CFA Institute

EXAMINATION PROCEDURES FOR THE GLOBAL ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

2023

CFA Institute

EXAMINATION PROCEDURES FOR THE GLOBAL ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

2023

ISBN 978-1-956563-00-9

CONTENTS

PREFACE

CFA Institute is a not-for-profit association of investment professionals with the mission of leading the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

The Global ESG Disclosure Standards for Investment Products (the "ESG Disclosure Standards") are ethical standards based on the principles of fair representation and full disclosure. They are designed to communicate information about an investment product's consideration of environmental, social, and governance (ESG) issues in its objectives, investment process, or stewardship activities.

The examination procedures contained in this document are designed to provide guidance on how a firm that provides examinations (an "examination firm" or "examiner") may test and provide assurance on whether an investment manager has prepared and presented an ESG Disclosure Statement for an investment product in compliance with the disclosure requirements of the ESG Disclosure Standards and whether the investment manager's policies and procedures related to the preparation and presentation of the ESG Disclosure Statement have been designed in compliance with the ESG Disclosure Standards and have been implemented for the investment product.

The Examination Procedures for the Global ESG Disclosure Standards for Investment Products were created with the assistance of the ESG Examination Subcommittee. We are very grateful to these volunteers for their time and efforts.

ESG Examination Subcommittee

Dimitri Senik, CFA, Chair
PricewaterhouseCoopers AG
Switzerland

Tamara Close, CFA
Close Group Consulting Inc.
Canada

Crista DesRochers, CIPM
ACA Group
USA

Christopher Doyle
Ernst & Young LLP
USA

Claudia Gollmeier
Colchester Global Investors Ltd.
Singapore

Greta Nathan
USA

Ophelie Peypoux
Deloitte Conseil
France

Clarisse Simonek, CFA
WeESG
France

Hardik Shah, CFA
GMO LLC
Singapore

Shengxin (Allen) Xiao, CFA
Amundi US
USA

ESG Examination Subcommittee Observer

Samantha Mueller
AICPA® & CIMA®
USA

CFA Institute Staff

Chris Fidler
Deborah Kidd, CFA
David Terris, CIPM
Karyn Vincent, CFA, CIPM
Robin Willis

INTRODUCTION

Key Concepts

Key concepts of the Examination Procedures for the ESG Disclosure Standards that apply to examinations and examination firms include the following:

- The ESG Disclosure Standards recommend that investment managers obtain independent assurance on their ESG Disclosure Statements. An ESG Disclosure Statement is a document that contains all of the disclosures required by the ESG Disclosure Standards that apply to a specific investment product. Examination is a process by which an independent examination firm performs specific procedures in accordance with the requirements of the Examination Procedures for the ESG Disclosure Standards in order to provide assurance on one or more of an investment manager's ESG Disclosure Statements. Examination provides reasonable assurance on the design and implementation of the policies and procedures underlying the disclosures about an investment product's ESG approaches, as to whether the investment manager has, in all material respects:
    - prepared and presented the accompanying ESG Disclosure Statement of the investment product in compliance with the disclosure requirements of the ESG Disclosure Standards, and
    - designed policies and procedures related to the preparation and presentation of the ESG Disclosure Statement in compliance with the ESG Disclosure Standards and implemented those policies and procedures for the investment product.
- An examination firm conducts an engagement that provides reasonable assurance on the design and implementation of the policies and procedures underlying the disclosures about an investment product's ESG approaches. An examination firm may also conduct an engagement that provides assurance on the operating effectiveness as opposed to design and implementation. An engagement that provides assurance on the operating effectiveness would require testing and reporting that are not addressed herein.
- An examination firm must conduct the examination in accordance with the Examination Procedures for the ESG Disclosure Standards. These are the minimum procedures that the examination firm must perform when conducting an examination.
- The minimum period for which an examination firm may conduct an examination is one year. If the investment product has been in existence for less than one year, then the examination must cover the period since the inception of the investment product.
- If the examination firm concludes that:
    a. the ESG Disclosure Statement does not comply with the disclosure requirements of the ESG Disclosure Standards,

   b. the investment manager's policies and procedures related to the preparation of the ESG Disclosure Statement have not been designed in compliance with the ESG Disclosure Standards or have not been implemented for the investment product, or
   c. the investment manager's records cannot support the examination,

  then the examination firm must not issue an unmodified examination report and must issue a modified examination report.

- The examination firm must be independent from the investment manager. To be independent, there must be no independence issues between the examination firm and the investment manager. The examination firm must perform its services in an unbiased manner and must not test its own work. In addition to being independent, the examination firm must be qualified. To be qualified, an examination firm must have certain attributes, including having appropriate professional abilities and experience as well as a practical level of expertise regarding audit methodology and investment management practices. The examination firm must also be knowledgeable about the ESG Disclosure Standards, ESG investing, other ESG-related standards, and applicable laws and regulations regarding the presentation of ESG-related disclosures.

Overview

The Examination Procedures for the Global ESG Disclosure Standards for Investment Products include the following topics:

- Purpose and Scope of Examination
- Examination Firm Qualification Requirements
- Agreeing on the Terms of the Engagement
- Examination Procedures
- Maintenance of Examination Firm Documentation
- Representation Letter
- Examination Report
- Management Assertion
- Recommendation Letter
- Examiner Independence Guidelines

The Examination Procedures for the Global ESG Disclosure Standards for Investment Products also include a glossary for defined terms that appear in small capital letters and a sample examination report. The sample examination report provided is for an examination of management's assertion and reporting directly on the subject matter. Another form of examination report, however, may be issued. For example, an examination firm could choose to issue an examination report that examines the ESG Disclosure Statement instead of examining management's assertion. Regardless of form, all examination reports must include all items required to be included in the examination report. See requirements on page 42.

PURPOSE AND SCOPE OF EXAMINATION

Independent EXAMINATION is intended to provide an INVESTMENT MANAGER and INVESTORS additional confidence in the INVESTMENT MANAGER's claim that a particular INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT complies with the disclosure REQUIREMENTS of the ESG Disclosure Standards and that the INVESTMENT MANAGER has complied with the REQUIREMENTS of the ESG Disclosure Standards related to the preparation and presentation of the ESG DISCLOSURE STATEMENT. An EXAMINATION may improve the consistency and quality of INVESTMENT PRODUCT information provided to INVESTORS. An EXAMINATION may also result in improved internal policies and procedures as well as marketing advantages for the INVESTMENT MANAGER. An EXAMINATION brings additional credibility to the claim of compliance and supports the overall guiding principles of fair representation and full disclosure of an INVESTMENT PRODUCT.

An INVESTMENT MANAGER may choose to have an EXAMINATION of a specific INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT conducted by an independent third party (an EXAMINATION FIRM or EXAMINER.) An EXAMINATION is a process by which an EXAMINATION FIRM performs specific procedures in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products for a specific ESG DISCLOSURE STATEMENT in order to provide reasonable assurance on the design and implementation of the policies and procedures underlying the disclosures about an INVESTMENT PRODUCT's ESG APPROACHES. EXAMINATION provides reasonable assurance about an ESG DISCLOSURE STATEMENT as to whether the INVESTMENT MANAGER has, in all material respects:

- prepared and presented the ESG DISCLOSURE STATEMENT in compliance with the disclosure REQUIREMENTS of the ESG Disclosure Standards, and
- designed policies and procedures related to the preparation and presentation of the ESG DISCLOSURE STATEMENT in compliance with the ESG Disclosure Standards and implemented those policies and procedures for the INVESTMENT PRODUCT.

An EXAMINATION is performed over a period of time. The minimum period for which an EXAMINATION FIRM may conduct an EXAMINATION is one year. If the INVESTMENT PRODUCT has been in existence for less than one year, then the EXAMINATION MUST cover the period since the inception of the INVESTMENT PRODUCT.

An examination is not required for an investment manager to claim compliance with the ESG Disclosure Standards for a specific investment product's esg disclosure statement, but examination is recommended.

EXAMINATION FIRM QUALIFICATION REQUIREMENTS

The examination must be performed by a qualified independent third party:

- Examination firms must have appropriate professional abilities and experience, as well as a practical level of expertise regarding audit methodology, investment management practices, and business processes.
- Examination firms must be knowledgeable about the ESG Disclosure Standards and must understand all the requirements and recommendations of the ESG Disclosure Standards, including all applicable interpretive guidance issued by CFA Institute and the ESG Disclosure Standards governing bodies.
- Examination firms must also be knowledgeable about esg investing, other esg-related standards, and applicable laws and regulations regarding esg-related disclosures.

The examination firm must be independent from the investment manager. Guidance on this topic is included in Appendix B: Examiner Independence Guidelines.

Examination firms are auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Examination firms must follow any applicable professional guidance and standards of practice within their industry when performing an examination, including following any applicable regulatory requirements.

AGREEING ON THE TERMS OF THE ENGAGEMENT

Prior to commencing the engagement, the examination firm must agree on the terms of the examination with the investment manager. The agreed-upon terms must be specified in an engagement letter or other suitable form of written agreement and must include the following:

a. The objective and scope of the engagement, including the period being examined, and that reasonable assurance is being provided;
b. The EXAMINATION FIRM's responsibilities;
c. The INVESTMENT MANAGER's responsibilities;
d. A statement about the inherent limitations of an EXAMINATION;
e. A statement that the ESG Disclosure Standards are the evaluation criteria for the engagement;
f. The standards under which the engagement will be conducted (i.e., the Examination Procedures for the Global ESG Disclosure Standards for Investment Products and any other standards, if applicable);
g. A statement that the EXAMINATION does not provide assurance on the operating effectiveness of the INVESTMENT MANAGER's controls or policies and procedures for complying with the ESG Disclosure Standards; and
h. A statement that the INVESTMENT MANAGER agrees to provide the EXAMINATION FIRM with a representation letter at the conclusion of the EXAMINATION.

If the ESG DISCLOSURE STATEMENT that will be examined includes information beyond what is REQUIRED by the ESG Disclosure Standards, the INVESTMENT MANAGER and EXAMINATION FIRM MUST decide if information beyond what is REQUIRED is subject to the EXAMINATION and, if so, they MUST agree on what will be tested and what will not be tested.

The engagement letter SHOULD also include any other terms and conditions relevant to the EXAMINATION.

EXAMINATION PROCEDURES

An EXAMINATION MUST be conducted in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products. The following procedures are the minimum procedures EXAMINATION FIRMS MUST perform when conducting an EXAMINATION. EXAMINATION FIRMS MUST complete the EXAMINATION in accordance with these procedures prior to issuing an EXAMINATION REPORT to the INVESTMENT MANAGER.

Planning Procedures

The EXAMINATION FIRM MUST obtain an understanding of the subject matter and other engagement circumstances sufficient to provide the basis for designing and performing procedures in order to achieve the objectives of the engagement. That understanding MUST include the practices used by the INVESTMENT MANAGER to identify, develop, and create the REQUIRED disclosures.

The EXAMINATION FIRM MUST plan procedures to identify and assess:

- Omission of disclosures REQUIRED by the ESG Disclosure Standards;
- Misstatements of fact in the disclosures;
- Changes to disclosures made in a previous period without reasonable justification;
- Inclusion of misleading, biased, or inappropriate information (e.g., excessive or irrelevant information that obscures the disclosures REQUIRED by the ESG Disclosure Standards or presentation formats that may inappropriately influence a decision or judgement).

The EXAMINATION FIRM MUST consider the following presumptions:

- Information obtained from independent third parties is more reliable than the same information obtained from the INVESTMENT MANAGER;
- Information obtained from independent third parties that has been subjected to assurance provides a higher level of evidence than the same information that has not been subjected to assurance;
- Information obtained from the EXAMINATION FIRM's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- Information obtained from an INVESTMENT MANAGER with an effective control environment is more reliable than information obtained from an INVESTMENT MANAGER without an effective control environment.

The EXAMINATION FIRM MUST consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting an EXAMINATION, the EXAMINATION FIRM MUST accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting material errors during the EXAMINATION is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the REQUIRED EXAMINATION procedures when other testing procedures could reasonably be performed (e.g., inspection, observation, or recalculation). EXAMINATION FIRMS MUST inspect sufficient and appropriate supporting documentation when conducting EXAMINATION procedures.

