CFA Sustainable Investing Certificate (Formerly ESG Certificate) Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

Table of Contents

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here’s how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don’t just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There’s no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **Which type of investor is likely to have the lowest risk tolerance?**
   - A. Life insurer
   - B. Sovereign wealth fund
   - C. General insurer
   - D. Foundation

2. **Which of the following is NOT one of the three key elements of disclosure in the new enhanced auditor's reports?**
   - A. Scope
   - B. Materiality
   - C. Skepticism
   - D. Key audit matters

3. **Why is ESG important in investing?**
   - A. It assesses risks and opportunities affecting short-term investments
   - B. It evaluates the financial history of firms
   - C. It assesses risks and opportunities that may affect the long-term performance of investments
   - D. It simplifies the investment decision-making process

4. **What does the term 'environmental justice' refer to?**
   - A. The fair treatment and meaningful involvement of all people regarding environmental policies
   - B. A focus on economic growth at the expense of environmental protection
   - C. A movement aimed at restoring ecological balance in industrial areas
   - D. Legal frameworks ensuring access to natural resources for all communities

5. **What is impact investing?**
   - A. Investing solely for financial profit
   - B. Investing without regard to social implications
   - C. Aiming to generate social and environmental impact alongside a financial return
   - D. Investing in real estate only

6. **What is the least likely reason why a pension fund trustee may consider ESG investing?**
   A. Pension fund trustees should act in the interest, including non-financial interests, of pension fund members; and the members have voiced their interest in social and environmental impact
   B. Pension fund trustees have the fiduciary duty to consider factors that are financially material to the long term returns of the pension fund
   C. Pension fund trustees risk legal action by not managing climate change-related risks
   D. Pension fund trustees are the ultimate beneficiaries of pension funds and, as a result, should act in their interest

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

8. **According to the IPCC, when should global emissions of CO2 reach 'net zero' to potentially limit temperature rise to 1.5C?**
   A. 2050
   B. 2030
   C. 2100
   D. 2075

9. **What does it mean for an investment strategy to be 'thematic' in relation to ESG?**
   A. It focuses only on financial performance
   B. It targets specific sustainability outcomes or issues
   C. It is purely speculative with no underlying principles
   D. It avoids any social responsibility

10. What does the 'S' in ESG stand for?

- **A. Sustainability**
- **B. Social**
- **C. Skills**
- **D. Shareholder**

Answers

1. C
2. C
3. C
4. A
5. C
6. D
7. A
8. A
9. B
10. B

Explanations

1. Which type of investor is likely to have the lowest risk tolerance?

A. Life insurer

B. Sovereign wealth fund

C. General insurer

D. Foundation

The general insurer is likely to have the lowest risk tolerance among the listed types of investors. This can be attributed to the nature of their business, which is centered around underwriting insurance policies. General insurers need to maintain a strong balance between the premiums they collect and the claims they pay out. Given their obligations to policyholders, they operate under a regulatory environment that emphasizes maintaining sufficient reserves to cover potential claims, which constrains their risk-taking ability. Insurance companies, including general insurers, typically focus on investment strategies that ensure stability and liquidity. Their investment portfolios are often conservative, favoring bonds and other low-risk assets to manage liabilities effectively. This risk-averse behavior is essential for maintaining solvency and meeting regulatory requirements, which is why they rank lower in terms of risk tolerance compared to other investors like life insurers, sovereign wealth funds, or foundations, which may have different investment horizons and objectives that allow for greater risk exposure.

2. Which of the following is NOT one of the three key elements of disclosure in the new enhanced auditor's reports?

A. Scope

B. Materiality

C. Skepticism

D. Key audit matters

The correct response identifies skepticism as not being one of the three key elements of disclosure in the new enhanced auditor's reports. The three key elements that are typically included in these reports are scope, materiality, and key audit matters. Scope pertains to the extent of the audit, outlining what the auditor examined and what limitations or exclusions may have impacted the findings. Materiality is about the significance of information; it defines what information is important enough to affect the users' understanding of the financial statements. Key audit matters highlight issues that were of most significance during the audit, giving users insight into the areas that required the most attention or judgment by the auditor. Skepticism, though a fundamental aspect of the auditor's mindset and approach, does not represent a tangible element of the disclosure requirements in the auditor's report itself. Instead, it is an underlying principle that guides the auditor's work. Therefore, while skepticism is critical to conducting audits effectively, it does not constitute one of the specific key elements that are disclosed in enhanced audit reports.

