentation to investors in a variety of ways, including but not limited to (1) providing a hard copy of the compliant presentation to an investor in a one-on-one meeting or sending an electronic version to an email address provided by the investor, (2) posting the compliant presentation on a public or limited-access webpage that investors can access, or (3) incorporating the compliant presentation into regulatory disclosures that are required to be provided to investors prior to making an initial investment or a commitment to invest in the investment product.

1.A.13 If the INVESTMENT MANAGER has prepared a COMPLIANT PRESENTATION for an INVESTMENT PRODUCT, the INVESTMENT MANAGER MUST provide the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION to any INVESTOR that makes such a request.

1.A.14 If the INVESTMENT MANAGER chooses to have a COMPLIANT PRESENTATION examined by an independent third party, it MUST gain an understanding of the verifier's policies for maintaining independence and MUST consider the verifier's assessment of independence.

Notes:

Although an investment manager is not responsible for a verifier's independence assessment, the investment manager must understand the issues encountered and the conclusions reached by the verifier regarding independence from the investment manager, particularly when the verifier provides other services related to ESG investing to the investment manager.

1.A.15 The INVESTMENT MANAGER MUST correct MATERIAL ERRORS in COMPLIANT PRESENTATIONS and MUST:

a. Make every reasonable effort to provide the corrected COMPLIANT PRESENTATION, along with an explanation of the MATERIAL ERROR, to any INVESTOR who received the COMPLIANT PRESENTATION that had the MATERIAL ERROR.

b. Provide the corrected COMPLIANT PRESENTATION, along with an explanation of the MATERIAL ERROR, to the current verifier, if any.

c. Provide the corrected COMPLIANT PRESENTATION, along with an explanation of the MATERIAL ERROR, to any former verifier that examined the COMPLIANT PRESENTATION that had the MATERIAL ERROR.

1.A.16 The INVESTMENT MANAGER MUST keep a log of MATERIAL ERRORS found in COMPLIANT PRESENTATIONS, the actions taken to correct the MATERIAL ERRORS, and the efforts to provide corrected COMPLIANT PRESENTATIONS, along with an explanation of the MATERIAL ERRORS, to the current verifier, if any, and to INVESTORS and any former verifier that received the COMPLIANT PRESENTATION with the MATERIAL ERROR.

1.A.17 The INVESTMENT MANAGER MUST comply with all applicable REQUIREMENTS of the CFA Institute ESG Disclosure Standards for Investment Products, including any INTERPRETATIVE GUIDANCE, in order to state that a COMPLIANT PRESENTATION has been prepared and presented in compliance with the CFA Institute ESG Disclosure Standards for Investment Products.

1.A.18 If an INVESTMENT PRODUCT presentation does not meet all the applicable REQUIREMENTS of the CFA Institute ESG Disclosure Standards for Investment Products, the INVESTMENT MANAGER MUST NOT represent or state that the presentation is "in compliance with the CFA Institute ESG Disclosure Standards for Investment Products except for..." or make any other statements that may indicate compliance or partial compliance with the CFA Institute ESG Disclosure Standards for Investment Products.

1.A.19 The INVESTMENT MANAGER MUST notify CFA Institute of its use of the CFA Institute ESG Disclosure Standards for Investment Products by submitting the CFA Institute ESG Disclosure Standards for Investment Products COMPLIANCE NOTIFICATION FORM. This form:

a. MUST be filed when the INVESTMENT MANAGER initially completes a COMPLIANT PRESENTATION for any one of its INVESTMENT PRODUCTS.

b. MUST be filed annually between 1 January and 30 June.

Notes:

The investment manager must not make public this initial compliant presentation, which includes a statement that the presentation complies with the Standards, until the Compliance Notification Form has been submitted to CFA Institute. The content of the Compliance Notification Form has not yet been determined. The primary purposes of the Compliance Notification Form are to provide CFA Institute with a means to communicate with users, particularly when there are changes to the Standards, and to assess the value of the Standards.

1.B. Fundamentals of Compliance—Recommendations

1.B.1 The INVESTMENT MANAGER SHOULD maintain a list of the INVESTMENT PRODUCTS for which it has prepared a COMPLIANT PRESENTATION.

Notes:

The list should include sub-advised investment products offered by the investment manager even if the compliant presentation, or all of the information necessary for a compliant presentation, is provided by the sub-advisor.

1.B.2 The INVESTMENT MANAGER SHOULD have an independent third party examine the COMPLIANT PRESENTATIONS that it has prepared.

Notes:

An examination is a process by which an independent third party tests one or more compliant presentations, in accordance with the required examination procedures of the Standards. An examination is intended to provide an investment manager and investors with additional confidence in the investment manager's claim that a presentation complies with the Standards. An examination may increase the knowledge of the investment manager regarding the Standards and improve the quality and consistency of the investment manager's investment product disclosures. An examination may also result in improved internal policies and procedures as well as a marketing advantage to the investment manager. An exposure draft for procedures for the independent examination of a compliant presentation is expected to be issued in July 2021.

DISCLOSURE REQUIREMENTS AND RECOMMENDATIONS

2. GENERAL INFORMATION

2.A. General Information—Requirements

2.A.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the name of the INVESTMENT PRODUCT.

<u>Notes:</u>

An investment manager is permitted to create a single compliant presentation that covers multiple investment products. If an investment manager chooses to create a single compliant presentation that covers multiple investment products, the name of each investment product must be included in the compliant presentation and all uses of the term "investment product" in the Standards must be interpreted as plural.

2.A.2 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the name of the INVESTMENT MANAGER that manages the INVESTMENT PRODUCT.

2.A.3 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the INVESTMENT PRODUCT'S INCEPTION DATE.

<u>Notes:</u>

Inception date is defined as the initial date of an investment product's track record of investment performance. For an investment product that has had a material change in its investment process, the inception date is not the date of the change but rather the date on which the investment product's performance track record initially began.

2.A.4 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the "as of" date of the COMPLIANT PRESENTATION.

<u>Notes:</u>

The date of the compliant presentation must be the date as of which the information in the compliant presentation is current and in effect. If a compliant presentation is prepared over a period of days, the date of the compliant presentation must be the date on which the investment manager makes the final determination that all of the information in the compliant presentation is complete and accurate.

2.A.5 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a listing of the asset classes in which the INVESTMENT PRODUCT typically invests.

2.A.6 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include one of the following compliance statements:

a. For a COMPLIANT PRESENTATION that has had an independent EXAMINATION:

"[Insert name of investment manager] has prepared and presented the following information in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. The information presented for [Insert name of investment product] has been independently examined for the periods from [insert dates]. The examination report is available upon request. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

To disclose that a presentation has been prepared and presented in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, an investment manager must comply with all the applicable requirements of the CFA Institute ESG Disclosure Standards for Investment Products for the investment product. Examination provides limited assurance that nothing has come to the verifier's attention that causes the verifier to believe that the investment manager has not, in all material respects:

- prepared and presented the accompanying compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, and
- designed policies and procedures related to the preparation of the compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products and has implemented the policies and procedures for the relevant periods."

b. For a COMPLIANT PRESENTATION that has not had an independent EXAMINATION:

"This presentation has been prepared and presented by [insert name of INVESTMENT MANAGER] in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. This presentation has not been independently examined. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."

The INVESTMENT MANAGER MUST NOT exclude any portion of the respective compliance statement.

2.A.7 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a summary description of the policies and procedures for notifying INVESTORS when material changes are made to the ESG-RELATED FEATURES of the INVESTMENT PRODUCT. This description MUST include, at a minimum, the method and timing of the notification.

Notes:

Investment managers might find the following definition of materiality useful as a starting point:

> A change to an investment product is material if it is probable the change will, or would have had, an influence on the typical investor's decision to invest in the investment product.

When determining materiality, an investment manager may want to consider the following factors:

- the extent to which the change influences the objectives of the investment product or the likelihood of achieving them,
- the extent to which the change affects the size and characteristics of the investment universe,
- the extent to which the change affects investment decisions or the investment process,
- the extent to which the change affects stewardship activities,
- the likelihood that the change would attract prospective investors with needs and preferences that differ from those of current investors, and
- whether the change triggers a local regulatory requirement, such as filing new documents or updating existing documents with a regulator or providing new or updated disclosures to current investors.

2.A.8 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a listing of material changes to the ESG-RELATED FEATURES of the INVESTMENT PRODUCT since the INVESTMENT PRODUCT'S INCEPTION DATE. This listing MUST include, at a minimum, a description of each material change that was made and the effective date of each material change.

Notes:

It is acknowledged that investment managers may not have precise records about each material change and the effective date of each material change since an investment product's inception date because there may have been no need to keep such records in the past. Investment managers may choose to deal with this situation in two ways. First, an investment manager may choose to make a "best efforts" description of the material changes and approximate the effective dates of those material changes by using only the year, or month and year, of the change. Second, an investment manager may choose to state in the compliant presentation that, prior to a certain date, it does not have the records necessary to disclose material changes and the effective date of those material changes.

2.B. General Information—Recommendations

2.B.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION SHOULD include a list of third-party ESG-related labels and certifications with which the INVESTMENT PRODUCT complies.

Notes:

There exist a number of labeling and certification programs through which an investment manager can communicate to investors that an investment product meets certain criteria related to ESG issues. Such programs may be focused on ethics, responsibility, sustainability, or a combination thereof. Provision 2.B.1 applies only to labels and certifications with which the investment product complies. It does not apply to the codes and standards with which the investment manager, as an entity, complies. Such information may be relevant to investors, however, and investment managers may choose to include such information in a compliant presentation.

3. OBJECTIVES

3.A. Objectives—Requirements

3.A.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST state all of the INVESTMENT PRODUCT'S objectives, including the FINANCIAL OBJECTIVE, IMPACT OBJECTIVE (if any), and all other types of objectives.