An EXAMINATION FIRM may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, an EXAMINATION FIRM may choose to rely on other audit and/or internal control work it has provided to the INVESTMENT MANAGER. If the EXAMINATION FIRM plans to rely on work performed by another party, then the work—including scope, period(s) covered, results of procedures performed, and the other party's qualifications, competency, objectivity, and reputation—MUST be assessed by the EXAMINATION FIRM when determining whether to place any reliance on such work. Reliance considerations and conclusions MUST be documented by the EXAMINATION FIRM. The EXAMINATION FIRM MUST use professional skepticism when deciding whether to place reliance on work performed by another party.

Sample Selection

EXAMINATION FIRMS may use a sampling methodology when performing EXAMINATION procedures. A sampling approach may be used for tests of controls and/or detailed testing. The EXAMINATION FIRM MUST determine not only the appropriate sample size but also whether the sample selected is reasonable considering the INVESTMENT MANAGER's specific circumstances. The EXAMINATION FIRM MUST select samples from the entire period(s) being examined, as well as from the entire population of relevant items being examined.

EXAMINATION FIRMS MUST consider the following factors when selecting samples:

- The INVESTMENT PRODUCT's ESG APPROACHES;
- Internal control environment at the INVESTMENT MANAGER:
    - When determining a sample size for tests of controls, an EXAMINATION FIRM may consider the type of control (e.g., IT control versus a manual control), its frequency (e.g., daily versus monthly), and whether a control is the sole control over a particular disclosure or one of several controls over such disclosure.
    - When determining a sample size for detail testing, an EXAMINATION FIRM may be able to reduce the sample size if it determines that the INVESTMENT MANAGER designed and implemented effective internal controls with respect to adherence to the ESG APPROACHES of the INVESTMENT PRODUCT whose ESG DISCLOSURE STATEMENT is being examined.

- Use of IT systems and IT-aided processes: For example, if the portfolio management IT system automatically blocks any trading order to buy securities from excluded industries, this may provide the EXAMINATION FIRM with increased comfort with respect to the implementation of an ESG exclusion policy and would justify reducing the sample size for testing of exclusions;
- Number of periods being examined; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum factors that MUST be considered in the selection and evaluation of a sample. Missing or incomplete documents or the presence of errors would warrant selecting a larger sample or applying additional EXAMINATION procedures.

Controls Testing

EXAMINERS SHOULD consider any controls the INVESTMENT MANAGER has in place around core processes related to or directly impacting the procedures the INVESTMENT MANAGER follows for complying with the ESG Disclosure Standards. EXAMINERS SHOULD consider the design adequacy and operating effectiveness of the controls before placing reliance on these controls to reduce substantive testing. When considering placing reliance on controls, the EXAMINER SHOULD consider whether the information is quantitative or qualitative. Generally, it will be easier to conduct testing on the effectiveness of controls when control attributes are quantitative in nature versus qualitative. See the last bullet point in the testing procedures for Provision 2.A.6.c for an example of testing where reliance on controls testing may be appropriate.

An effective control environment will provide the EXAMINER with greater comfort and will allow for a smaller sample size than when an INVESTMENT MANAGER has an ineffective control environment. For example, the more information that is provided using end-user computing tools (e.g., Excel) in modifiable format, the higher the risk of the data output being modified (added, removed, or changed) or that the information is incomplete or inaccurate. Other controls tested in the process, such as a reconciliation between the INVESTMENT MANAGER's records and third-party custodian statements, can serve as a control over completeness and accuracy of the records. For information derived from an IT application, the EXAMINER may test whether the IT processes and controls are effective by testing:

- controls over the IT application itself, including change and access controls,
- controls over the completeness and accuracy of the data,
- whether system functionality extracts the data and operates as expected, and
- whether system functionality results in accurate computations and categorizations.

If an EXAMINER identifies a control exception based on control testing procedures, the EXAMINER SHOULD:

- make specific inquiries and investigate the nature and cause of the exception.
- determine whether the exception is systemic or not. If it is systemic, the EXAMINER cannot rely on that control. If it is a random occurrence, the EXAMINER may extend the sample size to test controls and rely on the controls if no other exceptions are identified.
- determine whether compensating controls exist.
- evaluate the exception's impact on the affected area.

If the EXAMINER concludes that the design of the controls is not suitable or controls are not operating effectively, then the EXAMINER will need to determine how to modify the testing, such as increasing the sample size to account for the lack of effective controls.

General Testing Procedures

When conducting detailed testing procedures, the EXAMINER MUST obtain an understanding of the REQUIREMENTS of each provision within the ESG Disclosure Standards, including what an INVESTMENT MANAGER is REQUIRED to do or disclose, and how the INVESTMENT MANAGER meets that REQUIREMENT. Obtaining an understanding of how the INVESTMENT MANAGER meets the REQUIREMENTS of each provision is essential to conducting the engagement. The EXAMINER may gain a better understanding of the REQUIREMENTS by reviewing the discussion and examples in the Global ESG Disclosure Standards for Investment Products Handbook, as well as any INTERPRETIVE GUIDANCE that may be issued from time to time. The EXAMINER may consider inquiry, review of policies and procedures, observation, inspection, or other appropriate means to gain an understanding of how the INVESTMENT MANAGER is complying with the REQUIREMENTS of each provision in the ESG Disclosure Standards.

For all data and information created or provided by the INVESTMENT MANAGER, EXAMINERS SHOULD determine the source, observe the generation of the data or obtain an understanding of the parameters used to generate the data, and test the clerical accuracy by recalculations, if applicable, in order to establish a basis for reliance on such data or information.

To determine if the disclosures in the ESG DISCLOSURE STATEMENT are appropriate, the EXAMINER may inspect a number of documents, including legal documents, such as a prospectus, term sheet, or offering document; stewardship policies; marketing materials; the INVESTMENT MANAGER's policies and procedures; and other relevant supporting documentation. The Detailed Testing Procedures do not repeat the complete list of documents that an EXAMINER could inspect when testing a particular provision. The EXAMINER MUST determine which documents SHOULD be inspected to determine that the REQUIREMENTS of the provision have been met.

When conducting testing, EXAMINERS MUST consider Provision 1.A.4, which states that the INVESTMENT MANAGER MUST NOT present information in an ESG DISCLOSURE STATEMENT that is false or misleading. For example, if a fund's target is to achieve a weighted average carbon intensity (WACI) that is at least 50% lower than the fund's benchmark but the EXAMINER, through sample testing, determines that the fund has only achieved a 2% lower WACI relative to the benchmark, the EXAMINER SHOULD discuss with the INVESTMENT MANAGER whether additional disclosure is needed or whether the stated goal is misleading and needs to be modified.

In most cases, the examples and testing procedures that follow are for a fund. However, some INVESTMENT PRODUCTS may be offered for separately managed accounts. In such cases, the EXAMINER will need to modify the testing procedures accordingly. For example, testing documents for a separately managed account may be the account's investment management agreement and investment policy statement instead of fund offering documents.

Detailed Testing Procedures

The EXAMINATION FIRM MUST design detailed testing procedures to cover only the periods for which the EXAMINATION FIRM has been engaged to conduct the EXAMINATION.

Fundamentals of Compliance

1. Policies and Procedures: The INVESTMENT MANAGER MUST document its policies and procedures for: (Provision 1.A.6)
    - establishing and maintaining compliance with the REQUIREMENTS of the Global ESG Disclosure Standards for Investment Products, as well as any RECOMMENDATIONS it has chosen to adopt. (Provision 1.A.6.a)
    - monitoring and identifying changes and additions to the Global ESG Disclosure Standards for Investment Products and INTERPRETIVE GUIDANCE. (Provision 1.A.6.b)

    Example Testing Procedures
    The EXAMINER SHOULD:

    - determine that the INVESTMENT MANAGER's policies and procedures for complying with the ESG Disclosure Standards are:
        - consistent with the ESG Disclosure Standards;
        - complete, clear, unambiguous, and adequately documented;

- suitably designed to allow the INVESTMENT MANAGER to identify changes and additions to the ESG Disclosures Standards and INTERPRETIVE GUIDANCE, and
- suitably designed to enable the INVESTMENT MANAGER to prepare and present the ESG DISCLOSURE STATEMENT in compliance with the disclosure REQUIREMENTS of the ESG Disclosure Standards.

2. Recordkeeping: While conducting the REQUIRED testing procedures, EXAMINATION FIRMS MUST determine whether the INVESTMENT MANAGER has captured and maintained the documents and records necessary to support the information included in the ESG DISCLOSURE STATEMENT. (Provision 1.A.7)
3. ESG DISCLOSURE STATEMENTS: The INVESTMENT MANAGER MUST NOT, in an ESG DISCLOSURE STATEMENT: (Provision 1.A.4)
   - present information that is false or misleading. (Provision 1.A.4.a)
   - omit significant information about the INVESTMENT PRODUCT'S ESG APPROACHES. (Provision 1.A.4.b)
   - contradict disclosures made in the INVESTMENT PRODUCT's regulatory documents. (Provision 1.A.4.c)

   Example Testing Procedures

   The EXAMINER SHOULD:

   - review the ESG DISCLOSURE STATEMENT disclosures and, based on the testing conducted throughout the EXAMINATION, determine that no disclosures are false or misleading.
   - review the ESG DISCLOSURE STATEMENT disclosures and determine whether all REQUIRED disclosures are included in the ESG DISCLOSURE STATEMENT.
   - review the ESG DISCLOSURE STATEMENT disclosures and compare them to information that is included in the INVESTMENT PRODUCT's regulatory documents, to determine that no disclosures in the ESG DISCLOSURE STATEMENT contradict disclosures in the regulatory documents.
   - review the ESG DISCLOSURE STATEMENT disclosures and compare them to information that is included in the INVESTMENT PRODUCT's marketing materials, to determine that no disclosures in the ESG DISCLOSURE STATEMENT contradict disclosures in the marketing materials.
4. The ESG DISCLOSURE STATEMENT MUST cover a minimum period of one year or the period since inception if the INVESTMENT PRODUCT has existed for less than one year (Provision 1.A.5). The period to be covered by the EXAMINATION MUST be included in the engagement letter or other written agreement of the engagement terms.

General

5. The EXAMINER MUST conduct testing to determine that the ESG DISCLOSURE STATEMENT includes each of the items specified by Provision 2.A.1:
   a. the name of the INVESTMENT PRODUCT. (Provision 2.A.1.a)

      Example Testing Procedures
      The EXAMINER SHOULD inspect the INVESTMENT PRODUCT's offering documents and marketing materials to determine that the name of the INVESTMENT PRODUCT is properly stated.

   b. the name of the INVESTMENT MANAGER. (Provision 2.A.1.b)

      Example Testing Procedures
      The EXAMINER SHOULD inspect the INVESTMENT PRODUCT's offering documents and marketing materials to determine that the name of the INVESTMENT MANAGER is properly stated.

   c. the applicable disclosures REQUIRED by the Global ESG Disclosure Standards for Investment Products, except for any disclosures prohibited by law or regulation. (Provision 2.A.1.c)

      Example Testing Procedures
      The EXAMINER SHOULD inspect the ESG DISCLOSURE STATEMENT and determine if all applicable disclosures are included. If any REQUIRED disclosure is not included because the INVESTMENT MANAGER may not include the disclosure due to a law or regulation, the EXAMINER MUST obtain an understanding of why the disclosure is not included and conduct testing to determine that the INVESTMENT PRODUCT is subject to the law or regulation. See EXAMINATION procedures for Provision 2.A.2 for testing when a REQUIRED disclosure is not included in the ESG DISCLOSURE STATEMENT.

   d. the period covered by the ESG DISCLOSURE STATEMENT. (Provision 2.A.1.d)

      Example Disclosure:

      "This ESG Disclosure Statement complies with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products for all periods beginning on or after 1 January 2019. Additionally, XYZ Asset Management Company has complied with the requirements of the Global ESG Disclosure Standards for Investment Products related to the preparation and presentation of this ESG Disclosure Statement."

Example Testing Procedures

The EXAMINER SHOULD inspect the ESG DISCLOSURE STATEMENT and determine that the period covered by the ESG DISCLOSURE STATEMENT is properly stated.

e. a description of any changes made during the period covered by the ESG DISCLOSURE STATEMENT that are relevant to the applicable disclosures REQUIRED by the Global ESG Disclosure Standards for Investment Products, along with the effective dates of those changes. (Provision 2.A.1.e)

> **Example Disclosure:**
>
> "The Fund's investment policy was amended as of 1 January 2020 to exclude companies deriving any revenues from thermal coal mining and coal power generation."