3. Why is ESG important in investing?

A. It assesses risks and opportunities affecting short-term investments

B. It evaluates the financial history of firms

C. It assesses risks and opportunities that may affect the long-term performance of investments

D. It simplifies the investment decision-making process

ESG is important in investing because it assesses risks and opportunities that may affect the long-term performance of investments. Incorporating environmental, social, and governance factors helps investors understand the sustainability and ethical impact of their investments, which can influence companies' future profitability and stability. Long-term performance is increasingly tied to non-financial factors, such as environmental policies, social responsibility, and governance standards, which can lead to risks such as regulatory changes, reputation damage, or operational disruptions. By acknowledging these aspects, investors can make more informed decisions and potentially enhance their returns while aligning with their values and the growing demand for sustainable practices in business.

4. What does the term 'environmental justice' refer to?

A. The fair treatment and meaningful involvement of all people regarding environmental policies

B. A focus on economic growth at the expense of environmental protection

C. A movement aimed at restoring ecological balance in industrial areas

D. Legal frameworks ensuring access to natural resources for all communities

The term 'environmental justice' refers to the fair treatment and meaningful involvement of all people, regardless of race, color, national origin, or income, in the development, implementation, and enforcement of environmental laws, regulations, and policies. This concept emphasizes the need for all communities to have a voice in decisions that affect their environment and to benefit equally from environmental protections. It addresses systemic inequalities that often result in marginalized groups facing a disproportionate burden of environmental hazards and risks. By advocating for equal rights to participate in environmental decision-making, environmental justice seeks to ensure that no group of people, especially those historically disadvantaged, suffers adverse environmental impacts while benefiting less from environmental benefits. This aligns with the broader sustainability framework, which integrates social equity with environmental stewardship and economic viability. The other options do not accurately encapsulate the essence of environmental justice, as they either focus on growth at the expense of protection, imply a more limited strategic agenda, or purely address legal access without the central tenet of fairness and involvement in decision-making processes.

5. What is impact investing?

A. Investing solely for financial profit

B. Investing without regard to social implications

C. Aiming to generate social and environmental impact alongside a financial return

D. Investing in real estate only

Impact investing is defined as an investment strategy that seeks to generate both social and environmental impact alongside a financial return. This approach goes beyond traditional investing by intentionally targeting investments that produce measurable positive outcomes in areas such as community development, environmental sustainability, and social equity while still aiming for financial profitability. The dual focus on creating beneficial societal outcomes and achieving acceptable returns distinguishes impact investing from other investment approaches. The other options do not reflect the dual objectives central to impact investing. The first option focuses only on financial profit, which eliminates the critical component of social or environmental responsibility. The second option disregards social implications entirely, which runs counter to the goals of impact investing. The last option limits the scope to real estate, which is too narrow and does not encompass the broad range of sectors where impact investing can occur. Therefore, the correct characterization of impact investing emphasizes the combination of profitability with positive social and environmental outcomes.

6. What is the least likely reason why a pension fund trustee may consider ESG investing?

A. Pension fund trustees should act in the interest, including non-financial interests, of pension fund members; and the members have voiced their interest in social and environmental impact

B. Pension fund trustees have the fiduciary duty to consider factors that are financially material to the long term returns of the pension fund

C. Pension fund trustees risk legal action by not managing climate change-related risks

D. Pension fund trustees are the ultimate beneficiaries of pension funds and, as a result, should act in their interest

The reasoning behind considering the choice that suggests pension fund trustees are the ultimate beneficiaries of pension funds is that it misrepresents the fundamental role of trustees. Typically, pension fund trustees are responsible for managing the assets of the fund in the best interests of the fund's beneficiaries, who are primarily retirees and employees rather than the trustees themselves. The focus of trustees should be on maximizing the benefits for these members based on their rights to retirement income and fulfilling fiduciary duties, rather than acting in their own interests.   In contrast, the other options relate to valid responsibilities and expectations of pension fund trustees. The trustees should indeed take into account the interests of fund members, which includes social and environmental impacts, as well as financial factors that could significantly affect long-term returns. Additionally, the potential for legal action due to inadequate management of climate-related risks highlights the pressing obligations trustees face in today's investment landscape, emphasizing that ESG factors can be financially material. Thus, option D stands out as the least likely reason for considering ESG investing, as it misaligns the role of trustees with their fiduciary responsibilities.

7. Which of the following are expected to be reported by the Pensions and Lifetime Savings Association (PLSA) disclosure guide for public equities?