If an objective is an IMPACT OBJECTIVE, then the statement of the IMPACT OBJECTIVE MUST include:

a. The desired outcome in measurable or observable terms.

b. The stakeholders who will benefit from the desired outcome.

c. The target date, if any, by which the desired outcome is to be achieved.

Notes:

Financial Objectives

By definition, all investment products have a financial objective, which is defined in the Standards as "an objective to store value or create a future financial benefit through the buying, selling, or ownership of investments." When stated in terms of return, the financial objective usually specifies one or more of the following:

- the type of return sought (e.g., income, capital appreciation, total return),
- the magnitude of return sought on an absolute or relative basis (e.g., 5% absolute return, above-benchmark return),
- the time horizon (e.g., short term, medium term, long term), or
- some combination thereof.

When stated in terms of risk or exposure, the financial objective usually specifies the types of investments that will be held (e.g., large-capitalization stocks, intermediate-term bonds).

Impact Objectives

The Standards define an impact objective as "an intention to make a specific, positive, measurable contribution to an environmental or social issue." Alignment with policy objectives or development goals does not, by itself, constitute an impact objective. A compliant presentation must not state that the investment product has an impact objective if there is no process in place to achieve the impact objective. Impact objectives must be stated prospectively in compliant presentations.

Provision 3.A.1 requires a statement of the impact objective that is specific with respect to the desired outcome ("what"), the stakeholders who will benefit from the desired outcome ("who"), and the target date, if any, by which the desired outcome is to be achieved ("when"). Although Provision 3.A.1 requires only the description of the desired state, investment managers are encouraged to give additional context by providing general information about the nature of the objective (e.g., climate change), the current state of affairs, and the types of changes needed to reach the desired state.

Some investment products that have an impact objective will have a single investment; others will have a portfolio of investments. If an investment product holds a portfolio of investments that all contribute to a single impact objective, then the information required by Provision 3.A.1 must be disclosed only once. If an investment product has a portfolio of investments with materially different impact objectives, then the information required by Provision 3.A.1 must be disclosed for each different impact objective. If an investment product has many diverse investments and investment managers are unable to provide meaningful specifics regarding an impact objective as required by Provision 3.A.1, then investment managers are encouraged to review Section 8 to determine if the investment product is better described as having portfolio-level criteria that provide exposure to investments with certain ESG characteristics. If an investment manager is unable to provide meaningful specifics regarding an impact objective as required by Provision 3.A.1, the investment manager must not state in the investment product's compliant presentation that the investment product has an impact objective.

It is acknowledged that investment products can have a positive impact on environmental or social issues without having a specific objective. The Standards do not prohibit an investment manager from claiming that any investment product that it offers has an "impact" or is "impactful."

Other Types of Objectives

Provision 3.A.1 requires disclosure of all other types of objectives, in addition to those that meet the definitions of the terms "financial objective" and "impact object" as defined in the glossary. The following is provided to aid investment managers in their identification of other types of objectives that must be disclosed in a compliant presentation.

An objective usually has the following elements:

- There is an intention to achieve or maintain a specific state or outcome.

- There is risk that the specific state or outcome will not be achieved or maintained.
- The specific state or outcome is pursued in a way that maximizes, minimizes, or optimizes some measurable aspect of the state or outcome or the manner in which such is achieved.

An objective is not:

- a constraint (a limitation on how an objective can be achieved),
- a policy (a set of principles that guides decisions and actions undertaken to achieve an objective),
- a method (a systematic procedure for accomplishing a task, which may be one step toward achieving an objective),
- a strategy (a strategy integrates objectives, constraints, policies, and methods into a unified whole), or
- an intent (a reason for acting, which does not necessarily imply that an objective exists nor that there is a plan for achieving the objective).

3.A.2 If an INVESTMENT PRODUCT has more than one objective, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the relationship between objectives. This description MUST include, at a minimum, the extent to which trade-offs, if any, exist in the pursuit of the objectives.

Notes:

When two or more objectives are to be simultaneously achieved, objectives have the possibility of being unrelated, complementary, or in conflict. The relationship between any two or more objectives may vary in nature and degree under different circumstances. At times, it may be necessary for an investment manager to make decisions that support the achievement of one objective over another. Provision 3.A.2 does not intend to imply that financial objectives and other objectives are always in conflict and cannot be complementary or unrelated. For investors to have realistic expectations and make informed decisions, however, it is especially important to know whether trade-offs exist in the pursuit of the investment product's objectives; that is, whether any objective may at times be prioritized over any other objective, and if so, a description of the nature of those trade-offs and the circumstances in which those trade-off occur, or may occur.

3.B. Objectives—Recommendations

3.B.1 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE that is expected to contribute to the advancement of a specific policy objective or development goal set by a government or external organization, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION SHOULD include a description of the policy objective or development goal.

Notes:

The compliant presentation should state the policy objective or development goal, provide the name of the corresponding government or organization that set the policy objective or development goal, and give instructions for how an investor can obtain more information about the policy objective or development goal.

4. BENCHMARKS

4.A. Benchmarks—Requirements

4.A.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the BENCHMARK against which the INVESTMENT PRODUCT'S returns or risk are compared. This description MUST include either the key characteristics of the BENCHMARK or, if the BENCHMARK is a readily recognized index, the name of the BENCHMARK.

If there is no BENCHMARK against which the INVESTMENT PRODUCT'S returns or risk are compared, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include an explanation for why no BENCHMARK is used.

Notes:

The benchmark description must provide general information regarding the benchmark's constituents, structure, and characteristics. The description must include the key features of the benchmark, including any use of ESG information or consideration of ESG issues in its construction. In the case of a readily recognized benchmark, the name of the benchmark will satisfy this requirement. Each investment manager must decide for itself whether a benchmark is readily recognized.

4.A.2 If the BENCHMARK against which an INVESTMENT PRODUCT'S returns or risk are compared is an index, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include instructions for how an INVESTOR can obtain detailed information about the index methodology.

4.A.3 If an INVESTMENT PRODUCT has any external points of reference against which any aspect, characteristic, or metric of the INVESTMENT PRODUCT, other than returns or risk, is compared, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include:

- **a.** Either the key characteristics of each external point of reference or, if an external point of reference is readily recognized, the name of the external point of reference.
- **b.** The aspects of the INVESTMENT PRODUCT that are compared with each external point of reference.

Notes:

Provision 4.A.3 addresses aspects, characteristics, or metrics of investment products, other than returns or risk, that are compared with external points of reference. Such other aspects, characteristics, or metrics include but are not limited to the holdings at a given point in time, the weight of certain types of holdings, and portfolio-level metrics (e.g., weighted carbon emissions). Because a variety of aspects, characteristics, or metrics could be compared with an external point of reference, Provision 4.A.3 requires an investment manager to specifically indicate the aspects, characteristics, or metrics of the investment product that are compared with the benchmark. For example: "The weighted average carbon intensity of the Fund's holdings is compared with the weighted average carbon intensity of the Fund's benchmark index as measured by tons of CO_2 emissions per $1M of sales."

5. SOURCES AND TYPES OF ESG INFORMATION

5.A. Sources and Types of ESG Information—Requirements

5.A.1 If ESG INFORMATION is used in an INVESTMENT PRODUCT's investment process or STEWARDSHIP ACTIVITIES, then the INVESTMENT PRODUCT's COMPLIANT PRESENTATION MUST include a description of the sources and types of ESG INFORMATION used in the investment process or STEWARDSHIP ACTIVITIES.

Notes:

The purpose of Provision 5.A.1 is to provide investors with information about the ESG information on which the investment product relies. Types of ESG information include but are not limited to observations, measurements, statistics, estimates, forecasts, model scores, ratings, and analyses. Sources of ESG information include but are not limited to:

- regulatory filings,
- financial reports,
- corporate sustainability/responsibility reports,
- stewardship reports,
- issuer calls, meetings, and presentations,
- site visits,
- customers and supplier interviews ("channel checks"),
- ESG data providers,
- industry trade organizations, and
- government records.

An investment manager may choose, but is not required, to disclose the names of third-party data providers when describing the sources of ESG information. When an investment manager obtains ESG information from an ESG data provider, it is sufficient to state that the ESG information comes from an ESG data provider. Investment managers may choose, but are not required, to describe the ESG data provider's sources.

5.A.2 If ESG INFORMATION is used in an INVESTMENT PRODUCT's investment process or STEWARDSHIP ACTIVITIES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the efforts taken, if any, to evaluate the reliability of the ESG INFORMATION used in the investment process or STEWARDSHIP ACTIVITIES.

Notes:

If the ESG information used in an investment product is not reliable (i.e., not accurate and consistent), there is an increased risk that outcomes will deviate from those that are intended or expected. Therefore, a compliant presentation must include a description of the investment manager's efforts to evaluate the reliability of the ESG information used. Examples of such efforts include but are not limited to:

- independent evaluation of information reported by investees or provided by ESG data providers,
- cross-referencing two or more sources of information,
- evaluation of the accuracy or completeness of a dataset when determining the sources and types of ESG information that will be used in the investment process,
- evaluation of models that estimate or interpolate missing data elements,
- evaluation of how inherent uncertainty in specific data sets might affect investment decisions,
- establishment of data quality monitoring and controls, and
- taking steps to validate anomalies, including notifying sources of potential errors.

When an investment manager obtains ESG information from an ESG data provider, the investment manager may choose, but is not required, to describe the steps the ESG data provider takes to verify the data it provides.

6. ESG EXCLUSIONS

6.A. ESG Exclusions—Requirements

6.A.1 If an INVESTMENT PRODUCT has an EXCLUSION that is based on ESG INFORMATION or ESG ISSUES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of all EXCLUSION criteria that are based on ESG INFORMATION or ESG ISSUES. This description MUST include, at a minimum, for each criterion:

a. The characteristic of the investment that is evaluated,
b. The threshold or condition for exclusion, and
c. A reference, where applicable, to any law, regulation, and third-party standard, guideline, or framework used in the establishment or evaluation of the criterion.