Example Testing Procedures

The EXAMINER SHOULD:

- inquire if there were any changes that have occurred during the testing period that are relevant to the applicable disclosures REQUIRED by the ESG Disclosure Standards, along with the effective date of any changes.
- compare the investment policies obtained during the prior engagement to the investment policies obtained during the current engagement to determine if there were any changes that occurred during the testing period.
- inspect the fund's offering documents to determine that the investment policy was amended as of 1 January 2020 to exclude investments deriving any revenues from thermal coal mining and coal power generation.
- select a sample of fund portfolios dated after 1 January 2020 and conduct testing to determine that the fund does not hold investments deriving any revenue from thermal coal mining and coal power generation.

f. a description of any changes made to the ESG DISCLOSURE STATEMENT within the past year to correct a significant error. (Provision 2.A.1.f)

Example Testing Procedures

The EXAMINER SHOULD:

- inquire if there were any significant errors during the testing period.
- if the INVESTMENT MANAGER keeps a log of errors, obtain the log.

- determine that any significant errors identified through inquiry or review of the log of errors are disclosed.
- if a correction of a significant error was disclosed in the ESG DISCLOSURE STATEMENT within the last year, determine that the error was corrected and a description of the change to correct the significant error is included in the ESG DISCLOSURE STATEMENT.

g. the following statement: (Provision 2.A.1.g)

"This ESG Disclosure Statement for [Insert period covered by the ESG DISCLOSURE STATEMENT] complies with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products. Additionally, [Insert name of INVESTMENT MANAGER] has complied with the requirements of the Global ESG Disclosure Standards for Investment Products related to the preparation and presentation of this ESG Disclosure Statement.

The Global ESG Disclosure Standards for Investment Products are developed and maintained by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."

Example Testing Procedures

The EXAMINER SHOULD determine that the ESG DISCLOSURE STATEMENT includes the above statement, the name of the INVESTMENT MANAGER is properly stated, and the periods covered by the ESG DISCLOSURE STATEMENT are properly stated.

6. Disclosure of EXAMINATION status.

The disclosure statement REQUIRED by Provision 2.A.1.g does not refer to whether the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined, and an INVESTMENT MANAGER is not REQUIRED to disclose whether the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined. When an INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined, an INVESTMENT MANAGER may choose to disclose this fact. If the INVESTMENT MANAGER chooses to disclose that the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined, it MUST disclose the period for which the EXAMINATION was conducted, and it MUST also disclose that the EXAMINATION REPORT is available upon request.

Within the public accounting realm, there are two categories of opinions—unmodified and modified. An unmodified opinion, also referred to as a "clean" opinion, states that the subject matter upon which the EXAMINER is opining is fairly presented, in all material respects. There are three types of modified opinions—an adverse opinion, a disclaimer of opinion, and a qualified opinion. An INVESTMENT MANAGER that receives an adverse opinion or disclaimer of opinion for an INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT MUST NOT claim compliance with the ESG Disclosure Standards for that INVESTMENT PRODUCT. There may be instances when an EXAMINER issues a qualified opinion. A qualified opinion might be issued when the INVESTMENT MANAGER includes all REQUIRED disclosures but there has been a breakdown in a process. For example, assume the INVESTMENT MANAGER properly discloses that it excludes securities with a carbon emission above a certain threshold, but during the EXAMINATION period, the INVESTMENT MANAGER inadvertently purchased some securities above the carbon emission threshold level. When the error was discovered, the INVESTMENT MANAGER sold the securities that were above the carbon emission threshold to correct for the process breakdown. In such a case, the EXAMINER might issue a qualified opinion.

If the INVESTMENT MANAGER received a qualified opinion and it wishes to disclose that the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined, then it MUST disclose that a qualified opinion was issued. The INVESTMENT MANAGER MUST also disclose information about the reason for the qualification. This disclosure may be accomplished by including the EXAMINATION REPORT as an exhibit to the ESG DISCLOSURE STATEMENT.

If the INVESTMENT MANAGER received a qualified opinion but it chooses not to disclose that the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined, then it MUST disclose the nature of the issues related to the EXAMINER'S qualified opinion in the ESG DISCLOSURE STATEMENT.

Immaterial findings by an EXAMINER that do not result in a qualified opinion would not impact an INVESTMENT MANAGER'S ability to claim compliance with the ESG Disclosure Standards and the INVESTMENT MANAGER would not be REQUIRED to disclose such finding in the ESG DISCLOSURE STATEMENT.

Sample disclosure for an examined INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT that received an unmodified opinion

"The ABC Growth and Income Fund's ESG Disclosure Statement has been examined by an independent examination firm for the period from inception (4 April 2019) through 31 December 2021. The examination report is available upon request."

Sample disclosure for an examined INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT that received a qualified opinion

"The ABC Growth and Income Fund's ESG Disclosure Statement has been examined by an independent examination firm for the period from inception (4 April 2019) through 31 December 2021. The examination report includes a qualified opinion with respect to the following matter. As disclosed in the section Description of ESG Screens, during 2021 there were several instances where the fund incorrectly purchased investments that did not meet our ESG screens. In each case, such investments represented an immaterial amount of the portfolio, but taken together, the incorrect purchases may be deemed to be material. In October 2021 we replaced the vendor that was responsible for conducting the ESG screens, and since then no incorrect purchases have occurred."

7. If an INVESTMENT MANAGER is prohibited by law or regulation from making a REQUIRED disclosure in the ESG DISCLOSURE STATEMENT, then the INVESTMENT MANAGER MUST disclose a description of the REQUIRED disclosure that cannot be included and explain why it cannot be included. (Provision 2.A.2)

> **Example Disclosure:**
>
> "Country A Regulation 123 prohibits investment managers from advertising an investment product's compliance with international third-party labels or certifications that have not been properly registered in Country A. Whereas this investment product complies with the requirements of one such third-party labeling program and this compliance is advertised when this product is marketed in other countries, the information about the third-party label that is required by the Global ESG Disclosure Standards for Investment Products is not included in this ESG Disclosure Statement, which is provided to investors in Country A."

Example Testing Procedures

The EXAMINER SHOULD obtain an understanding of Country A Regulation 123 and determine that the INVESTMENT MANAGER is prohibited from disclosing the fact that the INVESTMENT PRODUCT complies with a third-party label that has not been registered in Country A.

8. ESG APPROACHES: The INVESTMENT MANAGER MUST disclose a summary description of the ESG APPROACHES used in the INVESTMENT PRODUCT. (Provision 2.A.3)

> **Example Disclosure:**
>
> "The XYZ Equity Strategy (the 'Strategy') uses ESG integration—the systematic and explicit inclusion of material environmental, social, and governance (ESG) data in financial analysis—in its pursuit of long-term capital growth. We consider financially material ESG data to be part of a comprehensive analysis of security risk and valuation. The XYZ Asset Management ('XYZ') ESG analysis and integration process applies to all equity securities; ESG data are not considered for the Strategy's money market securities.
>
> The Strategy excludes certain types of investments that XYZ believes contribute to environmental or social harm. In addition, the Strategy excludes investments in companies that derive revenue from thermal coal mining and coal power generation because XYZ believes the coal industry is at significant economic risk as the world transitions to a lower-carbon economy.
>
> In its stewardship activities, XYZ considers ESG issues that are financially relevant to a company when voting proxies and engaging the management of that company."

Example Testing Procedures

The EXAMINER SHOULD inspect samples of the Strategy's investment management agreements and investment policy statements, as well as marketing materials, to determine that the summary description of the ESG APPROACHES in the ESG DISCLOSURE STATEMENT is consistent with the supporting information. (Note that details about ESG APPROACHES are REQUIRED by other provisions based on the type of ESG APPROACH. For example, ESG integration is addressed in Provision 2.A.7.)

9. ESG Issues: If the INVESTMENT PRODUCT's investment process, STEWARDSHIP ACTIVITIES, or objectives systematically address one or more specific ESG issues, then the INVESTMENT MANAGER MUST disclose a summary description of those specific ESG issues. (Provision 2.A.4)

Example Disclosure:

"Sustainability is an important consideration for the ABC Growth and Income Fund. ABC Fund Management defines sustainability as 'the responsible and efficient consumption and management of natural resources that allow future generations to meet their own needs.' One of the most important sustainability issues is the burning of fossil fuels and the resulting negative effect on global warming. ABC Fund Management believes that companies that use fossil fuels efficiently or transition to renewable energy sources not only ensure their own continuity but also contribute to a more sustainable economy."

Example Testing Procedures

The EXAMINER SHOULD inspect the fund's offering documents and marketing materials to determine that the summary description of the ESG issue the fund systematically addresses (the burning of fossil fuels and the resulting negative effect on global warming) is consistent with the supporting information.

10. ESG-related labels and certifications. The INVESTMENT MANAGER MUST disclose any third-party ESG-related labels and certifications with which the INVESTMENT PRODUCT complies. (Provision 2.A.5)

Example Disclosure:

"The Fund has been awarded the Febelfin Towards Sustainability label. Information about the Towards Sustainability label, including a list of funds that have been awarded the label, may be viewed at the Febelfin website (www.towardssustainability.be)."

Example Testing Procedures

The EXAMINER SHOULD:

- inquire if there are third-party ESG-related labels and certifications with which the INVESTMENT PRODUCT complies.
- determine that the fund is listed on the Febelfin website.

Sources and Types of ESG Information

11. ESG information: If ESG information is used in an INVESTMENT PRODUCT's investment process or STEWARDSHIP ACTIVITIES, then the INVESTMENT MANAGER MUST disclose:

    a. the elements of the investment process or STEWARDSHIP ACTIVITIES that use ESG information and how the ESG information is used. (Provision 2.A.6.a)

    > **Example Disclosure:**
    >
    > "The Global Equity Strategy uses ESG information to exclude securities that are deemed to violate OECD Guidelines for Multinational Enterprises, help identify material financial risks in security analysis and selection, inform proxy voting decisions, and identify material ESG issues for engagement efforts."

    Example Testing Procedures

    The EXAMINER SHOULD inspect the strategy's legal documents, stewardship policies, and marketing materials to determine that the INVESTMENT MANAGER has properly described which elements of the investment process or STEWARDSHIP ACTIVITIES use ESG information and how that ESG information is used.

    b. a description of the type of ESG information used and a description of the sources from which that ESG information is obtained. (Provision 2.A.6.b)

    > **Example Disclosure:**
    >
    > "We use external vendors and non-profit organizations to obtain Scope 1, Scope 2, and Scope 3 emissions and carbon intensity for companies in the Fund's investment universe."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the fund's offering documents and marketing materials to determine that the INVESTMENT MANAGER has properly described the fund's use of external vendors and non-profit organizations to obtain information about Scope 1, Scope 2, and Scope 3 emissions and carbon intensity.
- conduct a walkthrough to obtain an understanding of the nature and sources of ESG information used by the INVESTMENT MANAGER.

c. the risks and limitations of the ESG information used and how those risks and limitations are managed. (Provision 2.A.6.c)

Example Disclosure:

"XYZ Asset Management ('XYZ') has conducted due diligence on the data collection and data governance processes of its ESG data providers. Because ESG data quality can be inconsistent, data samples from external sources are cross-referenced quarterly against company-disclosed data, against other original source data, and between ESG data vendors. Acceptable data variance limits are determined per type of data by XYZ's data scientists. Financially material ESG data for some companies may be unavailable or may fail to meet our data quality standards. In these cases, the weight of the company in the portfolio will not exceed 1% of the portfolio's market value, and the weight of all such companies in the portfolio will not exceed 10% of the portfolio's market value."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the INVESTMENT MANAGER has properly described the risks and limitations of the ESG information used.
- conduct a walkthrough to obtain an understanding of how the data quality is determined and how the INVESTMENT MANAGER arrives at the conclusion that a company does not meet its data quality standards.
- select a sample of portfolio holdings and conduct testing to determine (a) that the weight of a company in the portfolio is limited to 1% of the portfolio's market value when the ESG data are unavailable or fail to meet data quality standards and (b) that all such companies in the portfolio are limited to 10% of the portfolio's market value.