A. ESG integration and stewardship

B. Social impact and stakeholder engagement

C. ESG risk and carbon footprint

D. Social risk and board engagement

The Pensions and Lifetime Savings Association (PLSA) disclosure guide emphasizes the importance of ESG integration and stewardship in public equities. This concept reflects the responsibility of pension funds to incorporate environmental, social, and governance factors into their investment decision-making processes, and to actively engage with the companies they invest in regarding these issues. Focusing on ESG integration ensures that investment strategies align with long-term sustainability goals, while stewardship practices involve active monitoring and engagement with companies to encourage better ESG practices, thus enhancing the overall accountability of the funds. The other options, while related to ESG themes, do not fully encapsulate the core focus of the PLSA disclosure guide as effectively as ESG integration and stewardship do. Social impact and stakeholder engagement, as well as social risk and board engagement, are certainly significant; however, they do not comprehensively represent the broader agenda of integrating ESG factors into the investment process and exercising stewardship over those investments. Similarly, ESG risk and carbon footprint are important aspects of sustainability reporting, but the guide specifically highlights the integration and stewardship elements as fundamental reporting components for public equities.

8. According to the IPCC, when should global emissions of CO2 reach 'net zero' to potentially limit temperature rise to 1.5C?

A. 2050

B. 2030

C. 2100

D. 2075

The assertion that global emissions of CO2 should reach 'net zero' by 2050 to potentially limit temperature rise to 1.5°C aligns with the findings of the Intergovernmental Panel on Climate Change (IPCC). Achieving net-zero emissions by mid-century is critical for meeting the goals outlined in international climate agreements, particularly the Paris Agreement. This deadline reflects the urgency of addressing climate change to prevent severe impacts on ecosystems and human societies. The IPCC indicates that stabilizing global temperatures at or below 1.5°C above pre-industrial levels requires significant reductions in greenhouse gas emissions, emphasizing the need for a rapid transition away from fossil fuels and a strong commitment to sustainable practices. The 2050 target has been widely adopted by many countries and organizations committed to climate action, signaling a potential point at which the balance between emissions produced and the amount of greenhouse gas removed from the atmosphere will be achieved. In contrast, other options such as setting the target for 2030 would require an unprecedented and immediate global economic transformation that many experts consider infeasible within that timeframe. A target of 2100 would imply a much longer timeline for emissions reduction, potentially allowing for greater temperature increases and related climate risks. The 2075 option offers a

9. What does it mean for an investment strategy to be 'thematic' in relation to ESG?

A. It focuses only on financial performance

B. It targets specific sustainability outcomes or issues

C. It is purely speculative with no underlying principles

D. It avoids any social responsibility

An investment strategy described as 'thematic' in relation to ESG (Environmental, Social, and Governance) focuses on targeting specific sustainability outcomes or issues. This thematic approach aligns investments with particular themes that reflect societal challenges or opportunities, such as climate change, renewable energy, sustainable agriculture, or social equity issues. By concentrating on these themes, investors seek to generate positive environmental or social impacts alongside financial returns. This strategy allows investors to align their investments with their values and address specific concerns, providing a clear framework for making investment decisions. Thematic investing in ESG is about creating a positive impact while also potentially achieving attractive financial performance. It emphasizes the importance of understanding and engaging with the broader contexts that influence investment performance rather than merely focusing on financial metrics.

10. What does the 'S' in ESG stand for?

A. Sustainability

B. Social

C. Skills

D. Shareholder

The 'S' in ESG stands for Social. This component focuses on how a company manages relationships with its employees, suppliers, customers, and the communities in which it operates. Social factors can include aspects such as labor practices, working conditions, diversity and inclusion, community engagement, and adherence to human rights. Understanding the Social aspect is crucial for evaluating a company's ethical conduct and its impact on society. Investors looking at ESG criteria seek to comprehend how well a company addresses social issues and how this influences its reputation and risk profile. A strong performance in this area can lead to better employee satisfaction, customer loyalty, and community relations, all of which can contribute to a company's long-term success and sustainability. While sustainability could be related to social issues, it encompasses a broader environmental perspective, thus not specifically defining the 'S' in ESG. Similarly, skills and shareholder are not relevant to the ESG framework, as neither directly addresses the social responsibilities or impacts that companies have in their operations and communities.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we’d love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cfasustainableinvesting.examzify.com

We wish you the very best on your exam journey. You've got this!