Notes:

The Standards define an exclusion as "a binding prohibition on the ownership of certain investments."

An investment manager must decide what criteria it will use to determine whether an exclusion is or is not binding. When determining if an exclusion is binding, an investment manager may want to consider whether any of the following conditions exist:

- The exclusion is required by law or regulation,
- The exclusion criteria are systematically applied,
- The exclusion criteria would remain in effect despite the investment manager being presented with an attractive investment opportunity that would violate the exclusion criteria,
- The exclusion criteria remain in effect during favorable and unfavorable market conditions,
- The exclusion is described in the investment agreement, prospectus, or other documents that govern the investment product,
- Authorization from investors is required prior to making a material change in the exclusion criteria, or
- The investment manager would notify investors subsequent to making a material change in the exclusion criteria.

The description of the ESG exclusion criteria must reflect, as much as possible, the manner in which the criteria are implemented, using language that is both technically precise and understandable to a typical investor to whom the investment product is offered. The description of the ESG exclusion criteria must indicate the characteristics of an investment that are evaluated to determine whether the investment is to be excluded from the investment product. Examples of such characteristics include but are not limited to manufacture, distribution, or sale of certain products and services; sources of revenue; investee policies (or lack thereof), activities, practices, and conduct; and investee involvement in controversies. The description of the ESG exclusion criteria must include the threshold or condition for exclusion. Where applicable, the description of the ESG exclusion criteria must reference third-party standards, guidelines, or frameworks used in establishing or implementing the criteria.

Exclusion criteria can be based on a fixed threshold (e.g., an investment is excluded if less than 20% of the board of directors consists of women) or a relative threshold (e.g., an investment is excluded if it falls in the bottom quartile of its peer group for gender diversity within its board of directors). Provision 6.A.1 is not triggered based on whether the thresholds for exclusion criteria are fixed or relative; it is triggered based on whether or not such exclusion criteria are binding. Also, Provision 6.A.1 applies to exclusions irrespective of threshold levels set for exclusion criteria.

Some investment products are described as having inclusions rather than exclusions or as being compliant with external codes, standards, or systems of belief. If an investment product has a binding requirement to hold only certain kinds of investments, then the investment product can be equivalently described as having an exclusion. Provision 6.A.1 is not triggered based on whether investment-level criteria are stated as inclusionary or exclusionary; it is triggered based on whether or not such investment-level criteria are binding.

Some "best-in-class" strategies may trigger the provisions in Section 6. Consider an investment product whose mechanism for achieving a "best-in-class" portfolio is to have a binding criterion to systematically remove all the constituents in an index whose blended ESG score falls below the median value for its respective sector. It therefore has a binding investment-level exclusion. The investment manager does not have to state that the investment product has exclusions, but it must apply the provisions in Section 6 when preparing a compliant presentation for the investment product.

Portfolio-level criteria are not exclusions. For example, an investment product that has a target to hold at least 80% of its market capitalization in sustainable investments does not inherently exclude non-sustainable investments.

If an investment product has investment-level criteria based on ESG information or ESG issues but such criteria are not binding, the investment manager must determine whether such criteria are relevant to the provisions in Sections 7, 8, 9, and 10.

6.A.2 If an INVESTMENT PRODUCT has an EXCLUSION that is based on ESG INFORMATION OR ESG ISSUES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the rationale for the EXCLUSION.

Notes:

When stating the rationale for an ESG exclusion in a compliant presentation, an investment manager may want to consider the following common types of exclusions and related rationale.

- Adverse impact-based exclusion: An exclusion in which the underlying rationale is to mitigate the adverse impacts that an investment product has, or may have, on certain ESG issues.
- Controversy-based exclusion: An exclusion in which the underlying rationale is to mitigate the investment product's exposure to an investment involved in a high-profile controversy.
- Faith-based exclusion: An exclusion in which the underlying rationale is to align the investment product with a particular philosophy, creed, belief, or religion.

- Norms-based exclusion: An exclusion in which the underlying rationale is to avoid investments that fail to meet minimum standards of responsible business conduct as established by international norms including but not limited to the UN Global Compact principles, the Universal Declaration of Human Rights, International Labour Standards, the United Nations Convention Against Corruption, and the OECD Guidelines for Multinational Enterprises.
- Regulatory-based exclusion: An exclusion required by law or regulation.
- Risk-based exclusion: An exclusion that serves as a systematic control against a risk to an objective.

6.A.3 If an INVESTMENT PRODUCT has an EXCLUSION that is based on ESG INFORMATION or ESG ISSUES and the EXCLUSION criteria are not applied to all investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the circumstances in which EXCLUSION criteria are not applied.

Notes:

If the ESG exclusion criteria are not applied to all investments at all times, the compliant presentation must describe the circumstances in which the ESG exclusion criteria are not applied. Examples of such circumstances include but are not limited to:

- type of investment,
- availability or quality of data used to evaluate the ESG exclusion criteria,
- exceptions or overrides,
- short sales, and
- securities lending.

6.A.4 If an INVESTMENT PRODUCT has an EXCLUSION that is based on ESG INFORMATION or ESG ISSUES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of how the EXCLUSION criteria are applied in the investment process.

Notes:

To meet the requirements of Provision 6.A.4, an investment manager need not focus on the step-by-step mechanics of how the ESG exclusion criteria are applied. Rather, Provision 6.A.4 seeks specific information as to where in the investment process and how frequently the ESG exclusion criteria are applied. Provision 6.A.4 seeks information not only about the application of ESG exclusion criteria to new investments but also the application of ESG exclusion criteria to current holdings.

7. ESG INFORMATION IN FINANCIAL ANALYSIS AND VALUATION

7.A. ESG Information in Financial Analysis and Valuation—Requirements

7.A.1 If financially material ESG INFORMATION is used alongside traditional financial information in financial analysis and valuation of the INVESTMENT PRODUCT'S investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the rationale for the use of financially material ESG INFORMATION in financial analysis and valuation of the INVESTMENT PRODUCT'S investments.

Notes:

In addition to stating that the rationale for using financially material ESG information is to make better investment decisions, investment managers are encouraged to be specific about the value and importance that financially material ESG information has in the overall context of the investment product's strategy.

7.A.2 If financially material ESG INFORMATION is used alongside traditional financial information in financial analysis and valuation of the INVESTMENT PRODUCT'S investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the research and analysis undertaken to determine the ESG INFORMATION that is financially material to the INVESTMENT PRODUCT'S investments.

Notes:

Provision 7.A.2 requires a general description of the research and analysis that an investment manager typically undertakes in order to distinguish ESG information that is material to an investment from ESG information that is immaterial. Such research and analysis include but are not limited to the use of Sustainability Accounting Standards Board (SASB) standards, proprietary research, and third-party research. It is acknowledged that materiality can change over time—some ESG information that is material today may not be material in the future, and vice versa. Therefore, Provision 7.A.2 does not require a listing of ESG information, but an investment manager may provide examples of material ESG information in compliant presentations if it so chooses.

7.A.3 If financially material ESG INFORMATION is used alongside traditional financial information in financial analysis and valuation of the INVESTMENT PRODUCT'S investments in certain circumstances and not others, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the circumstances in which financially material ESG INFORMATION is not used in financial analysis and valuation of the INVESTMENT PRODUCT'S investments.

Notes:

If an investment manager does not use financially material ESG information in the financial analysis and valuation of all investments and at all times, the investment manager must describe the circumstances in which financially material ESG information is not used.

7.A.4 If financially material ESG INFORMATION is used alongside traditional financial information in financial analysis and valuation of the INVESTMENT PRODUCT'S investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of how financially material ESG INFORMATION is used in financial analysis and valuation of the INVESTMENT PRODUCT'S investments, differentiated by type of investment when necessary.

Notes:

Provision 7.A.4 seeks information about the specific methods chosen and where they are applied in the investment product's investment process. A variety of methods have been developed to integrate financially material ESG information alongside traditional financial information in financial analysis and valuation. Some methods are applicable only to particular types of investments (e.g., equities, fixed income, real estate), and some are applicable only to particular steps of the investment process (e.g., asset allocation, portfolio construction, security selection, security analysis, risk management.) For example:

- In asset allocation and portfolio construction, methods include but are not limited to scenario analysis, sensitivity analysis, and benchmark-relative weighting.
- In equity security analysis, methods include but are not limited to adjustments in model assumptions (e.g., forecasted financials and discount rate), adjustments to valuation multiples, and adjustments to accounts on the balance sheet (e.g., to account for future liabilities or stranded assets).
- In fixed-income security analysis, methods include but are not limited to incorporation of ESG factors in credit assessments, adjustments to forecasted financial ratios, and adjustments of credit spreads.

8. PORTFOLIO-LEVEL ESG CRITERIA AND CHARACTERISTICS

8.A. Portfolio-Level ESG Criteria and Characteristics—Requirements

8.A.1 If an INVESTMENT PRODUCT has portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of all portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES. This description MUST include, at a minimum, for each criterion:

a. The characteristic of the portfolio that is evaluated,
b. The threshold or target,
c. Whether or not the criterion is binding, and
d. A reference, where applicable, to any law, regulation, and third-party standard, guideline, or framework used in the establishment or evaluation of the criterion.

Notes:

It is typical for an investment product to have portfolio-level criteria, including but not limited to asset class exposure, size or type of positions, number or weights of holdings, industry or sector exposure, and market or geographic exposure. Having portfolio-level criteria allows an investment manager to manage risk and to provide specific levels of exposure to specific types of investments, thereby offering investors an investment product with a particular risk–return profile. With the growing availability of ESG information, it is increasingly possible for investment managers to set portfolio-level criteria that are based on ESG information or ESG issues, thereby offering investors an investment product with a particular ESG profile.