Systematic Consideration of Financially Material ESG Information in Investment Decisions

12. Financially material ESG information systematically used in investment decisions: If financially material ESG information is systematically considered in investment decisions, then the INVESTMENT MANAGER MUST disclose: (Provision 2.A.7)

a. how financially material ESG information is typically identified. (Provision 2.A.7.a)

> **Example Disclosure:**
>
> "Our sector analysts are responsible for identifying material ESG factors for the companies they cover. They begin by referencing the Sustainability Accounting Standards Board (SASB) Standards. These standards are used to identify ESG issues that are most relevant to financial performance based on the industry in which a company operates. Relevant ESG issues are identified per industry, and our sector analysts consider industry-relevant SASB metrics for each company. This analysis is supplemented by an analysis of a company's unique characteristics, such as its geographic location, which may also contribute to material ESG factors.
>
> Certain material corporate governance issues are evaluated for each company. These issues include board structure, independence, and composition; board director skill sets and experience levels; executive remuneration; and shareholder voting rights.
>
> Finally, ESG factor materiality is assessed based on the analyst's estimated investment horizon for an individual security. If an ESG factor is projected to have a negative short-term material effect on a company's valuation, the security may still be purchased or held if the analyst's investment horizon exceeds the projected short-term effect. Conversely, an ESG factor that is expected to have positive material benefits for a company over the long term will not be considered in the valuation of that security if the analyst's investment horizon for the security is short."

Example Testing Procedures

The EXAMINER SHOULD:

- conduct a walkthrough to obtain an understanding of how financially material ESG information is identified.
- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the description of the financially material information used in the investment decisions is consistent with the description included in those materials.

b. how financially material ESG information is typically incorporated into investment decisions, differentiated by type of investment when necessary. (Provision 2.A.7.b)

Example Disclosure:

"Quantitative and qualitative ESG data that we judge to be material to a security's future financial performance are considered by XYZ's sector analysts alongside other material information when assessing historical company performance, making financial statement estimates and adjustments, and comparing the company with its industry peers. Our analysts also assess how well a company understands and manages the identified ESG risks. In addition, XYZ has developed a proprietary regression model to estimate the impact of a company's governance factors on its projected performance. Our analysts may use the output from this model to raise or lower their estimated risk premium for a company."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the description for how financially material information is incorporated into investment decisions is consistent with the supporting information.
- conduct a walkthrough of the INVESTMENT MANAGER's process for estimating the impact of a company's GOVERNANCE factors on its projected performance and how this information is applied to determine its estimated risk premiums.
- conduct testing to determine that the INVESTMENT MANAGER has properly described how it integrates financially material ESG information in its investment decisions. The EXAMINER SHOULD conduct testing that appropriately considers the nature of the information, the degree of internal control, and the level of automation.

c. exceptions in which financially material ESG information is not considered in investment decisions, if any. (Provision 2.A.7.c)

Example Disclosure:

"The consideration of financially material ESG information is part of our credit analysis and valuation process for all fixed-income securities except US Treasury securities."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the INVESTMENT MANAGER has properly described that it considers financially material ESG information as a part of the credit analysis and valuation process for all fixed-income securities except US Treasury securities.

- conduct a walkthrough of the credit and valuation process to determine that financially material ESG information is a part of the credit analysis and valuation process for all fixed-income securities except US Treasury securities.

ESG Investment Universe

13. ESG INDEX: If the INVESTMENT PRODUCT uses an ESG INDEX as an investment universe, then the INVESTMENT MANAGER MUST disclose: (Provision 2.A.8)
    a. either the significant ESG characteristics of the index or, if the index is a readily recognized index, the name of the index. (Provision 2.A.8.a)

Example Disclosure:

"All securities are included in the Global Diversity Index, which is composed of companies that have at least one of the following characteristics: a female CEO or board chairperson, 30% or more women on its executive management team, or 30% or more women on its governing board."

Example Testing Procedure

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the INVESTMENT PRODUCT's use of the Global Diversity Index as an investment universe is properly stated.
- review information from the index provider to determine that the ESG characteristics of the Global Diversity Index are properly stated.
- select a sample of portfolio holdings and conduct testing to determine that the portfolio's holdings are included in the Global Diversity Index.

    b. how an INVESTOR can obtain information about the index construction methodology. (Provision 2.A.8.b)

Example Disclosure:

"Information about the XYZ Climate Index is available on the website of the Index Administrator, XYZ Index Creator AG."

Example Testing Procedure

The EXAMINER SHOULD inspect the website for the XYZ Climate Index to determine that the disclosure for how an INVESTOR can obtain information about the ESG INDEX construction methodology is properly stated.

Screening

14. Inclusion and exclusion criteria: If an INVESTMENT PRODUCT has ESG criteria that systematically exclude certain investments or has ESG criteria that need to be met in order for an investment to be considered for inclusion in the portfolio, then the INVESTMENT MANAGER MUST disclose for each criterion: (Provision 2.A.9)

a. the characteristic of the investment that is evaluated. (Provision 2.A.9.a)

b. the threshold or condition against which the characteristic is compared. (Provision 2.A.9.b)

c. whether the investment is excluded from or is eligible for inclusion in the portfolio when the threshold or condition is met. (Provision 2.A.9.c)

> **Example Disclosure for Provisions 2.A.9.a, 2.A.9.b, and 2.A.9.c:**
>
> "No investments will be made in companies that derive more than 5% of their revenue from the production of conventional weapons and components."

Example Testing Procedure

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials to determine that the INVESTMENT PRODUCT's mandate includes excluding investments in companies that generate more than 5% of their revenue (the characteristic of the investment) from the production of conventional weapons and components.
- conduct testing to determine that the INVESTMENT PRODUCT does not hold investments in companies that generate more than 5% of their revenue (the threshold of the exclusion) from the production of conventional weapons and components. For example, select a sample of portfolio holdings to determine that such investments are not held.

d. a reference, where applicable, to any law, regulation, or third-party standard, guideline, or framework used in the establishment or evaluation of the ESG criterion. (Provision 2.A.9.d)

> **Example Disclosure:**
>
> "The Islamic Equity Fund is compliant with Sharia law and invests according to the principles of Islamic finance."

Example Testing Procedures

The EXAMINER SHOULD inspect fund offering documents and marketing materials to determine that the fund's mandate is based on Islamic finance principles.

15. If an INVESTMENT PRODUCT has ESG criteria that systematically exclude certain investments or has ESG criteria that need to be met in order for an investment to be considered for inclusion in the portfolio, then the INVESTMENT MANAGER MUST disclose: (Provision 2.A.10)

a. where the ESG criteria are applied in the investment process. (Provision 2.A.10.a)

b. the exceptions to the application of the ESG criteria, if any. (Provision 2.A.10.b)

Example Disclosure for Provisions 2.A.10.a and 2.A.10.b:

"Our investment process begins with excluding from our investment universe all issuers that are deemed to be in violation of one or more UN Global Compact principles. We then apply an ESG rating screen. Securities that have an ESG rating in the top third of their sector are considered for inclusion in the portfolio."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the INVESTMENT PRODUCT's legal documents and marketing materials or other supporting documents to determine that the INVESTMENT MANAGER's process for excluding issuers deemed to be in violation of one or more UN Global Compact principles is consistent with the supporting information.
- inspect the INVESTMENT PRODUCT's legal documents and marketing materials or other supporting documents to determine that the INVESTMENT MANAGER's process—to first screen out issuers deemed to be in violation of one or more UN Global Compact principles and then to consider for inclusion those securities that have an ESG rating in the top third of their sector—is consistent with the supporting information.
- conduct testing to determine that issuers that are deemed in violation of one or more UN Global Compact principles are excluded from the investment universe. For example, select sample portfolio holdings and determine that no issuers are included that are on the list of the UN Global Compact delisted participants.
- conduct testing to determine that only investments with an ESG rating in the top third of their sector are included. For example, select sample portfolio holdings and obtain supporting information demonstrating that the investments had an ESG rating that was in the top third of their sector at the time of purchase.

Portfolio-Level ESG Characteristics

16. Targets for portfolio-level ESG characteristics: If the INVESTMENT PRODUCT has targets for portfolio-level ESG characteristics, then the INVESTMENT MANAGER MUST disclose for each target:

a. the portfolio-level ESG characteristic that is evaluated. (Provision 2.A.11.a)
b. how the portfolio-level ESG characteristic is measured. (Provision 2.A.11.b)
c. the target value or range for the portfolio-level ESG characteristic. (Provision 2.A.11.c)
d. how the target portfolio-level ESG characteristic is expected to be attained. (Provision 2.A.11.d)
e. the risks that could significantly hinder the attainment of the target portfolio-level ESG characteristic, should they occur. (Provision 2.A.11.e)
f. a reference, where applicable, to any law, regulation, or third-party standard, guideline, or framework used to measure the portfolio-level ESG characteristic or set the target. (Provision 2.A.11.f)

Example Disclosure for Provisions 2.A.11.a–2.A.11.e:

"The Fund seeks to maintain a weighted average carbon intensity (WACI) target that is at least 50% lower than the WACI of its benchmark. Carbon intensity measures how efficiently a company uses its carbon resources to generate revenue and allows for carbon efficiency comparison among companies of different sizes.

The WACI of the Fund is the carbon intensity of the Fund's holdings aggregated according to the percentage weighting of each holding. Carbon intensity is calculated as a company's Scope 1 + Scope 2 greenhouse gas emissions in carbon dioxide equivalents normalized by USD1 million in revenue. A carbon dioxide equivalent compares the global warming potential from various greenhouse gases by converting amounts of other types of greenhouse gases to the equivalent amount of carbon dioxide with the same global warming potential.

To achieve the Fund's investment objective as well as its WACI target, the Fund invests in companies we believe have attractive valuations and lower carbon intensity relative to industry peers. The WACI target is recalculated quarterly to reflect changes in the WACI of the benchmark.

At times, the portfolio's benchmark-relative WACI target may not be attained because of natural variations in the carbon intensity of index constituents, changes made to index constituents, and lags in vendor-supplied data versus benchmark data."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the fund's offering documents and marketing materials to determine that:
  - the fund's mandate includes measuring the carbon intensity of its investments.
  - the fund seeks to achieve at least a 50% lower weighted average carbon intensity (WACI) relative to the fund's benchmark.

    - the fund invests in companies with attractive valuations and lower carbon intensity relative to industry peers.
    - the risks that could prevent the fund from attaining its ESG characteristic target are consistent with the supporting information.
- examine the INVESTMENT MANAGER's process for calculating the weighted average carbon intensity (WACI) to determine that the INVESTMENT MANAGER calculates the WACI as described.
- conduct testing to determine that it is appropriate to state:
    - that the fund is managed consistent with the objective to maintain a WACI target that is at least 50% lower than the WACI of its benchmark. For example, select a sample of the calculations for the weighted average carbon intensity of the fund and the fund's benchmark, or obtain documents that measure progress towards this target. Determine if the disclosure of the fund's target relative to the benchmark is appropriate given the results of this testing or if additional disclosures are needed.
    - how the fund will achieve its WACI target. For example, conduct a walkthrough to gain an understanding of the INVESTMENT MANAGER's process for identifying companies with attractive valuations and lower carbon intensity, to determine that the INVESTMENT MANAGER is considering these items in the investment management process.

Example Disclosure for Provision 2.A.11.f:

"The Fund targets a 1.5 degree Celsius warming limit consistent with the Paris Agreement goals. To meet this warming limit target, the Fund invests in fixed-income securities that are Certified Climate Bonds. These securities are compatible with a 1.5 degree Celsius warming limit as determined by the Climate Bonds Taxonomy."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the fund's offering documents and marketing materials to determine that the fund invests in fixed-income instruments that are Certified Climate Bonds.
- select a sample of bonds that are classified as Certified Climate Bonds and determine that they are properly classified as such by checking them against the Climate Bonds Initiative website.

17. ESG INDEX point of comparison: If the INVESTMENT PRODUCT uses an ESG INDEX as a point of comparison for portfolio-level ESG characteristics, then the INVESTMENT MANAGER MUST disclose: (Provision 2.A.12)

 |

a. the portfolio-level ESG characteristics that are compared with the ESG INDEX. (Provision 2.A.12.a)

b. either the significant ESG characteristics of the ESG INDEX or, if the ESG INDEX is a readily recognized index, the name of the ESG INDEX. (Provision 2.A.12.b)

Example Disclosure:

"The Fund measures its weighted average carbon intensity and its fossil fuel reserve emissions against those of the XYZ Global Broad Market ESG Index. Carbon intensity measures how efficiently a company uses its carbon resources to generate revenue and allows for carbon efficiency comparison among companies of different sizes. Fossil fuel reserve emissions are potential greenhouse gas emissions stored in companies' fossil fuel reserves.

