## Question #1 of 13

Question ID: 1463546

In the absence of any ESG-related constraints specified in an investment policy statement, a portfolio manager is *most likely* to violate fiduciary duty by using ESG factors to:

**A)** assess the expected return and risk of potential portfolio investments.

**B)** exclude investments with negative ESG characteristics from the investor's portfolio.

**C)** choose among investments with similar risk and return characteristics.

**Explanation**

Constructing a portfolio based on ESG factors may violate fiduciary duty if doing so reduces expected returns. Analyzing ESG factors when assessing investment risk or using ESG factors to choose among otherwise equivalent investments would likely not violate fiduciary duty.

(Module 29.2, LOS 29.e)

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## Question #2 of 13

Question ID: 1463543

Smith Company's board of directors assigns responsibilities to several committees. The committee that is *most likely* to be responsible for establishing the chief executive officer's compensation package is Smith's:

**A)** governance committee.

**B)** remuneration committee.

**C)** risk committee.

**Explanation**

Compensation for a company's senior executives is typically a responsibility of a remuneration or compensation committee.

(Module 29.1, LOS 29.c)

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## Question #3 of 13

Question ID: 1463544

Responsibilities of a board of directors' nominations committee are *least likely* to include:

**A)** recruiting qualified members to the board.

**B)** evaluating the independence of directors.

**C)** selecting an external auditor for the company.

**Explanation**

Selecting an external auditor (subject to shareholder approval) is a responsibility of the Board's audit committee. (Module 29.1, LOS 29.c)

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## Question #4 of 13

Question ID: 1463542

Special resolutions that require a supermajority of shareholder votes may be addressed:

**A)** at either the annual general meeting or an extraordinary general meeting.

**B)** only at an extraordinary general meeting.

**C)** only at the annual general meeting.

**Explanation**

Special resolutions may be voted on at the annual general meeting or at an extraordinary general meeting that is called specifically to address them. (Module 29.1, LOS 29.c)

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## Question #5 of 13

Question ID: 1463541

A principal-agent relationship *most likely* exists between a company's:

**A)** shareholders and managers.

**B)** directors and regulators.

**C)** customers and suppliers.

**Explanation**

The relationship between shareholders and managers is a principal-agent relationship. Shareholders, as principals, through the board of directors hire managers, as agents, to act in the best interests of the shareholders.

(Module 29.1, LOS 29.b)

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## Question #6 of 13

Question ID: 1463537

The interests of community groups affected by a company's operations are *most likely* to be considered in corporate governance under:

**A)** special interest theory.

**B)** shareholder theory.

**C)** stakeholder theory.

**Explanation**

Community groups may be one of the stakeholder groups considered under stakeholder theory.

(Module 29.1, LOS 29.a)

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## Question #7 of 13

Question ID: 1463538

Under shareholder theory, corporate governance is *most* concerned with managing conflicts of interest between the firm's managers and its:

**A)** customers.

**B)** owners.

**C)** employees.

**Explanation**

Under shareholder theory, corporate governance is most concerned with managing conflicts of interest between the firm's managers and its owners (shareholders).

(Module 29.1, LOS 29.a)

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## Question #8 of 13

Question ID: 1463547

Environmental, social, and governance (ESG) investing is *most accurately* described as:

**A)** integrating environmental and social considerations into the investment decision making process.

**B)** investing only in companies that promote environmental or social initiatives favored by an investor.

**C)** excluding companies from consideration for investment based on environmental or social considerations.

**Explanation**

ESG investing is using environmental, social, and governance factors when making investment decisions. Investing only in companies that promote environmental or social initiatives favored by an investor is best described as impact investing. Excluding companies from consideration for investment based on environmental or social considerations is best described as negative screening. Impact investing and negative screening are two of the approaches an investor can use to implement ESG investing.

(Module 29.2, LOS 29.e)

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## Question #9 of 13

Question ID: 1463545

Risks that may arise from ineffective corporate governance *least likely* include:

**A)** reduced default risk.

**B)** less effective decision making.

**C)** weaker financial performance.

**Explanation**

Ineffective corporate governance is likely to increase default risk.

(Module 29.2, LOS 29.d)

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## Question #10 of 13

Question ID: 1463539

The stakeholders of a company that are *least likely* to prefer a relatively riskier company strategy that has the potential for superior company performance are:

**A)** shareholders.

**B)** creditors.

**C)** suppliers.

**Explanation**

A company's creditors prefer less risk because their potential gains from superior company performance are limited, while they have significant downside risk from poor performance that could threaten the company's solvency. Shareholders have the greatest gains from superior company performance. Suppliers may benefit from superior performance of a company to which they supply goods and services, but in general they prefer stable business operations and continuation of their business relationship with the company.

(Module 29.1, LOS 29.a)

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## Question #11 of 13

Question ID: 1463536

The stakeholder theory of corporate governance is primarily focused on:

**A)** the interests of various stakeholders rather than the interests of shareholders.

**B)** resolving the competing interests of those who manage companies and other groups affected by a company's actions.

**C)** increasing the value a company.

**Explanation**

Resolving the conflicting interests of both shareholders and other stakeholders is the focus of corporate governance under stakeholder theory. Shareholders are among the groups whose interests are considered under stakeholder theory.

(Module 29.1, LOS 29.a)

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## Question #12 of 13

Question ID: 1463540

The stakeholder group that typically prefers the greatest amount of business risk is:

**A)** directors.

**B)** shareholders.

**C)** senior managers.

**Explanation**

Compared to the other two groups, shareholders have the greatest potential gains from riskier strategies and can diversify their holdings across firms in order to reduce the influence of company specific risk. While senior managers can gain from company outperformance, they typically prefer less risk than shareholders because managers' risk of poor company performance on the value of their options and on their careers cannot be easily diversified away.

(Module 29.1, LOS 29.a)

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## Question #13 of 13

Question ID: 1463548

Thematic investing is *most accurately* described as:

**A)** identifying the best companies in each sector with respect to environmental and social factors. ✗

**B)** considering a single environmental or social factor when selecting investments. ✓

**C)** excluding companies or sectors from consideration for investment based on environmental and social factors. ✗

**Explanation**

Thematic investing refers to selecting investments with a view to a specific environmental, social, or governance factor. Identifying the best companies in each sector with respect to environmental and social factors is referred to as best-in-class investing. Excluding companies or sectors from consideration for investment based on environmental and social factors is referred to as negative screening.

(Module 29.2, LOS 29.f)