The description of the portfolio-level ESG criteria must reflect, as much as possible, the manner in which the criteria are implemented, using language that is both technically precise and understandable to a typical investor to whom the investment product is offered. The description of each criterion must include whether it is a binding constraint or a guideline that is typically met under normal circumstances but that is not binding. An investment manager must decide what criteria it will use to determine whether portfolio-level ESG criteria are or are not binding. Where applicable, the description of the portfolio-level ESG criteria must reference third-party standards, guidelines, or frameworks used in establishing or implementing the criteria. The description of each criterion must indicate the portfolio-level ESG characteristic to which it applies. Examples of portfolio-level ESG characteristics include but are not limited to:

- Scope 1 greenhouse gas emissions,
- asset-weighted percentage of the portfolio invested in green bonds,
- asset-weighted percentage of the portfolio invested in economic activities deemed to be sustainable by a regulatory or third-party classification standard,
- board gender diversity,
- breakdown of energy consumption by type of non-renewable sources of energy,
- share of investments in investee companies that have been involved in violations of the UN Global Compact principles or OECD Guidelines for Multinational Enterprises,
- exposure to specific industries, sectors, and geographies with adverse impacts on ESG issues,
- exposure to specific industries, sectors, and companies that aid transition to a low-carbon economy, and
- ratio of "green" investments to "brown" investments.

Portfolio-level ESG criteria thresholds or targets may be fixed or relative. Provision 8.A.1 is not triggered based on whether a threshold or target is fixed or relative; it is triggered simply by the presence of portfolio-level ESG criteria. Provision 8.A.1 applies irrespective of the value of the threshold or target. The Standards do not require the ESG characteristics of an investment product to meet minimum levels. If a threshold is 100% or 0%, thus indicating an "all" or "nothing" condition, investment managers should review Provision 6.A.1 to determine if the criteria would be more accurately represented as an investment-level exclusion.

Having portfolio-level ESG criteria does not imply, or require, that each investment in the portfolio meet those criteria. If an investment product has ESG criteria that every investment must meet in order to be included in the portfolio, and any investment that does not meet those criteria is excluded, then the investment product has an ESG exclusion and Provision 6.A.1 applies. If an investment product has ESG criteria that must be met at the portfolio level but not necessarily for every individual investment, Provision 8.A.1 applies. An investment product can have both investment-level ESG exclusions and portfolio-level ESG criteria, in which case both Provision 6.A.1 and Provision 8.A.1 apply.

8.A.2 If an INVESTMENT PRODUCT has portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include the rationale for the portfolio-level criteria.

Notes:

When stating the rationale for portfolio-level criteria in a compliant presentation, an investment manager may want to consider the following reasons:

- Risk: For example, portfolio-level criteria can serve as a systematic control against a risk to the investment product's objectives.
- Returns: For example, portfolio-level criteria can be used to create a portfolio that is focused on certain sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends.
- Investment product objectives: For example, portfolio-level criteria can be a mechanism to implement an investment product's objective to hold certain types of investments, such as sustainable investments.

8.B. Portfolio-Level ESG Criteria and Characteristics—Recommendations

8.B.1 If an INVESTMENT PRODUCT has portfolio-level criteria that are based on ESG INFORMATION or ESG ISSUES, the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION SHOULD include instructions for how an INVESTOR can obtain, if such exists, the most recent report showing the portfolio-level ESG characteristics of the portfolio as of a point in time or over a period of time.

9. PROCESS TO ACHIEVE IMPACT OBJECTIVE

9.A. Process to Achieve Impact Objective—Requirements

9.A.1 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE and the IMPACT OBJECTIVE does not apply to all investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST describe the investments to which the IMPACT OBJECTIVE does not apply.

Notes:

An impact objective might not be established for every investment in the portfolio or considered as part of every investment decision. For example, a diversified fixed-income investment product may allocate a portion of its bond holdings to achieving an impact objective (i.e., the investment product may have an "impact sleeve") while the remainder is allocated to traditional investments.

9.A.2 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of how the INVESTMENT MANAGER intends to achieve the INVESTMENT PRODUCT'S IMPACT OBJECTIVE through the INVESTMENT PRODUCT'S investments and STEWARDSHIP ACTIVITIES.

Notes:

When describing how they expect to achieve the impact objective through the investment product's investments, investment managers must include an explanation of how the funding of certain projects or enterprises, or types of projects or enterprises, is expected to result in the desired outcomes. When describing how the impact objective is expected to be achieved through stewardship activities, an investment manager must include an explanation of how the use of specific stewardship activities is expected to result in the desired outcomes.

9.A.3 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the methodology the INVESTMENT MANAGER uses to assess the effect that investments have, or may have, on ENVIRONMENTAL or SOCIAL issues.

Notes:

Whereas Provision 3.A.1 requires a description of the impact objective, Provision 9.A.3 requires investment managers to describe their impact assessment methodology. When an investment manager uses an impact assessment methodology developed by a third party, such as IRIS+ from the Global Impact Investing Network or the "Five Dimensions of Impact" from the Impact Management Project, including a reference to the impact assessment methodology and the name of the third party that developed the methodology satisfies the requirement. If the investment manager deviates from the standard methodology set forth by the third party, however, all deviations must be clearly described.

9.A.4 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the process for identifying and avoiding, mitigating, or managing adverse effects that the investments or the investments' underlying activities have, or may have, on ENVIRONMENTAL or SOCIAL issues.

Notes:

Investors generally expect that an investment product with an impact objective will not negatively affect one or more ESG issues for the sake of positively contributing to one or more other ESG issues—that is, the investment product must not trade off one set of problems for another. Therefore, investment managers are required to describe the steps they take to limit or reduce the adverse effects that the investments or the investments' underlying activities have, or may have, on not only those ESG issues that are relevant to the impact objective but all ESG issues relevant to the investments, their underlying activities, the environments in which they are conducted, and the stakeholders affected by the activities.

9.A.5 If an INVESTMENT PRODUCT has an IMPACT OBJECTIVE, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST state the risks to the achievement of the IMPACT OBJECTIVE.

Notes:

Investment managers need not list every possible risk imaginable, only those foreseeable risks that have a reasonable chance of occurring.

9.B. Process to Achieve Impact Objective—Recommendations

9.B.1 If the INVESTMENT PRODUCT has an IMPACT OBJECTIVE, the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION SHOULD include instructions for how an INVESTOR can obtain, if such exists, the most recent report describing the progress toward the achievement of the IMPACT OBJECTIVE over a period of time.

10. STEWARDSHIP

10.A. Stewardship—Requirements

10.A.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a summary description of the INVESTMENT MANAGER'S or INVESTMENT PRODUCT'S STEWARDSHIP policies that are relevant to ESG ISSUES, if any. This description MUST include, at a minimum:

a. The types of STEWARDSHIP ACTIVITIES that are typically undertaken, differentiated by type of investment where necessary, and

b. Whether the STEWARDSHIP policies that are relevant to ESG ISSUES are specific to the INVESTMENT PRODUCT or apply firm-wide.

Notes:

Provision 10.A.1 b requires that the summary description identify whether the stewardship policies described are specific to the investment product or apply firm-wide. Many investment managers set stewardship policies at the organization level. Such policies usually apply to all of the investment manager's investment products or at least to those managed by the part of the organization that set the policies (e.g., a subsidiary, division, or office). Some investment managers, however, have policies, or parts thereof, that are unique to a particular investment product. For example, an investment manager may delegate proxy voting to the portfolio managers of a particular investment product but manage engagement with investee companies at the organization level. In this situation, the investment manager must disclose that proxy voting is undertaken by the portfolio managers for the investment product while investee engagements are handled at the organization level.

10.A.2 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include instructions for how an INVESTOR can obtain a complete and current copy of all the STEWARDSHIP policies that apply to the INVESTMENT PRODUCT, regardless of whether those policies are product-specific or apply firm-wide.

10.A.3 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include a description of the processes, systems, and measures used to undertake and manage the INVESTMENT PRODUCT'S STEWARDSHIP ACTIVITIES.

Notes:

The compliant presentation must include a description of the processes, systems, and measures used to undertake and manage stewardship activities, such as the processes for voting proxies or engaging with investees, the systems used for tracking stewardship activities, and the measures used to evaluate the effectiveness of engagements with investees. Processes, systems, and measures can differ significantly for different types of stewardship activities—such as proxy voting, engagement, or public policy advocacy. Investment managers are encouraged to describe processes, systems, and measures by type of stewardship activity, as needed, to make the differences clear. When describing the processes used to undertake and manage stewardship activities, investment managers may choose, but are not required, to include the organizational roles, teams, or specialists that are involved in types of stewardship activities (e.g., proxy voting vs. engagement) or in different parts of the process (e.g., research/recommendation vs. oversight/approval).

10.A.4 If ESG ISSUES are typically considered when undertaking STEWARDSHIP ACTIVITIES for the INVESTMENT PRODUCT'S investments, then the INVESTMENT PRODUCT'S COMPLIANT PRESENTATION MUST include:

a. A list of the ESG ISSUES that are typically considered when undertaking STEWARDSHIP ACTIVITIES, and

b. The rationale for typically considering ESG ISSUES when undertaking STEWARDSHIP ACTIVITIES for the INVESTMENT PRODUCT'S investments.

Notes:

Provision 10.A.4 refers only to the disclosure of ESG-related issues that are typically considered when undertaking stewardship activities for the investment product's investments. It does not require disclosure of all issues considered when undertaking stewardship activities for the investment product's investments. When preparing its disclosures for Provision 10.A.4 b, investment managers may want to consider the following common reasons for typically considering ESG issues in stewardship activities. This list is not intended to be exhaustive.

- Risk management: Certain ESG issues (e.g., climate change) may pose physical risks to the assets and operations of certain investee enterprises. Focusing on those issues in stewardship activities may help protect the value of the investment product's investments. Similarly, ESG issues may create reputational risk for investee enterprises, and focusing on such issues can help ensure that management addresses these risks.
- Source of ESG information: Considering ESG issues in stewardship activities, such as engagement, might produce information that is useful for the investment process.
- Achievement of objectives: Considering ESG issues in stewardship activities may be a mechanism for achieving one or more of the investment product's objectives.