The XYZ Global Broad Market ESG Index is a broad market equity index with the following significant ESG characteristics:

- constituents selected based on an ESG scoring system,
- exclusions based on certain business activities and ESG controversies, and
- index-level carbon metrics."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the fund's offering documents and marketing materials to determine that the fund's portfolio-level ESG characteristics (its weighted average carbon intensity and its fossil fuel reserve emissions) that are compared to the ESG INDEX are consistent with the supporting information.
- compare the description of the XYZ Global Broad Market ESG Index ESG characteristics to the index description from the ESG INDEX provider to determine that the index's ESG characteristics are consistent with the supporting information.
- if the significant ESG characteristics of the ESG INDEX are not disclosed, discuss with the INVESTMENT MANAGER to determine that the INVESTMENT MANAGER has properly concluded that the ESG INDEX is readily recognized.

c. how an INVESTOR can obtain information about the definitions of and calculation methodologies for the ESG characteristics of the ESG INDEX. (Provision 2.A.12.c)

Example Disclosure:

"Information about the XYZ Global Broad Market ESG Index is available on the website of the Index Administrator, XYZ Index Creator AG."

Example Testing Procedure

The EXAMINER SHOULD inspect the ESG INDEX provider's website to determine that the INVESTMENT MANAGER has included proper instructions for how an INVESTOR can obtain information about the ESG INDEX.

18. Targets for portfolio-level ESG characteristics: If the INVESTMENT PRODUCT has targets for portfolio-level ESG characteristics, then the INVESTMENT MANAGER MUST disclose how progress toward, or attainment of, those targets is reported to INVESTORS. (Provision 2.A.13)

Example Disclosure:

"The XYZ Climate Fund reports its carbon footprint and weighted average carbon intensity in the Fund's Quarterly Investment Report. This report can be found on XYZ Asset Management's website at XYZAssetManagement.com/XYZ. Investors can also request a copy of the XYZ Climate Fund's Quarterly Investment Report by emailing us at info@XYZAssetManagement.com."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the website to determine that the XYZ Climate Fund's Quarterly Investment Report is available where noted.
- inspect a sample of Quarterly Investment Reports to determine if any information within these reports indicates that the disclosures about the fund are not consistent with the supporting information.

Portfolio-Level Allocation Targets

19. Portfolio-level allocation targets: If the INVESTMENT PRODUCT has portfolio-level allocation targets for investments that have specific ESG characteristics, then the INVESTMENT MANAGER MUST disclose for each allocation target:
    a. the specific ESG characteristics of the investments for which there is an allocation target. (Provision 2.A.14.a)
    b. the allocation target value or range. (Provision 2.A.14.b)

Example Disclosure for Provisions 2.A.14.a and 2.A.14.b:

"The Fund aims to invest at least 25% of the market value of its fixed-income holdings in labeled green bonds and Certified Climate Bonds.

- *Labeled green bonds* are bonds that earmark proceeds for climate or environmental projects and have been labeled as 'green' by the issuer.
- *Certified Climate Bonds* are bonds and loans that are verified to conform with the Climate Bonds Standard, a science-based standard for identifying projects and assets that are consistent with the Paris Agreement goals for a low-carbon economy. (Source: Climate Bonds Initiative)"

Example Testing Procedures

The EXAMINER SHOULD:

- inspect the fund's offering documents and marketing materials to determine that the fund aims to invest at least 25% of the market value of its fixed-income holdings in labeled green bonds and Certified Climate Bonds.
- conduct testing to determine that it is appropriate to state that the fund is managed consistent with this allocation target. For example, select a sample of months and obtain support for the calculation of the percentage of the portfolio that is invested in labeled green bonds and Certified Climate Bonds, or obtain documents that measure progress towards this allocation target. Determine if the disclosure of the fund's allocation target is appropriate given the results of this testing or if additional disclosures are needed.

20. Portfolio-level allocation targets: If the INVESTMENT PRODUCT has portfolio-level allocation targets for investments that have specific ESG characteristics, then the INVESTMENT MANAGER MUST disclose how progress toward, or attainment of, those targets is reported to INVESTORS. (Provision 2.A.15)

Example Disclosure:

"The Fund's allocation to labeled green bonds and Certified Climate Bonds is reported in Quarterly Fund Reports. Quarterly Fund Reports are distributed to investors via email and are also available on the Fund's website at www.XYZClimateFund.com/QuarterlyReports."

Example Testing Procedure

The EXAMINER SHOULD:

- inspect the website to determine that the Quarterly Fund Reports are available where noted.

- inspect a sample of Quarterly Fund Reports to determine if any information within these reports indicates that the disclosures about the fund are not consistent with the supporting information.

Stewardship Activities

21. Policies for STEWARDSHIP ACTIVITIES: The INVESTMENT MANAGER MUST disclose how an INVESTOR can obtain a complete and current copy of all of the policies that govern the INVESTMENT PRODUCT'S STEWARDSHIP ACTIVITIES. (Provision 2.A.16)

> **Example Disclosure:**
>
> "To receive a copy of Smoke Capital's stewardship policy, please email your request to clientservices@smokecapital.com."

Example Testing Procedures

The EXAMINER SHOULD determine that instructions for how an INVESTOR can obtain policies that govern STEWARDSHIP ACTIVITIES are properly stated.

22. If ESG issues are typically considered when undertaking STEWARDSHIP ACTIVITIES, the INVESTMENT MANAGER MUST disclose:
    a. the types of STEWARDSHIP ACTIVITIES typically undertaken for the INVESTMENT PRODUCT, differentiated by type of investment where necessary. (Provision 2.A.17.a)
    b. the ESG issues typically considered when undertaking STEWARDSHIP ACTIVITIES. (Provision 2.A.17.b)
    c. how those STEWARDSHIP ACTIVITIES and ESG issues are relevant to the INVESTMENT PRODUCT'S objectives and investment process. (Provision 2.A.17.c)

> **Example Disclosure for Provisions 2.A.17.a, 2.A.17.b, and 2.A.17.c:**
>
> "Our stewardship activities for the Global Balanced Fund include proxy voting, engagement, and advocacy. We vote proxies for all equities held in our portfolio and engage with certain equity and fixed-income issuers. Engagement is conducted in accordance with the Fund's Engagement Policy and includes email correspondence, meetings with company management, and collaborative shareholder dialogues with issuers. Advocacy efforts include providing comment letters to regulators. We align our proxy voting decisions with our engagement efforts.

Our stewardship activities prioritize issues related to climate risk, which we believe poses a systemic global financial risk, and corporate governance. Specifically, with respect to corporate governance, we prioritize the following issues: shareholder rights, board and committee structure and degree of independence, directors' skills and experience, transparency and accountability, and executive remuneration. We believe these corporate governance issues affect the long-term financial performance of the companies we own.

Information on our proxy voting, engagement, and advocacy activities can be found in our Annual Stewardship Reports."

Example Testing Procedures

The EXAMINER SHOULD:

- inspect fund offering documents and marketing materials or other supporting documents to determine that the INVESTMENT MANAGER conducts proxy voting, engagement, or advocacy activities consistent with the disclosed STEWARDSHIP ACTIVITIES.
- inspect sample proxy votes or proxy voting reports to determine that the INVESTMENT MANAGER votes are aligned with the INVESTMENT MANAGER's engagement efforts.
- obtain the fund's Engagement Policy and determine that the disclosed STEWARDSHIP ACTIVITIES are consistent with the information included within the Engagement Policy and the Annual Stewardship Reports.

d. the processes and systems that support the STEWARDSHIP ACTIVITIES undertaken for the INVESTMENT PRODUCT. (Provision 2.A.17.d)

Example Disclosure:

"Proxies are voted for all of the Fund's equity holdings. Records of all proxy votes cast or abstained are maintained in our stewardship management system. Engagement activities include attending in-person and virtual meetings and corresponding with investee companies. The Fund's engagement officer flags companies and issues for engagement. Once an engagement effort is initiated, all written communications, meeting records, and targeted engagement outcomes are logged in the stewardship management system. On a quarterly basis, the Fund's engagement officer reviews progress made toward the targeted outcomes and determines next steps in accordance with the Fund's Engagement Policy."

Example Testing Procedures

The EXAMINER SHOULD:

- select a sample of equity holdings and inspect records of proxy voting for those holdings in the stewardship management system.
- select a sample of companies and issues for which the INVESTMENT MANAGER has conducted engagement activities from the stewardship management system and inspect supporting documentation for each activity.

23. The INVESTMENT MANAGER MUST disclose how STEWARDSHIP ACTIVITIES for the INVESTMENT PRODUCT are reported to INVESTORS. (Provision 2.A.18)

Example Disclosure:

"Information regarding the stewardship activities for this investment product is included in the XYZ Asset Management Annual Stewardship Report. This report can be found on XYZ Asset Management's website at XYZAssetManagement.com/stewardship. Investors can also request a copy of the Annual Stewardship Report by emailing clientsupport@xyzassetmanagement.com or writing to XYZ Asset Management Company, ATTN: Compliance Department, 1234 Alpha Summit Lane, Suite 1111, New York, NY 10005."

Example Testing Procedure

The EXAMINER SHOULD inspect the website to determine that the Annual Stewardship Report is available where noted.

Environmental and Social Impact Objectives

24. ENVIRONMENTAL and SOCIAL impact objectives: If investments are made with the intention to generate positive, measurable SOCIAL and ENVIRONMENTAL impact alongside a financial return, the INVESTMENT MANAGER MUST disclose the following information about these impact objectives: (Provision 2.A.19)

- the impact objectives in measurable or observable terms. (Provision 2.A.19.a)
- the stakeholders who will benefit from the attainment of the impact objectives. (Provision 2.A.19.b)
- the time horizon over which the impact objectives are expected to be attained. (Provision 2.A.19.c)
- how the impact objectives are related to other objectives that the INVESTMENT PRODUCT has and how the pursuit of the impact objectives could result in trade-offs with those other objectives. (Provision 2.A.19.d)
- how the attainment of the impact objectives will contribute to third-party sustainable development goals, if there is a stated intention to do so. (Provision 2.A.19.e)

- the proportion of the portfolio committed to generating SOCIAL and ENVIRONMENTAL impact. (Provision 2.A.19.f)
- how the impact objectives are expected to be attained. (Provision 2.A.19.g)
- the risks that could significantly hinder the attainment of the impact objectives, should they occur. (Provision 2.A.19.h)
- how progress toward, or attainment of, the impact objectives is measured, monitored, and evaluated. (Provision 2.A.19.i)
- how progress toward the attainment of the impact objectives is reported to INVESTORS. (Provision 2.A.19.j)
- the process for assessing, addressing, monitoring, and managing potential negative SOCIAL AND ENVIRONMENTAL impacts that may occur in the course of attaining the impact objectives. (Provision 2.A.19.k)

Example Disclosure for Provisions 2.A.19.a–2.A.19.k:

QRS Equity Fund

Fund Objectives

The objectives of the QRS Equity Fund (the "Fund") are to (1) achieve an equity market rate of return over a long-term investment horizon and (2) actively engage with portfolio companies to encourage them to reduce their greenhouse gas (GHG) emissions to levels consistent with a 1.5 degree Celsius warming limit, by 2030, in alignment with targets set by the Paris Agreement. Through its impact investing efforts to achieve a measurable reduction in portfolio company GHG emissions, the Fund aims to contribute to the achievement of the United Nations Sustainable Development Goal 13, Climate Action: Take urgent action to combat climate change and its impacts.

Summary

Global warming affects many aspects of life on the planet, including human life, life on land, and life below water. In order to meet the Paris Agreement goals, global GHG emissions must be reduced to 50% of 2005 emissions by 2030 and to net zero emissions by 2050. The Fund aims to contribute to the mitigation of global warming by investing in companies with GHG emissions that exceed limits consistent with the Paris Agreement and using active engagement to bring about a reduction in company emissions in line with a 1.5 Celsius degree warming scenario. GHG emissions reduction targets and engagement goals for each of the Fund's portfolio companies are determined prior to investment.

Climate Data Sources and Limitations

We use external vendors and non-profit organizations to supply Scope 1 (direct) and Scope 2 (indirect) emissions, either company-reported or vendor-estimated, for companies in the Fund's universe, as well as carbon intensity for each company. Carbon intensity is defined as the company's most recent reported or estimated Scope 1 + Scope 2 greenhouse gas emissions in carbon dioxide equivalents (CO_2e) normalized by USD1 million in revenue (metric tons of CO_2e per USD1 million in sales). Carbon intensity measures a company's energy efficiency.

Because company GHG emissions data are not standardized (and further subject to estimation error when not company-reported), the data sets we work with may imperfectly represent companies' true GHG emissions. Additionally, the company emissions targets that we set are based on model assumptions and estimations that carry the inherent risk associated with any modeling or estimating process.

Impact Strategy

Security selection begins with ranking companies in the Fund's universe within their industries according to their carbon intensity and analyzing the feasibility of using engagement to facilitate a meaningful reduction in GHG emissions. Financial analysis screens are applied to arrive at a set of securities that have the potential to meet both the Fund's financial and impact objectives. The Fund typically limits holdings to between 30 and 50 companies to provide for ongoing active and meaningful engagement with each company.

The Fund's sustainability analysts use a combination of data from third-party providers, nonprofit organizations, and internal research to set individual, science-based, forward-looking GHG emissions targets for each investee. Both interim and long-term engagement goals may be set for a company, including but not limited to the following:

- Begin reporting on Scope 1 and Scope 2 emissions.
- Achieve a target GHG emissions level.
- Achieve a target carbon intensity measure.
- Link executive compensation to achievement of the GHG emissions goal.

Securities may be sold from the Fund if it is determined to be unlikely that a GHG emissions target for a company will be achieved or if it is believed that the company is no longer able to contribute to the Fund's financial objective. It may be necessary at times to invest in securities that will help the Fund meet its financial objective but that may not meet the Fund's impact objective. These securities will be limited to 20% or less of the Fund's market value.

The Fund's Sustainability Team monitors investees' impacts on biodiversity, water, waste, and human rights to ensure GHG emissions targets are not attained through a negative impact on other key ESG issues. There is a risk that a company in which the Fund invests subsequently generates an adverse social or environmental impact or event. In these instances, the Fund's Sustainability Team, in conjunction with the Fund's portfolio managers, determines whether to sell the security or whether to engage with the company in an attempt to mitigate the adverse consequences.

There is a risk that engagement efforts will not achieve the engagement goals set for a company. A company may choose not to respond to engagement efforts, or the company may experience a change in economic circumstances or a change in management that affects its ability or willingness to address GHG emissions reductions. In addition, there is a risk that an error was made in our emissions target and that the GHG emissions goal for a company or companies is not feasible.

Stewardship

Proxies are voted and engagement efforts are undertaken for all portfolio companies. Proxy voting may support either the Fund's financial objective or its impact objective. When voting in support of the Fund's impact objective, certain environmental and social issues are prioritized, including issues relating to climate change mitigation efforts, transparency in reporting of environmental and social metrics, and linking executive pay to certain ESG metrics.

Engagement is conducted in the form of written communications, collaborative engagement, and one-to-one meetings with representatives from a company's board of directors and management, investor relations, or sustainability team. By engaging with a company's board of directors or management to achieve a targeted reduction in reported GHG emissions, the Fund aims to have positive, measurable real-world outcomes that contribute to the Paris Agreement goals.

Engagement goals and GHG emissions targets for each portfolio company are logged into our stewardship engagement system, and engagement activities are tracked throughout the life of the holding. Achievement of engagement goals and GHG emissions targets is typically expected to be attained over a period of several years. Progress toward an emissions target may be measured through the achievement of interim goals or by the measurement of GHG emissions on a glidepath toward a targeted emissions level. Information about GHG emissions levels and carbon intensity for all holdings can be found in quarterly reports on the Fund's website.

The QRS Stewardship Team meets quarterly to review company progress and engagement responses. For some companies, engagement begins with the intent to achieve a short-term goal, such as the initiation of reporting Scope 1 and 2 emissions or to educate management on pathways to achieve a reduction in GHG emissions in order to obtain a later commitment to reduce GHG emissions. For other companies, a significant reduction in GHG emissions is the only impact metric. If the Stewardship Team determines that a company is not making sufficient progress toward a target or goal, engagement is escalated according to the Fund's Engagement Policy.

The Fund's Proxy Voting Policy and Guidelines, Engagement Policy, and Annual Engagement Impact Reports are available to investors on the Fund's website. Annual Engagement Impact Reports contain information on companies engaged with during the previous calendar year and the method of engagement, issues engaged on, progress toward GHG emissions targets and engagement goals, outlook for future engagement efforts, and tons of GHG emissions avoided per USD100 million at the Fund level. Investors may obtain information on proxies voted by writing to proxyvoting@QRSAssetManagement.com.

Example Testing Procedures

The EXAMINER SHOULD inspect the fund's offering documents and marketing materials or other supporting documents to determine that the INVESTMENT MANAGER's disclosures of the following items are consistent with the supporting information:

- the fund's impact objective is to actively engage with portfolio companies to encourage them to reduce their GHG emissions to levels consistent with a 1.5 degree Celsius warming limit by 2030.
- the stakeholders expected to benefit from the attainment of lower GHG emissions are humans, life on land, and life below water.
- the fund may invest up to 20% of the fund's market value in securities that will help meet its financial objective but that may not meet the fund's impact objective.
- how a reduction in GHG emissions will contribute towards the achievement of the United Nations Sustainable Development Goal 13.
- that the fund intends to achieve a reduction in GHG emissions through engagement efforts with all portfolio companies and that those engagement efforts include forms of written communications, collaborative engagement, and one-to-one meetings with representatives from a company's board of directors and management, investor relations, or sustainability team.
- the risks that could hinder the attainment of the impact objective are that a company may choose not to respond to engagement efforts, that it may experience a change in economic circumstances or change in management that affects its ability or willingness to address GHG emission reductions, or that there is an error in the

INVESTMENT MANAGER's emissions target for the company and attainment of the GHG goal is not feasible.

- the engagement goals and GHG emissions targets for each portfolio company are logged into the stewardship engagement system and are tracked throughout the life of the holding.
- the fund's Sustainability Team monitors investees' impacts on biodiversity, water, waste, and human rights to ensure GHG emissions targets are not attained through a negative impact on other key ESG issues.

In addition to determining that the INVESTMENT MANAGER has included the proper disclosures, the EXAMINER SHOULD:

- conduct testing to determine that the fund has invested in companies at the time of purchase with GHG emissions that exceed limits consistent with the Paris Agreement.
- conduct testing to determine that the fund has actively engaged with portfolio companies to reduce their GHG emissions to bring about a reduction in company emissions in line with a 1.5 degree Celsius warming scenario. For example, select a sample of engagement activities for testing from the Annual Engagement Impact Reports that consists of companies engaged with and the progress towards GHG emission targets during the previous calendar year. For each selection, obtain documentation supporting the description of the engagement, including written communications, collaborative engagement materials, and memorandums to the file of any meeting held with portfolio companies, and determine the nature of the meeting and how it supported a reduction in GHG emissions.
- select a sample of engagement activities from the Annual Engagement Impact Report and agree the description to the information maintained in the stewardship engagement system.
- conduct testing to determine that no more than 20% of the fund's market value is invested in securities that do not meet the fund's impact objective.
- conduct a walkthrough to determine that the fund's Sustainability Team monitors investee's impacts on biodiversity, water, waste, and human rights to ensure GHG emissions are not attained through a negative impact on other key ESG issues. For example, review an adverse indicator screen report to determine that investments purchased do not have a negative impact on other key ESG issues.
- select a sample of proxy voting records. For each selection, obtain documentation supporting whether there were certain ENVIRONMENTAL and SOCIAL issues that were prioritized—including issues relating to climate change mitigation efforts, transparency in reporting of ENVIRONMENTAL and SOCIAL metrics, and linking executive pay to certain ESG metrics—and how the INVESTMENT MANAGER voted on those issues and if they were consistent with the INVESTMENT MANAGER's approach to climate change mitigation.

- inspect the INVESTMENT MANAGER's website to determine that the fund's Proxy Voting Policy and Guidelines, Engagement Policy, and Annual Engagement Impact Reports are available to INVESTORS on the fund's website and that INVESTORS may obtain information on proxies voted by writing to proxyvoting@ QRSAssetManagement.com.

Fundamentals of Compliance

25. Updating ESG DISCLOSURE STATEMENTS: The INVESTMENT MANAGER MUST update an INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT when: (Provision 1.A.10)
    a. changes are made to applicable Global ESG Disclosure Standards for Investment Products REQUIREMENTS or INTERPRETIVE GUIDANCE. (Provision 1.A.10.a)
    b. the INVESTMENT MANAGER makes changes that affect information included in an ESG DISCLOSURE STATEMENT. (Provision 1.A.10.b)
    c. a significant error is found after the ESG DISCLOSURE STATEMENT is made available to INVESTORS. (Provision 1.A.10.c)

Example Testing Procedures for Provisions 1.A.10.a and 1.A.10.b

The EXAMINER SHOULD:

- determine if there have been any changes to the ESG Disclosure Standards or INTERPRETIVE GUIDANCE that would impact REQUIRED disclosures in the ESG DISCLOSURE STATEMENT.
- inquire if there have been any changes in information or procedures that would impact the REQUIRED disclosures.
- determine that any changes related to changes in the ESG Disclosure Standards or changes made by the INVESTMENT MANAGER that affect the information included in the ESG DISCLOSURE STATEMENT are properly stated.

Example of a Significant Error for Provision 1.A.10.c

INVESTMENT MANAGER XYZ includes an ESG DISCLOSURE STATEMENT for XYZ Fund on its website, which includes Scope 1 and 2 emissions. The INVESTMENT MANAGER subsequently changes its process to also include Scope 3 emissions. While incorporating this change, it finds a significant error in the Scope 2 emissions that were reported in the ESG DISCLOSURE STATEMENT on its website. The INVESTMENT MANAGER logs the error in its error log, updates the ESG DISCLOSURE STATEMENT to include the correct Scope 2 emissions numbers, and includes a disclosure about the significant error.

Example Testing Procedures

- Review the revised Scope 2 emissions number that was identified as a significant error and agree the revised number to supporting information.

- Review the ESG DISCLOSURE STATEMENT to determine that the revised Scope 2 emissions are consistent with the supporting information and that the significant error has been properly disclosed.

26. Making the ESG DISCLOSURE STATEMENT available: If the INVESTMENT MANAGER chooses to apply the Global ESG Disclosure Standards for Investment Products to a specific INVESTMENT PRODUCT, the INVESTMENT MANAGER MUST make the ESG DISCLOSURE STATEMENT for that specific INVESTMENT PRODUCT available to INVESTORS. (Provision 1.A.9)

Example Testing Procedures

The EXAMINER SHOULD:

- determine how the INVESTMENT MANAGER makes the ESG DISCLOSURE STATEMENT available to INVESTORS.
- determine that the INVESTMENT MANAGER has made the ESG DISCLOSURE STATEMENT available to INVESTORS. For example, if the INVESTMENT MANAGER maintains a log of INVESTORS that received the ESG DISCLOSURE STATEMENT, inspect the log of INVESTORS that received the ESG DISCLOSURE STATEMENT and the date received. Select a sample from the log and conduct testing to determine that ESG DISCLOSURE STATEMENTS were provided as noted in the log. If the INVESTMENT MANAGER makes ESG DISCLOSURE STATEMENTS available to INVESTORS on its website, inspect the INVESTMENT MANAGER's website to determine that ESG DISCLOSURE STATEMENTS are available to INVESTORS on its website.