10.B. Stewardship—Recommendations

10.B.1 An INVESTMENT PRODUCT'S COMPLIANT PRESENTATION SHOULD include instructions for how an INVESTOR can obtain, if such exists, the most recent report describing the STEWARDSHIP ACTIVITIES that have been undertaken for the INVESTMENT PRODUCT over a period of time.

GLOSSARY

BENCHMARK	A point of reference against which an INVESTMENT PRODUCT's return or risk is compared.
COMPLIANCE NOTIFICATION FORM	The form REQUIRED to be filed with CFA Institute by an INVESTMENT MANAGER to notify CFA Institute of the INVESTMENT MANAGER's use of the CFA Institute ESG Disclosure Standards for Investment Products.
COMPLIANT PRESENTATION	A presentation for an INVESTMENT PRODUCT that contains all the information REQUIRED by the CFA Institute ESG Disclosure Standards for Investment Products.
ENVIRONMENTAL	Relating to the quality and functioning of the natural environment and natural systems.
ESG	Abbreviation for "ENVIRONMENTAL, SOCIAL, or GOVERNANCE."
ESG INFORMATION	ENVIRONMENTAL, SOCIAL, or GOVERNANCE information used in an INVESTMENT PRODUCT's investment process or STEWARDSHIP ACTIVITIES, including but not limited to observations, measurements, statistics, estimates, forecasts, model scores, ratings, and analyses.
ESG ISSUE	An important ENVIRONMENTAL, SOCIAL, or GOVERNANCE challenge, concern, or matter.
ESG-RELATED FEATURE	Any aspect of an INVESTMENT PRODUCT's design or implementation, including but not limited to objectives, metrics, BENCHMARKS, constraints, policies, investment process, STEWARDSHIP ACTIVITIES, and client reporting, that uses ESG INFORMATION or intentionally addresses ESG ISSUES.
EXAMINATION	A process by which a verification firm tests one or more COMPLIANT PRESENTATIONS in accordance with the REQUIRED EXAMINATION procedures of the CFA Institute ESG Disclosure Standards for Investment Products.
EXCLUSION	A binding prohibition on the ownership of certain investments.
FINANCIAL OBJECTIVE	An objective to store value or create a future financial benefit through the buying, selling, or ownership of investments.
GOVERNANCE	Relating to the policies and procedures used to direct, control, and monitor companies and other investee entities.

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IMPACT OBJECTIVE An intention to make a specific, positive, measurable contribution to an ENVIRONMENTAL or SOCIAL issue.

INCEPTION DATE The initial date of an INVESTMENT PRODUCT's track record of investment performance.

INTERPRETATIVE GUIDANCE Interpretative and explanatory materials related to the CFA Institute ESG Disclosure Standards for Investment Products issued by CFA Institute and the CFA Institute ESG Disclosure Standards for Investment Products' governing bodies including but not limited to guidance statements, interpretations, and Q&As.

INVESTMENT MANAGER An organization that manages an INVESTMENT PRODUCT.

INVESTMENT PRODUCT A vehicle managed by an INVESTMENT MANAGER that uses an INVESTOR's capital to buy, sell, and hold investments for the benefit of the INVESTOR, including but not limited to the following:

- An investment company, corporation, trust, or other vehicle that allows INVESTORS the ability to pool their capital and invest it collectively ("pooled funds")—such as open-end and closed-end mutual funds, unit investment trusts, exchange-traded funds (ETFs), Undertakings for the Collective Investment in Transferable Securities (UCITS), Société d'investissement à Capital Variable (SICAV funds), as well as certain hedge funds, real estate funds, private equity funds, private debt funds, and pension funds.
- A contract between an INVESTOR and an INVESTMENT MANAGER—such as certain insurance-based INVESTMENT PRODUCTS and pension products.
- A limited partnership in which INVESTORS are limited partners and the INVESTMENT MANAGER is the general partner—such as certain hedge funds, real estate funds, and private equity funds.
- An investment strategy by which individually owned accounts are managed.

A vehicle offered by an INVESTMENT MANAGER that is wholly or partially sub-advised is considered an INVESTMENT PRODUCT of that INVESTMENT MANAGER, provided that the INVESTMENT MANAGER has discretion over the selection of the sub-advisor.

Note: The definition of INVESTMENT PRODUCT excludes certain types of financial products, including demand deposit accounts (e.g., checking and saving accounts), brokerage accounts in which clients direct their own trading activity, and all types of property and liability insurance.

INVESTOR	Any person or entity that currently invests in, or that has expressed interest and is qualified to invest in, an INVESTMENT PRODUCT. *Note: The definition of INVESTOR includes retail investors, wealth management clients, and institutional investors. Investment consultants and other third parties are considered to be INVESTORS if they represent individuals or entities that are INVESTORS.*
MATERIAL ERROR	An error in a COMPLIANT PRESENTATION that MUST be corrected and explained.
MUST	A provision, task, or action that is mandatory or REQUIRED to be followed. (See "REQUIRE/REQUIREMENT.")
MUST NOT	A task or action that is forbidden or prohibited.
or	*Note: Although not a defined term, the use of the word "or" is inclusive and means "X, or Y, or both" and "X, or Y, or Z, or some combination thereof." The use of "either…or" is exclusive and means "X or Y, but not both."*
RECOMMEND/ RECOMMENDATION	A suggested provision, task, or action that should be followed or performed. A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See "SHOULD.")
REQUIRE/REQUIREMENT	A provision, task, or action that MUST be followed or performed. (See "MUST".)
SHOULD	A provision, task, or action that is RECOMMENDED to be followed or performed and is considered to be best practice but is not REQUIRED.
SHOULD NOT	A task or action that is RECOMMENDED not to be followed or performed and is considered best practice not to do so.
SOCIAL	Relating to the rights, well-being, and interests of people, communities, and society.
STEWARDSHIP	The responsibility of an INVESTMENT MANAGER to protect and enhance the value of an INVESTMENT PRODUCT's holdings and to advance an INVESTMENT PRODUCT's objectives through the exercise of rights or position of ownership to the extent the INVESTMENT MANAGER is authorized to do so.

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STEWARDSHIP ACTIVITY An activity undertaken on behalf of INVESTORS for the purpose of putting STEWARDSHIP into effect, including but not limited to:

- participation in a shareholder meeting,
- casting, abstaining, or withholding a vote on a management or shareholder resolution,
- filing a shareholder resolution,
- commencement, continuation, modification, or discontinuation of an engagement with an investee company,
- collaboration with other shareholders or bondholders,
- enforcement of covenants,
- exercise of warrants or embedded options,
- lending of securities,
- taking a seat on the board of directors of an investee company,
- hiring, firing, and directing the management of an investee company,
- maintenance and improvement of real estate and physical assets,
- advocating for strong ENVIRONMENTAL, SOCIAL, or GOVERNANCE practices, and
- stating a position or advocating for or against public policies or proposals that affect, or may affect, the INVESTMENT PRODUCT.

SAMPLE COMPLIANT PRESENTATION #1

ESG Disclosures for the XYZ Socially Responsible Equity Strategy

As of 31 March 2021

The XYZ Socially Responsible Equity Strategy uses environmental, social, and governance (ESG) data in its pursuit of long-term capital growth and avoids certain types of investments that significantly contribute to certain ESG issues. The strategy also engages with companies owned regarding material ESG issues that may affect the risk of specific holdings.

XYZ Asset Management Co. has prepared and presented the following information in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. The information presented for XYZ Socially Responsible Equity Strategy has been independently examined for the periods from 31 March 2020 to 31 March 2021. The examination report is available upon request. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

To disclose that a presentation has been prepared and presented in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, an investment manager must comply with all the applicable requirements of the CFA Institute ESG Disclosure Standards for Investment Products for the investment product. Examination provides limited assurance that nothing has come to the verifier's attention that causes the verifier to believe that the investment manager has not, in all material respects:

- prepared and presented the accompanying compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products, and
- designed policies and procedures related to the preparation of the compliant presentation in compliance with the CFA Institute ESG Disclosure Standards for Investment Products and implemented those policies and procedures for the relevant periods.

General Information about the XYZ Socially Responsible Equity Strategy

Inception date: 1 February 2011

Objective: The strategy seeks capital growth over the long term while seeking to outperform the benchmark over a full market cycle.

Benchmark: Russell 1000® Index. Information about the Russell 1000® Index methodology can be found on the FTSE Russell website (www.ftserussell.com).

Asset Classes: The strategy invests in listed equity securities and money market instruments. Money market instruments typically constitute less than 5% of the strategy's market value.

Exclusions Related to ESG Issues

The following exclusions apply to the strategy's equity securities.

Tobacco

Use of tobacco products leads to devastating, widespread health problems and disease, creating significant healthcare and financial impacts that can negatively impact society at large.

Exclusion Criteria:

- Issuers that have been assigned Standard Industrial Classification (SIC) codes in Major Group 21. This group includes businesses primarily engaged in manufacturing cigarettes, cigars, smoking and chewing tobacco, snuff, reconstituted tobacco, stemming and redrying tobacco, and manufacture of non-tobacco cigarettes; or
- Issuers that have earned more than 5% of their annual revenues from the sale or distribution of tobacco products in their most recent fiscal year.

Alcohol

Excessive consumption of alcohol can lead to addiction, destructive behaviors, alcohol-induced accidents, and serious health problems and can negatively impact society at large.

Exclusion Criteria:

- Issuers that have been assigned Standard Industrial Classification (SIC) codes of 2082 (Malt Beverages), 2084 (Wines, Brandy, and Brandy Spirits), and 2085 (Distilled and Blended Liquors); or
- Issuers that have earned more than 10% of their annual revenues from the sale or distribution of alcohol products in their most recent fiscal year.