27. ESG STANDARDS COMPLIANCE NOTIFICATION FORM: The INVESTMENT MANAGER MUST notify CFA Institute of its use of the Global ESG Disclosure Standards for Investment Products by submitting the ESG STANDARDS COMPLIANCE NOTIFICATION FORM. This form MUST be filed: (Provision 1.A.8)

    a. when the INVESTMENT MANAGER initially completes an ESG DISCLOSURE STATEMENT for any one of its INVESTMENT PRODUCTS. (Provision 1.A.8.a)
    b. thereafter annually between 1 January and 30 June. (Provision 1.A.8.b)

    Example Testing Procedures

    The EXAMINER SHOULD:

    - determine that the INVESTMENT MANAGER is listed on the CFA Institute website as an organization that claims compliance with the ESG Disclosure Standards or
    - request the latest confirmation the INVESTMENT MANAGER received from CFA Institute and determine that the initial ESG COMPLIANCE NOTIFICATION FORM has been submitted or any REQUIRED annual update has been submitted.

MAINTENANCE OF EXAMINATION FIRM DOCUMENTATION

The EXAMINATION FIRM MUST maintain sufficient documentation of the following items for all EXAMINATION procedures performed that are necessary to support the EXAMINATION REPORT:

a. the nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
b. the results of all procedures performed and the evidence obtained;
c. significant findings or issues arising during the EXAMINATION, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
d. supporting evidence that the EXAMINATION FIRM has conducted all REQUIRED EXAMINATION procedures.

REPRESENTATION LETTER[1]

At the conclusion of the EXAMINATION engagement and prior to issuing the EXAMINATION REPORT, the EXAMINATION FIRM conducting the EXAMINATION MUST obtain written representations signed by the INVESTMENT MANAGER's management who the EXAMINATION FIRM believes are responsible for and knowledgeable about the matters covered in the representations.

The representation letter MUST include the following matters:

- the INVESTMENT MANAGER is responsible for selecting the ESG Disclosure Standards as the criteria for the engagement and for determining that the criteria are suitable and appropriate for the purpose of the engagement;
- the ESG DISCLOSURE STATEMENT complies with the ESG Disclosure Standards for all periods being examined;
- the INVESTMENT MANAGER's policies and procedures for establishing and maintaining compliance with the ESG Disclosure Standards are properly described in those policies and procedures;

[1] Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter.

 |

- the INVESTMENT MANAGER's policies and procedures for complying with the ESG Disclosure Standards have been designed in compliance with the ESG Disclosure Standards and have been implemented for the INVESTMENT PRODUCT for all periods being examined;
- the INVESTMENT MANAGER has prepared and presented the ESG DISCLOSURE STATEMENT in compliance with the disclosure REQUIREMENTS of the ESG Disclosure Standards;
- the INVESTMENT MANAGER's management bears all responsibility for maintaining compliance with the ESG Disclosure Standards, including production of the ESG DISCLOSURE STATEMENT and procedures for making the ESG DISCLOSURE STATEMENT available to INVESTORS;
- the ESG DISCLOSURE STATEMENT is a fair representation of the INVESTMENT PRODUCT's ESG APPROACHES;
- the INVESTMENT MANAGER has not knowingly included information in the INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT that is false or misleading;
- to the best of the INVESTMENT MANAGER's knowledge and belief, there has been no:
    - fraud or alleged fraud involving management or employees who have significant roles in the INVESTMENT MANAGER's policies and procedures relating to compliance with the ESG Disclosure Standards or
    - fraud or alleged fraud involving others that could have a material effect on the INVESTMENT MANAGER's compliance with the ESG Disclosure Standards;
- the INVESTMENT MANAGER has provided the EXAMINATION FIRM with all necessary documents to enable the EXAMINATION FIRM to perform the EXAMINATION, and no relevant documents have been withheld;
- the period(s) on which the EXAMINATION FIRM is reporting;
- the INVESTMENT MANAGER disclosed to the EXAMINATION FIRM all deficiencies in internal controls relevant to the engagement of which they are aware;
- if applicable, a statement that the INVESTMENT MANAGER believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the subject matter;
- if applicable, a statement that significant assumptions used in making any material estimates are reasonable;
- the INVESTMENT MANAGER complies with all applicable laws and regulations regarding the ESG-related disclosures for the INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT being examined;
- no events that would materially influence the outcome of the EXAMINATION have occurred up to the date of the representation letter;
- all known matters contradicting the subject matter and any communication from regulatory agencies or others affecting the subject matter have been disclosed to the EXAMINATION FIRM, including communications received between the end of the period covered by the EXAMINATION and the date of the EXAMINATION FIRM's EXAMINATION REPORT; and

- any other language included in the management assertion that is not captured by the above items.

The representation letter SHOULD also include any other relevant representations made to the EXAMINATION FIRM during the EXAMINATION.

EXAMINATION REPORT[2]

If EXAMINATIONS are performed on ESG DISCLOSURE STATEMENTS for multiple INVESTMENT PRODUCTS, the EXAMINATION FIRM may issue a single EXAMINATION REPORT covering the ESG DISCLOSURE STATEMENTS that have been examined.

The ESG DISCLOSURE STATEMENTS that have been examined MUST be included in or attached to the EXAMINATION REPORT.

1. For an INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT, the EXAMINATION REPORT MUST conclude that:
   - for the periods for which the EXAMINATION has been performed, the INVESTMENT MANAGER has, in all material respects:
     - prepared and presented the ESG DISCLOSURE STATEMENT in compliance with the disclosure REQUIREMENTS of the Global ESG Disclosure Standards for Investment Products, and
     - designed policies and procedures related to the preparation and presentation of the ESG DISCLOSURE STATEMENT in compliance with the Global ESG Disclosure Standards for Investment Products and implemented those policies and procedures.

   The following information is also REQUIRED to be included in the EXAMINATION REPORT:

   - the report title, which MUST include the word "Independent";
   - the report date;
   - the report addressee;
   - the name of the INVESTMENT MANAGER for which the EXAMINATION has been performed;
   - the periods for which the EXAMINATION has been performed;

[2] Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in an EXAMINATION REPORT.

- the respective responsibilities of the INVESTMENT MANAGER's management and of the EXAMINATION FIRM, including a statement acknowledging the INVESTMENT MANAGER's responsibility for the claim of compliance, for design and implementation of the relevant policies and procedures, and for the ESG DISCLOSURE STATEMENT;
- the name of the INVESTMENT PRODUCT whose ESG DISCLOSURE STATEMENT has been examined;
- a statement indicating that the EXAMINATION of the specified INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT has been performed in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products;
- a statement indicating that the EXAMINATION includes testing performed on a sample basis;
- language indicating that the EXAMINATION FIRM is independent from the INVESTMENT MANAGER;
- a statement indicating that the EXAMINATION does not cover any presented information that is not REQUIRED to be included in the ESG DISCLOSURE STATEMENT, if applicable;
- a statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, ICAEW, or JICPA guidance); and
- the signature or official seal of the EXAMINATION FIRM.

In addition to the REQUIRED content, the EXAMINATION REPORT may also include other information, as appropriate.

2. After completing the EXAMINATION procedures, the EXAMINATION FIRM may conclude that:
    - the ESG DISCLOSURE STATEMENT does not comply with the disclosure REQUIREMENTS of the ESG Disclosure Standards;
    - the INVESTMENT MANAGER's policies and procedures related to the preparation and presentation of the ESG DISCLOSURE STATEMENT have not been designed in compliance with the ESG Disclosure Standards or have not been implemented; or
    - the INVESTMENT MANAGER's records cannot support the EXAMINATION.

    In such situations, the EXAMINATION FIRM and the INVESTMENT MANAGER MUST consider the effect of the EXAMINATION FIRM's inability to issue an unmodified or qualified EXAMINATION REPORT on the INVESTMENT MANAGER's claim that an ESG DISCLOSURE STATEMENT has been prepared and presented in compliance with the ESG Disclosure Standards. The EXAMINATION FIRM would likely issue either an adverse opinion or a disclaimer of opinion in these circumstances.

3. The INVESTMENT MANAGER MUST NOT state that an INVESTMENT PRODUCT has been examined unless an EXAMINATION REPORT has been issued.

MANAGEMENT ASSERTION[3]

The INVESTMENT MANAGER's management assertion upon which the EXAMINATION FIRM opines MUST include the following statements regarding the INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT that is being examined:

- the INVESTMENT MANAGER is responsible for its claim of compliance with the ESG Disclosure Standards;
- the INVESTMENT MANAGER is responsible for the preparation of the accompanying ESG DISCLOSURE STATEMENT in compliance with the disclosure REQUIREMENTS of the ESG Disclosure Standards;
- the period covered by the ESG DISCLOSURE STATEMENT;
- the INVESTMENT MANAGER has designed policies and procedures for the preparation and presentation of the ESG DISCLOSURE STATEMENT in compliance with the ESG Disclosure Standards and has implemented those policies and procedures;
- the INVESTMENT MANAGER has evaluated the effectiveness of its policies and procedures regarding the ESG Disclosure Standards; and
- to the best of the INVESTMENT MANAGER's knowledge and belief, the accompanying ESG DISCLOSURE STATEMENT has been prepared and presented in compliance with the disclosure REQUIREMENTS of the ESG Disclosure Standards and is fairly stated.

RECOMMENDATION LETTER

After the EXAMINATION is complete, the EXAMINATION FIRM SHOULD issue a recommendation letter to the INVESTMENT MANAGER describing specific findings, RECOMMENDATIONS, and other areas for improvement arising from the EXAMINATION.

EFFECTIVE DATE

EXAMINATION FIRMS MUST conduct all EXAMINATION engagements in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products.

[3] Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a management assertion.

 |

GLOSSARY

ENVIRONMENTAL	Relating to the quality and functioning of the natural environment and natural systems.
ESG	Abbreviation for "ENVIRONMENTAL, SOCIAL, GOVERNANCE, or some combination thereof."
ESG APPROACH	One of a variety of methods for incorporating ESG considerations into an INVESTMENT PRODUCT's objectives, investment process, or STEWARDSHIP ACTIVITIES. This term includes but is not limited to approaches that are often referred to as ESG integration, exclusion, screening, best-in-class, thematic, sustainability themed investing, impact investing, and stewardship.
ESG DISCLOSURE STATEMENT	A document that contains all of the disclosures REQUIRED by the Global ESG Disclosure Standards for Investment Products that apply to a specific INVESTMENT PRODUCT.
ESG INDEX	An index that includes ESG considerations in its index construction methodology.
ESG STANDARDS 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 Global ESG Disclosure Standards for Investment Products.
EXAMINATION	A process by which an independent EXAMINATION FIRM tests one or more ESG DISCLOSURE STATEMENTS in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products.
EXAMINATION FIRM/ EXAMINER	An independent third party that conducts an EXAMINATION of one or more ESG DISCLOSURE STATEMENTS in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products.
EXAMINATION REPORT	A report issued by an independent EXAMINATION FIRM after an EXAMINATION has been performed.
GOVERNANCE	Relating to the policies and procedures used to direct, control, and monitor companies and other investee entities.

INTERPRETIVE GUIDANCE	Interpretive and explanatory materials related to the Global ESG Disclosure Standards for Investment Products issued by CFA Institute and the Global 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 INVESTORS' 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 Collective Investment in Transferable Securities (UCITS), and 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.

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.
SOCIAL	Relating to the rights, well-being, and interests of people, communities, and society.
STEWARDSHIP ACTIVITIES	Individual or collaborative activities, undertaken by an INVESTMENT MANAGER on behalf of INVESTORS, to protect and enhance the value of an INVESTMENT PRODUCT's holdings and to attain an INVESTMENT PRODUCT's objectives. STEWARDSHIP ACTIVITIES include but are not limited to engagement with issuers (in all asset classes and for both current and potential investees); voting at shareholder meetings; filing of shareholder resolutions/proposals; direct roles on investee boards and board committees; negotiation with and monitoring of the stewardship actions of suppliers in the investment chain; engagement with policymakers; engagement with standard setters; contributions to public goods (such as research) and public discourse (such as media) that support stewardship goals; and, where necessary, litigation.

APPENDIX A: SAMPLE INDEPENDENT EXAMINER'S EXAMINATION REPORT

(Examination of Management's Assertion and Reporting Directly on the Subject Matter)

Independent Examiner's Examination Report

Ava Advisors
One Squirrel Street
Uetikon, Switzerland

We have examined management of Ava Advisors' assertion that Ava Advisors has, for the period from 1 January 2015 through 31 December 2022, prepared and presented the accompanying ESG Disclosure Statement of the Ava Growth and Income Fund in compliance with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products ("ESG Disclosure Standards") and that Ava Advisors' policies and procedures related to the preparation and presentation of the ESG Disclosure Statement have been designed in compliance with the ESG Disclosure Standards and have been implemented for the Ava Growth and Income Fund.