Pornography

Pornography has adverse societal impacts, such as the promotion of gender inequality and the degradation of human dignity. The strategy has zero tolerance for companies involved in the production or distribution of pornography.

Exclusion Criteria:

- Issuers found to be involved in the production or distribution of pornography.

Gambling

Excessive gambling can lead to addiction, destructive behaviors, and devastating financial problems and negatively impact society at large.

Exclusion Criteria:

- Issuers that have earned more than 5% of their annual revenues from gambling in their most recent fiscal year.

Controversial Weapons

Controversial weapons include cluster munitions; anti-personnel landmines; and biological, chemical, and nuclear weapons, among others. These weapons can cause uncontrolled destruction and widespread injury or death to civilians. Additionally, the strategy is subject to Regulation 123-4567, which requires the exclusion of cluster munitions and anti-personnel landmines.

Exclusion Criteria:

- Issuers found to be involved in the production, distribution, or maintenance of controversial weapons and key components thereof.

Thermal Coal

The strategy does not exclude all fossil fuel extraction. It excludes coal mining in particular, however, because that is the industry that XYZ Asset Management Co. believes is most at risk as the world transitions to a lower carbon economy. Because the strategy's objective is long-term capital appreciation, the strategy excludes businesses primarily engaged in the mining of coal to avoid this risk. This exclusion causes minimal tracking error to the index.

Exclusion Criteria:

- Issuers that have been assigned Standard Industrial Classification (SIC) codes of 1221 (Bituminous Coal and Lignite Surface Mining) or 1222 (Bituminous Coal Underground Mining).

Exclusion criteria are implemented and monitored through several mechanisms. Exclusion criteria based on SIC codes are implemented in XYZ Asset Management Co.'s portfolio management system. Portfolio managers and traders are prevented from purchasing securities with the excluded SIC codes for accounts assigned to the XYZ Socially Responsible Equity

Strategy. Exclusion criteria based on annual revenues are evaluated by research analysts during initial due diligence and on an ongoing basis upon the issuance of annual reports following the end of an issuer's fiscal year. Exclusion criteria based on the production or distribution of excluded products or services and that cannot be evaluated using SIC codes or financial statements are checked by research analysts during initial due diligence. Third-party controversy research is used to monitor current holdings on a monthly basis. When a current holding triggers an exclusion criterion, the holding will be sold within 30 days and not repurchased for a minimum period of 12 months after the sale.

ESG Data in Financial Analysis and Valuation

Investment Philosophy

We believe superior performance relative to the benchmark over time can be achieved by investing in companies that consistently create value over the long term. We believe that securities with mispriced risks and opportunities form the basis of attractive investments. We expect that including the analysis of financially relevant ESG data alongside traditional financial data will lead to a more comprehensive assessment of risk and a better estimate of security value. We believe ESG factors are neither fully understood nor fully priced by markets and thus offer "an extra tool in the toolbox" to identify security-specific risks and opportunities.

Sources and Types of ESG Information

Our investment process relies on gathering research and data from multiple sources, including company reports and regulatory filings, third-party financial investment research, market data, and ESG data providers. Our research analysts take several steps to validate the reliability of the ESG information used in their analysis. ESG data used in the investment process is stored, maintained, and tracked in an internal database. ESG data that is inconsistent among data providers or sources is traced to its source of origin, including but not limited to company regulatory filings and sustainability reports, in an effort to determine the most reliable interpretation of the data. A selection of ESG information supplied by third-party vendors is cross-referenced against company-disclosed and other original source data on a quarterly basis. Although our analysts make every effort to use a consistent ESG dataset across all companies evaluated within an industry, ESG information is not standardized nor consistently reported. Investments in issuers that have limited data transparency in key areas are assigned weights in the portfolio of no more than 1% per issuer and no more than 10% in aggregate of the strategy's market value.

Identification of Material ESG Information

Analysts' assessment of materiality is based on ESG factors that are relevant to each individual company as well as key governance factors that are relevant for all companies. Analysts routinely reference the Sustainability Accounting Standards Board standards to identify ESG-related metrics that are most likely to have a material financial effect on company operations based on the industry in which the company operates. Analysts supplement this analysis with consideration of a company's unique characteristics. For example, a company's geographic location can often lead to material region-specific ESG risks, such as risks arising from the regulatory environment or the sourcing of natural resources. All companies are evaluated according to key governance factors that we believe are universally material based on empirical studies of the relationship between corporate governance and long-term company valuation. Material ESG data used in the analysis and valuation of a security is further assessed for relevance based on the estimated holding period for that security.

Methodology

Our fundamental investing approach relies on identifying underpriced large- and mid-cap companies with solid earnings prospects. In order to more thoroughly assess each security, we supplement our financial analysis with the analysis of material ESG factors. For each issuer, our analysts forecast key financial drivers, including revenue, operating and non-operating expenses, and assets and liabilities. Analysts then assess issuer-related ESG risks and opportunities based on the material factors identified.

Financial estimates are adjusted as needed according to analysts' estimates of the effects of material ESG information. Analysts may adjust a security's discount rate based on assessments of the company's management quality and board of governors. Our proprietary valuation model is then used to estimate a security's intrinsic value. Securities identified as underpriced are considered for investment. Documentation of ESG analysis is incorporated into company research reports along with traditional financial analysis.

Consideration of ESG Issues in Proxy Voting and Engagement

XYZ Asset Management Co. votes company proxies on a firm-wide basis solely in the best interests of our clients in a manner that is intended to enhance the economic value of the securities held in the portfolio. Voting decisions are determined by the firm's Proxy Voting Committee in conjunction with input from the strategy teams and a third-party proxy advisor. All proxy votes are recorded and stored in our internal proxy voting and engagement system.

We strive to invest in companies with high-quality management and strong governance, and the Proxy Committee typically sees value in adopting management's recommendations when voting proxies. When voting against management, the following issues are typically prioritized based on their potential to affect a company's financial performance: board independence, accountability, shareholder rights, transparency, ESG reporting, workplace health and safety issues, and environmental resource management issues that may increase the likelihood of regulatory fines or risks.

When the Proxy Voting Committee has voted against management on an issue, the engagement team initiates an engagement effort to discuss our specific concerns with management via email. We also engage with companies to encourage best governance practices, including those related to reporting on material ESG information. Once an engagement effort has been initiated, a file is created in our proxy voting and engagement system that includes the company name, the specific issue identified, the targeted outcome, and a copy of the initial written communication. An automatic alert for review of each individual engagement effort is put in place based on the recommended follow-up time frame. Engagement efforts and progress are tracked and reviewed on an ongoing basis by the engagement team. Continued engagement efforts are recommended in accordance with our engagement policy. All written communications and summaries of any meetings with company management are documented and maintained in the centralized internal database. The engagement team provides quarterly updates to portfolio managers and meets with them as needed.

To obtain information on how we have voted proxies for this strategy, or to request a copy of our proxy voting and engagement policies and procedures relating to the XYZ Socially Responsible Equity Strategy, submit a request by email to clientsupport@xyzassetmanagement.com or in writing to XYZ Asset Management Co., ATTN: Compliance Department, 1234 Alpha Summit Lane, Suite 1111, New York, NY 10005.

Changes to ESG-Related Features Since Inception

In March 2015, the XYZ Socially Responsible Equity Strategy began incorporating material ESG factors into the investment process with the goal of having a broader set of factors to analyze for the purpose of enhancing risk-adjusted returns. On 30 September 2019, the strategy added the thermal coal exclusion.

Although we have determined that these changes are material from the perspective of social responsibility, we do not believe these changes represent material changes to the investment process or expected investment performance. In accordance with our notification policy, clients of the XYZ Socially Responsible Equity Strategy were made aware of these changes in the quarterly client reporting package.

SAMPLE COMPLIANT PRESENTATION #2

ESG Disclosures for the Sustainable Growth and Income Fund

Sustainable Investing Asset Management

As of 31 March 2021

This presentation has been prepared and presented by Sustainable Investing Asset Management in compliance with the CFA Institute ESG Disclosure Standards for Investment Products. This presentation has not been independently examined. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Inception Date and Changes: The Fund's inception date is 31 March 2018. There have been no material changes to the Fund's ESG-related features since the inception of the Fund. If a material change were to be made to the Fund's ESG-related features, investors in the Fund would be notified 30 days in advance by email or letter, depending on the investor's communication preferences.

Objectives: The Fund seeks capital appreciation and income by investing in undervalued or reasonably priced large- and mid-cap companies and investment-grade bonds. Additionally, the Fund seeks to have favorable environmental characteristics by maintaining a 20% lower weighted average carbon intensity (as measured by Scope 1 and Scope 2 metric tons CO_2 emissions per $1M revenues) relative to its benchmark, excluding securities with below-average environmental scores, and seeking to invest 20% of its fixed-income portfolio in labeled green bonds and Certified Climate Bonds. The supply of labeled green bonds and Certified Climate Bonds may be limited at times, and there is a risk that the Fund cannot meet this objective at certain times.

Benchmark: The Fund's benchmark is a blended benchmark consisting of 70% MSCI World Index/30% Bloomberg Barclays Global Aggregate Corporate Bond Index. The benchmark is used as a point of comparison for both the performance and the weighted average carbon intensity of the Fund. Information on the indexes used to construct the Fund's benchmarks can be found on the index provider websites.

Types of Investments: The Fund invests in fixed-income, equity, and money market securities. Its strategic asset allocation is 70% equities and 30% fixed income. Money market securities are primarily used for liquidity and typically constitute less than 5% of the Fund's market value. The information in this presentation pertains to the fixed-income and equity holdings of the Fund only.

ESG Data: The Fund subscribes to two ESG ratings and research service providers that assign environmental scores to issuers within the Fund's equity and fixed-income universes and that provide Scope 1 and Scope 2 carbon emissions data. The service providers determine these scores based on a number of underlying factors. The two ESG data providers provide environmental scores that cover nearly 100% of our equity and bond universes. Therefore, we do not invest in companies or issuers that do not have an environmental score.

Sustainable Investing Asset Management considers one service provider to the be primary provider and the other to be the secondary provider. Data and scores that differ substantially between the two providers are evaluated on a qualitative and quantitative basis by our internal sustainability analysts using research drawn from issuer reports, publications, and regulatory filings, as well as industry research sources. Sustainable Investing Asset Management makes the final determination as to which provider's score will be used and whether or not to adjust the scores provided. Analysts and portfolio managers receive ongoing alerts from our ESG data providers when a company or issuer ESG score changes. These changes are reviewed during weekly portfolio management team meetings.

Security Selection: To achieve the objective of investing in securities that have more favorable environmental characteristics, companies and issuers that have an environmental score in the bottom 50% of their industry-based peer group are excluded from our security selection universe. Equity securities that score in the top 50% are then screened for financial criteria including but not limited to thresholds for earnings growth estimates and price-to-earnings ratios. Fixed-income securities are screened for financial criteria including but not limited to credit quality and metrics and relative value.

Portfolio Construction: After the security selection criteria are applied, the remaining securities are evaluated based on their weighted average carbon intensity compared with the weighted average carbon intensity of their industry-based peer group. To simultaneously achieve the Fund's financial objective and its objective to maintain a 20% lower weighted average carbon intensity, companies with the most attractive valuations and lower carbon intensity relative to industry peers are prioritized within each sector. If the resulting portfolio does not meet the binding criteria for a 20% lower weighted average carbon intensity relative to the benchmark, adjustments in weightings or holdings are made to limit the Fund's weighted average carbon intensity to 80% of that of the benchmark. The Fund's carbon intensity relative to its benchmark is reported quarterly on the Fund's **website**.

In addition, the Fund strives to invest at least 20% of its fixed-income holdings in a diversified portfolio of labeled green bonds and Certified Climate Bonds. Because the supply of these bonds can be limited, the Fund's weighting in these securities may fall below 20% at times based on availability of these bonds. Therefore, we consider this portfolio-level criterion to be non-binding.

Proxy Voting and Engagement: The Sustainable Growth and Income Fund's proxies are voted in accordance with the Fund's proxy voting guidelines. We vote proxies for all equity holdings of the Fund. Voting decisions are determined by the firm's Proxy Committee, with consideration given to recommendations from our ESG strategy team and a third-party proxy advisor. Issues related to climate change and natural resource management are prioritized because we believe prudent management of environmental issues can positively affect a company's financial performance and help mitigate the effects of climate change on the global economy. Records of all proxy votes cast or abstained are maintained in our stewardship management system.

The Fund's Engagement Policy applies to its equity and fixed-income holdings. The Fund's Stewardship Team flags companies and issues for engagement, and once an engagement effort is initiated, all written communications and meeting records, including targeted outcomes of the engagement, are logged in the stewardship management system. Engagement is undertaken with the intent to improve a company's environmental and social resource management and to reduce risks related to environmental and social practices or activities. Engagement activities include in-person and virtual meetings, written correspondence, and emails. Engagement may occur with a company's board of directors, executive management, or investor relations and may be conducted independently or in collaboration with other investors through the Fund's proxy voting and engagement service provider. The Fund's Stewardship Team reviews progress toward each engagement effort quarterly against the targeted outcomes and determines next steps as needed.

The Stewardship Policy for the Fund can be found on our **website**. We also publish an annual Proxy Voting and Engagement Report on our **website** that includes the past year's priorities, progress on current engagements, and proxy voting activity.

APPENDIX A: ESG TECHNICAL COMMITTEE MEMBERS

CFA Institute would like to thank the members of the ESG Technical Committee for their invaluable contributions to this Exposure Draft.

Bruno Bertocci (Chair)
Managing Director, Head of Sustainability in Active Equities
UBS Asset Management
United States

Toby Belsom
Director, Investment Practices
PRI
United Kingdom

Jeroen Bos, CFA
Head of Specialised Equities & Responsible Investing
NN Investment Partners
The Netherlands

Emily Chew
Executive Vice President and Chief Responsible Investment Officer
Calvert Research and Management
United States

Madhu Gayer, CIPM
Asset Management Professional
Singapore

Barry S. Gladstein, CFA
Global Head of ESG Investment Oversight
Macquarie Investment Management
United States

Martin A. Jarzebowski, CFA
Director of Responsible Investing
Federated Hermes
United States

Christoph M. Klein, CFA
Managing Partner
ESG Portfolio Management
Germany

Linda-Eling Lee, Ph.D.
Managing Director and Global Head of ESG Research
MSCI
United States

Chris Fidler
Senior Director, Global Industry Standards
CFA Institute
United States

Li Na, CFA
Director
National Council for Social Security Fund
China

Vhahangwele Manavhela
Partner, Head of ESG
Aequalitas Capital Partners
South Africa

Brian Minns, CFA
Vice President, Sustainable Investing
Addenda Capital
Canada

Jason Mitchell
Co-Head of Responsible Investment
Man Group
United Kingdom

Kanol Pal, CFA
Senior Advisor, Responsible Investments
BNP Paribas Wealth Management
Singapore

Erika Spence
Global Head, Data Strategy
eVestment
United States

Stephanie Li Ying Teh, CFA
Senior Analyst, Investment Risk
Australia

Nathalie Wallace
Head, ESG Strategy & Development
Mirova
United States

Reinhilde Weidacher
Global Head, ESG Data Strategy
Institutional Shareholder Services
Sweden

APPENDIX B: TRANSLATION OF ESG-RELATED FEATURES FROM THE CONSULTATION PAPER TO THE EXPOSURE DRAFT

ESG Integration

The Consultation Paper described the function of ESG Integration as "explicitly consider[ing] ESG-related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions." It described the benefit of ESG Integration as "aiming to increase return or decrease risk for the investor by incorporating a broader set of factors into the investment analysis." The Consultation Paper listed a number of ways that ESG-related factors can be considered in equity and credit analysis and valuation and in portfolio construction, including but not limited to:

- forecasted financials,
- valuation-model variables,
- valuation multiples,
- internal credit assessments,
- relative value analysis/spread analysis,
- duration analysis,
- security sensitivity and scenario analysis,
- analysis of company strategy,
- analysis of the quality of management,
- relative ranking,
- qualitative risk assessment,
- macroeconomic, industry, sector, and country-level analysis,
- comparison of ESG profile versus benchmark, and
- scenario analysis.

Of those who responded to Question 16 in the Consultation Paper, 72% thought "ESG Integration" was a clear and appropriate term, 22% did not, and 6% were unclear. Of those who responded to Question 18 in the Consultation Paper, 69% thought the term was clearly defined, 30% did not, and 3% were unclear. One problem with the term "ESG Integration" is that it immediately prompts the question, "Exactly what is ESG being integrated into?"

Section 7 of the Exposure Draft is titled "ESG Information in Financial Analysis or Valuation." This phrase was chosen because it precisely describes the nature of the provisions in Section 7 and because it was decided during the course of the Exposure Draft's development to use plain language and move away from terms that lack universal understanding. This approach sometimes makes for longer phrases, but it provides greater technical precision. Based on the responses to the Consultation Paper, it is expected that a majority of readers will recognize the provisions in Section 7 as being related to what they understand to be "ESG Integration."

As shown by the approaches listed in the Consultation Paper and earlier in this Exposure Draft, a variety of methods exist for including ESG information in financial analysis or valuation. In most of these methods, ESG information is part of a larger mosaic of information used to inform assumptions, estimates, and forecasts that ultimately result in quantitative estimates of value, risk, and return. When ESG information is used in this way, the provisions in Section 7 apply. If ESG information is used in a manner in which it remains separate and distinct from estimates of value, risk, and return, the provisions of Section 7 may still apply. In this case, however, investment managers are strongly encouraged to also review the provisions in Section 6 and Section 8. The presence of ESG information, separate and distinct from traditional financial information, may be an indicator that investment-level or portfolio-level ESG criteria exist. If such criteria exist, then the information required by the applicable provisions in Sections 6 and 8 must be disclosed. The Exposure Draft explicitly considers such criteria to be outside the scope of financial analysis and valuation.

ESG-Related Exclusions

The Consultation Paper described ESG-related exclusions as having the function of "exclud[ing] securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices, or business segments."

Of those who responded to Question 20 in the Consultation Paper, 89% thought "ESG-Related Exclusions" was a clear and appropriate term and 11% did not. Of those who responded to Question 22 in the Consultation Paper, 72% thought the term was clearly defined, 26% did not, and 2% were unclear.

The Exposure Draft defines an exclusion as "a binding prohibition on the ownership of certain investments." Provisions related to exclusions are in Section 6, titled "ESG Exclusions." For precision, all the provisions in Section 6 contain the phrase "an exclusion that is based on ESG information or ESG issues," which means ESG information is used to evaluate the exclusion criteria or the purpose of the exclusion is to avoid investments associated with certain ESG issues.

The key to understanding the concept of an exclusion, as presented in the Exposure Draft, is that it is a criterion that is (a) binding and (b) applied at the investment level. Investment managers must determine for themselves which exclusions are binding, and which are not. If an investment product has binding, investment-level criteria, the provisions of Section 6 apply, regardless of whether the investment manager refers to the criteria as an exclusion, an "inclusion," or a "screen" (whether a "negative screen," "positive screen," or "norms-based screen").

Some "best-in-class" strategies may trigger the provisions in Section 6. For example, consider an investment product that takes an index universe and systematically narrows the universe by screening out all securities in the index with a blended ESG score that falls below the median value for their respective "class" (assume "class" means sector in this case), irrespective of risk and return. Because the criterion is systematically applied and is the key mechanism for achieving a "best-in-class" portfolio, the investment manager will likely conclude the criterion is binding. Because the criterion is applied to each security in the index, the criterion is applied at the investment level. Therefore, the investment product in this example has an exclusion. Now, this scenario does not mean the investment manager of this investment product needs to state in the compliant presentation, or anywhere else, that the investment product has "exclusions." The Standards are not intended to address product labeling and thus do not require or prohibit the use of any particular terms.

Best-in-Class

The Consultation Paper described the "best-in-class" feature as having the "aim to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters."

Of those who responded to Question 23 in the Consultation Paper, 32% thought "Best-in-Class" was a clear and appropriate term, 65% did not, and 2% were unclear. Of those who responded to Question 24 in the Consultation Paper, however, 64% thought the Consultation Paper provided a clear definition of the feature, 30% did not, and 6% were unclear. Unfortunately, no consensus emerged for what to call the types of approaches described in the Consultation Paper as "best-in-class."

After removing the "best-in-class" approach described earlier that excludes (or includes) certain investments via binding, investment-level criteria, what remains are approaches that create ESG characteristics at the portfolio level.

A portfolio-level ESG characteristic is simply any measure, or metric, that describes a certain ESG characteristic of the portfolio. A portfolio-level ESG characteristic can be an aggregate measure of the underlying holdings (e.g., asset-weighted carbon intensity) or a measure that is relevant only at the portfolio level (e.g., 85% of assets are invested in green bonds). There are essentially two ways to create portfolio-level characteristics. The first involves non-binding, investment-level criteria. If one considers investment-level ESG criteria but simultaneously considers other types of criteria such that the ESG criteria are not always satisfied, one will usually end up with a portfolio that does not outright exclude certain investments but which has ESG characteristics skewed in one direction or another with respect to the benchmark. Now, although a portfolio created in this manner is intended to have "better" ESG characteristics than the benchmark, the methodology usually does not produce consistency in the type or level of ESG characteristics. To do that, one needs to establish portfolio-level criteria. Portfolio-level criteria are criteria that must be satisfied during the portfolio construction process. Asset allocation limits or ranges are portfolio-level criteria; so is a criterion that states the asset-weighted carbon intensity of the portfolio must be 30% less than the benchmark.

Portfolio-level criteria often result in a greater focus on certain types of investments than others. Some investment products categorized as "inclusionary" may have portfolio-level criteria. Investment products with portfolio-level constraints (e.g., no more than 5% of the assets will be invested in fossil fuel extraction) have portfolio-level criteria. "ESG tilt" and "ESG overlay" products might have portfolio-level criteria, or they may be using ESG information in financial analysis and valuation or have non-binding, investment-level criteria such that the portfolio tends to "tilt" in the direction of positive ESG characteristics. By this point, it should be clear that the use of simple terminology and labels is often insufficient to gain an understanding of a product's ESG-related features. One must instead determine "how" and "why" underlying ESG information or ESG issues are part of an investment product's strategy.

If an investment product has portfolio-level criteria, the provisions in Section 8, "Portfolio-Level ESG Criteria and Characteristics," apply.

ESG-Related Thematic Focus

The Consultation Paper described "thematic focus" as having an "aim to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends." It defined a thematic focus as "a long-term macro or structural trend to which a product intentionally seeks exposure via sectors, industries, or companies for the purpose of achieving a financial return."

Of those who responded to Question 28 in the Consultation Paper, 78% thought "ESG-Related Thematic Focus" was a clear and appropriate term, 21% did not, and 1% were unclear. Of those who responded to Question 30 in the Consultation Paper, 74% thought the term was clearly defined, 21% did not, and 5% were unclear.

Having a "thematic focus" necessarily requires a greater allocation to certain types of investments than others, and this approach necessarily requires portfolio-level criteria. The mechanism for implementing a thematic focus is often the same as the mechanism that creates ESG characteristics; the only difference is the underlying rationale. Therefore, the provisions in Section 8 also address "thematic focus." The first provision in Section 8 requires disclosure of the portfolio-level criteria. This disclosure tells an investor what types of investments the investment products focuses on and what types of ESG characteristics are intended. The second provision in

Section 8 requires the disclosure of the rationale for the portfolio-level criteria. This disclosure allows an investor to determine whether the investment product simply offers exposure to certain types of investments or if the investment product chooses to hold certain types of investments in order to capitalize on long-term macro or structural ESG-related trends.

Impact Objective

The Consultation Paper described "Impact Objective" as a feature that "seeks to generate a positive, measurable social or environmental impact alongside a financial return." It defined an "objective" as "something that one's efforts or actions are intended to attain or accomplish."

Of those who responded to Question 32 in the Consultation Paper, 82% thought "Impact Objective" was a clear and appropriate term, 17% did not, and 1% were unclear. Of those who responded to Question 33 in the Consultation Paper, 74% thought the term was clearly defined, 20% did not, and 6% were unclear.

To reiterate, the Standards are not intended to address product labeling and thus do not attempt to define an "impact investment product." The Standards do not require or prohibit the use of any particular terms. The Standards also do not establish a methodology for assessing impact. They do, however, require the disclosure of all the investment product's objectives, including impact objectives.

The Exposure Draft defines an impact objective as "an intention to make a specific, positive, measurable contribution to an environmental or social issue." A key word in this definition is "specific." An investment product can make a positive, measurable contribution to an environmental or social issue without having a specific intention to do so, but an investment product cannot have an impact objective, as defined by the Standards, without both intention and specificity.

Provision 3.A.1 in the Exposure Draft requires that all of an investment product's objectives be stated in a compliant presentation. Provision 3.A.1 has requirements specific to impact objectives. Section 9, "Process to Achieve Impact Objective," has provisions that require information be disclosed about how the impact objective will be achieved, as the title suggests.

Proxy Voting, Engagement, and Stewardship

The Consultation Paper described "Proxy Voting, Engagement, and Stewardship" as having the function to "use rights and position of ownership to influence issuers' or companies' activities or behaviors."

Of those who responded to Question 32 in the Consultation Paper, 65% thought "Proxy Voting, Engagement, and Stewardship" was a clear and appropriate term, 32% did not, and 3% were unclear. Of those who responded to Question 37 in the Consultation Paper, 64% thought the term was clearly defined, 29% did not, and 7% were unclear.

Because proxy voting, and even engagement, are not applicable to every type of investment, the Exposure Draft simply uses the term "stewardship" and intentionally defines this term broadly to cover all types of investment and all asset classes.

Many respondents noted that stewardship should not be considered an "ESG-related feature." It is acknowledged that stewardship is inherent in the management of all investment products. However, just as impact objectives can be added to traditional objectives, just as ESG criteria can added to security selection and portfolio construction processes, and just as ESG information can be used in financial analysis and valuation, so too can ESG issues be addressed through stewardship.

Stewardship is especially important to most investors interested in investment products with any sort of ESG-related feature. Therefore, the provisions in Section 10, "Stewardship," require the disclosure of some basic information about stewardship policies and processes. Provision 10.A.4 specifically addresses whether or not ESG issues are typically considered in stewardship activities, and if so, why.

APPENDIX C: QUESTIONS FOR PUBLIC COMMENT

Questions for Investment Managers

1. Are the draft provisions helpful in establishing or clarifying the type of information that should be included in an investment product's disclosures regarding the ESG-related aspects of the investment product's strategy?
2. To what extent are the draft provisions supportive of and complementary to local laws and regulations and other codes and standards? Would preparing and presenting a compliant presentation in any way hinder your ability to comply with local laws and regulations or with other codes and standards?
3. Do you expect it will be feasible and practical for your organization to provide the information required by the draft disclosure provisions and adhere to the draft fundamental provisions?
4. To what extent would a compliant presentation proactively provide to asset owners, consultants, and advisors the ESG-related information they commonly request in their requests for proposals (RFPs), due diligence questionnaires (DDQs), and other questionnaires?
5. Would it be helpful if the Standards contained a recommended format or template for compliant presentations?

Questions for Investors and Asset Owners

1. After reviewing the draft provisions and the sample compliant presentations, do you think a compliant presentation would help you understand how and why an investment product uses ESG information or addresses ESG issues?
2. To what extent would a compliant presentation provide the ESG-related information that you typically request in RFPs, DDQs, and other questionnaires? Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
3. Would the provision of compliant presentations by investment managers complement, streamline, or otherwise improve any of your existing processes, such as due diligence, certification, or reporting?
4. Would you find it helpful if the Standards contained a recommended format or template for compliant presentations?

Questions for Consultants and Advisors

1. After reviewing the draft provisions and the sample compliant presentations, do you think a compliant presentation would help you understand how and why an investment product uses ESG information or addresses ESG issues?
2. Would a compliant presentation help facilitate client discussions regarding ESG-related needs and preferences and suitable investment products?
3. To what extent would a compliant presentation provide the ESG-related information that you or your clients typically request in RFPs, DDQs, and other questionnaires? Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
4. Would the provision of compliant presentations by investment managers complement, streamline, or otherwise improve any of your existing processes, such as investment product due diligence or overall assessments of investment managers' capabilities?
5. Would you find it helpful if the Standards contained a recommended format or template for compliant presentations?

Questions for Database Providers and Users

1. To what extent would a compliant presentation provide the ESG-related information that users are currently seeking?
2. Is it necessary, or would it be helpful, for compliant presentations to be in a standardized format? Would it be helpful if a machine-readable template were to be developed?

Questions for Regulators and Investment Professionals

1. Are the draft provisions helpful in establishing or clarifying the type of information that should be included in an investment product's disclosures regarding the ESG-related aspects of the investment product's strategy?
2. Is there information that you would like to see disclosed in a compliant presentation that is not required by the draft provisions? Is there information required by the draft provisions that is not necessary?
3. Would the Standards be helpful in maintaining a commitment to professional ethics and integrity?

4. Would the Standards be helpful in providing investor protection through product transparency?
5. Would the Standards be useful in serving as a mechanism to help investors align their ESG-related objectives with those of suitable products?
6. Would the Standards be useful in serving as a mechanism to develop product labeling in your country?