Ava Advisors is responsible for its claim of compliance with the ESG Disclosure Standards, for the design and implementation of its policies and procedures, and for the accompanying ESG Disclosure Statement of the Ava Growth and Income Fund.

Our responsibilities are to be independent from Ava Advisors and to express an opinion based on our examination. An examination involves performing procedures to obtain evidence that the ESG Disclosure Statement of the Ava Growth and Income Fund has been prepared in compliance with the disclosure requirements of the ESG Disclosure Standards and policies and procedures related to the preparation and presentation of the ESG Disclosure Statement have been designed in compliance with the ESG Disclosure Standards and have been implemented. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of applicable disclosures required by the ESG Disclosure Standards, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In making an assessment of the risks of material misstatement, we considered and obtained an understanding of internal control relevant to the subject matter in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, no such opinion is expressed.

We conducted this examination in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products, which includes testing on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from 1 January 2015 through 31 December 2022, Ava Advisors has, in all material respects:

- prepared and presented the accompanying ESG Disclosure Statement of the Ava Growth and Income Fund in compliance with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products, and
- designed policies and procedures related to the preparation and presentation of the ESG Disclosure Statement of the Ava Growth and Income Fund in compliance with the Global ESG Disclosure Standards for Investment Products and implemented those policies and procedures.

We have not been engaged to examine, and did not examine, the Ava Growth and Income Fund's WACI projections through 2030 presented in the accompanying ESG Disclosure Statement of the Ava Growth and Income Fund as additional information and, accordingly, we express no opinion on those statistics.

XYZ Examiner

14 May 2023

Management Assertion
(to Be Included with the Examiner's Examination Report)

As Directors of Ava Advisors, we are responsible for Ava Advisors' claim of compliance with the Global ESG Disclosure Standards for Investment Products ("the ESG Disclosure Standards") for the Ava Growth and Income Fund for the period from 1 January 2015 through 31 December 2022, as well as for the preparation of the attached ESG Disclosure Statement of the Ava Growth and Income Fund in compliance with the disclosure requirements of the ESG Disclosure Standards, which is free from misstatement, whether due to fraud or error. Our responsibilities also include selecting the ESG Disclosure Standards as the criteria against which you are evaluating the fairness of our assertion and determining that the ESG Disclosure Standards are appropriate criteria for our purposes. We are also responsible for establishing and maintaining effective internal controls over compliance with the ESG Disclosure Standards.

We confirm that we have, for the period from 1 January 2015 through 31 December 2022, prepared and presented the accompanying ESG Disclosure Statement of the Ava Growth and Income Fund in compliance with the disclosure requirements of the ESG Disclosure Standards, designed policies and procedures related to the preparation and presentation of the ESG Disclosure Statement in compliance with the ESG Disclosure Standards, and implemented those policies and procedures for the Ava Growth and Income Fund.

Ava Advisors

21 March 2023

Ava Growth and Income Fund

ESG Disclosure Statement

This ESG Disclosure Statement for 1 January 2015 through 31 December 2022 complies with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products.

Additionally, Ava Advisors has complied with the requirements of the Global ESG Disclosure Standards for Investment Products related to the preparation and presentation of this ESG Disclosure Statement.

The Global ESG Disclosure Standards for Investment Products are developed and maintained by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Summary

Sustainability is an important consideration for the Ava Growth and Income Fund (the "Fund"). Ava Advisors defines sustainability as the "the responsible and efficient consumption and management of natural resources that allow future generations to meet their own needs." Some of the most important sustainability issues include the burning of fossil fuels and the resulting negative effect on global temperatures and climate. Ava Advisors believes that the companies that use fossil fuels efficiently, implement energy-efficiency projects, or transition to renewable energy sources not only ensure their own continuity but also contribute to a more sustainable economy.

In consideration of these issues, the Fund seeks to achieve its investment objective through a broad market equity and fixed-income portfolio that has:

- at least a 50% lower weighted average carbon intensity (WACI) relative to the Fund's benchmark,
- at least 25% of the market value of its fixed-income investments invested in labeled green bonds and Certified Climate Bonds, and
- a Fund WACI that by 2030 is 50% lower than the Fund WACI as of 31 December 2019.

Additionally, Ava Advisors considers relevant climate change and natural resource management issues when voting proxies and engaging with company management.

Key ESG Terms

- *Carbon intensity* measures how efficiently a company uses its carbon resources to generate revenue and allows for comparison of carbon efficiency among companies of different sizes.

Carbon intensity is calculated as a company's Scope 1 + Scope 2 greenhouse gas (GHG) emissions in carbon dioxide equivalents (CO_2e) normalized by USD1 million in revenue.

- A *carbon dioxide equivalent*, or *CO_2e*, is a measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential. (Source: Eurostat, based on a report from the European Environmental Agency)
- *Scope 1 emissions* are direct GHG emissions from sources owned or controlled by the company.
- *Scope 2 emissions* are indirect GHG emissions generated by the company's consumption of purchased electricity, heating, steam, and cooling.
- *Labeled green bonds* are bonds that earmark proceeds for climate or environmental projects and have been labeled as "green" by the issuer. (Source: Climate Bonds Initiative)
- *Certified Climate Bonds* are bonds and loans that are verified to conform with the Climate Bonds Standard, science-based standards for identifying projects and assets that are consistent with the Paris Agreement goals for a low-carbon economy. (Source: Climate Bonds Initiative)

Key ESG Data Used by the Fund

Ava Advisors obtains carbon intensity data on companies in the Fund's universe from an ESG data provider. A company's Scope 1 and Scope 2 emissions and revenue are used to calculate its carbon intensity. Not all companies report their GHG emissions. If a company does not report its Scope 1 and Scope 2 emissions, the Fund's ESG data provider estimates the non-reported emissions using proprietary models. No universal method exists for estimating the GHG emissions of a company, and thus carbon intensity measures for individual companies can vary greatly among data providers. Ava Advisors has chosen a data provider that obtains emissions data from multiple sources (including company-reported data, third-party data, and its own proprietary estimates) and whose combined Scope 1 and Scope 2 company emissions estimates have been demonstrated to generally correlate well with those of other data providers.

Portfolio-Level ESG Characteristics and Allocation Target

Carbon Intensity Target

The weighted average carbon intensity of the Fund is the aggregate carbon intensity of the Fund's holdings according to the percentage weighting of each holding in the Fund. The WACI target is recalculated quarterly to reflect changes in the WACI of the benchmark indexes. To achieve the Fund's investment objective as well as its WACI target, the Fund invests in companies with attractive valuations and lower carbon intensity relative to industry peers. At times, the WACI target may not be attained because of natural variations in the carbon intensity of index constituents and changes made to index constituents. The Fund's WACI and WACI target are reported to investors in quarterly fund reports available on the Fund's website. In addition, the Fund targets a 50% reduction in the WACI of 132.1 as of 31 December 2019 by 2030 and aims to reduce the WACI of the Fund by 6% each year through 2030 by taking more concentrated positions in companies with lower carbon intensity relative to industry peers.

Target Allocation to Labeled Green Bonds and Climate Bonds

The Fund aims to invest at least 25% of the market value of its fixed-income holdings in labeled green bonds and Certified Climate Bonds. The Fund's allocation to labeled green bonds and Certified Climate Bonds is reported to investors in quarterly fund reports available on the Fund's website.

Proxy Voting and Engagement

The Fund's proxies are voted in accordance with the Fund's Proxy Voting Guidelines. Proxies are voted for all equity holdings of the Fund. Issues related to climate change and natural resource management are considered when voting on routine items, such as the election of directors, because Ava Advisors' management believes prudent management of environmental issues can positively affect a company's financial performance and help mitigate climate change. 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. Engagement is undertaken with the intent to promote efforts to improve a company's carbon emissions and natural resource management. Engagement activities include in-person and virtual meetings, written correspondence, and emails. The Fund's engagement officer flags companies and issues for engagement. 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 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. On a quarterly basis, the Fund's engagement officer reviews progress made toward engagement goals relative to the targeted outcomes and determines next steps in accordance with the Engagement Policy.

The Proxy Voting Guidelines and Engagement Policy can be found on the Fund's website. Ava Advisors also publishes an annual Proxy Voting and Engagement Report on the Fund's website that includes the past year's engagement priorities, progress on current engagements, and proxy voting activity.

APPENDIX B: EXAMINER INDEPENDENCE GUIDELINES

Introduction

The Global ESG Disclosure Standards for Investment Products ("ESG Disclosure Standards") RECOMMEND that INVESTMENT MANAGERS SHOULD obtain independent assurance on their ESG DISCLOSURE STATEMENTS. EXAMINATION is a process by which an independent third party (an EXAMINATION FIRM or EXAMINER) tests one or more ESG DISCLOSURE STATEMENTS in accordance with the Examination Procedures for the Global ESG Disclosure Standards for Investment Products, in order to provide assurance on an INVESTMENT MANAGER'S REQUIRED disclosures for an INVESTMENT PRODUCT with ESG APPROACHES. An EXAMINATION of an INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT MUST be performed by a qualified independent third party. For the EXAMINER to be an "independent third party," there MUST be no independence issues between the EXAMINER and the INVESTMENT MANAGER. Independence issues MUST be resolved for the EXAMINER to be independent. If the independence issue is not resolved, the EXAMINER is not independent. The purpose of the Examiner Independence Guidelines is to guide INVESTMENT MANAGERS and their potential or current EXAMINERS in the process of determining whether independence issues exist between them.

The INVESTMENT MANAGER has the ultimate responsibility for appointing a qualified EXAMINER. The Examination Procedures for the Global ESG Disclosure Standards for Investment Products REQUIRE independence as part of an EXAMINER'S qualification REQUIREMENTS. The self-regulatory nature of the ESG Disclosure Standards necessitates a strong commitment to ethical integrity on the part of the INVESTMENT MANAGER as well as the EXAMINER.

The Examiner Independence Guidelines serve as minimum guidance. The EXAMINER MUST also adhere to any applicable professional independence guidance. If any conflicts exist between this guidance and the EXAMINER'S professional independence guidance, the EXAMINER MUST adhere to whichever guidance is more restrictive.

Defining Independence

Defining the term "independence" is not a simple process. Crucial to the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT EXAMINATION process is the assumption by all interested parties that the EXAMINER performs its service in an unbiased manner and is not testing its own work. If the INVESTMENT MANAGER chooses to have an INVESTMENT PRODUCT'S ESG DISCLOSURE

STATEMENT examined, it MUST gain an understanding of the EXAMINER's policies for maintaining independence and MUST consider the EXAMINER's assessment of independence.

When considering an EXAMINATION of an INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT, the INVESTMENT MANAGER and the EXAMINER MUST determine if any independence issues exist between the two organizations. The EXAMINER MUST create and document its own policies and procedures that address independence at both the EXAMINATION FIRM and employee level. At a minimum, the EXAMINER MUST provide to the INVESTMENT MANAGER, upon request, a summary of its independence policies. The INVESTMENT MANAGER SHOULD create and document its own policies and procedures that address independence. The INVESTMENT MANAGER SHOULD consider drawing on the resources from its own ESG Disclosure Standards oversight committee, if one exists.

During the process of determining whether any independence issues exist, both the INVESTMENT MANAGER and the EXAMINER MUST be cognizant of actual as well as perceived independence issues. When considering EXAMINER independence, each organization MUST keep in mind the following question: *If an INVESTMENT MANAGER's prospective or current INVESTOR places reliance on the fact that the INVESTMENT PRODUCT's ESG DISCLOSURE STATEMENT has been examined, could the prospective or current INVESTOR's perception of the value of the EXAMINATION potentially be changed if the prospective or current INVESTOR knew about other existing relationships between the INVESTMENT MANAGER and the EXAMINER?*

If the INVESTMENT MANAGER is contemplating hiring an EXAMINER that offers other products or services (together, "other services") that the INVESTMENT MANAGER could or does use, the INVESTMENT MANAGER MUST take additional steps to gain an understanding of how the EXAMINER maintains independence from the INVESTMENT MANAGER. For EXAMINERS that provide other services in addition to EXAMINATION services, it may prove difficult for the EXAMINER to identify all of the other services provided by the EXAMINER's organization. For example, an EXAMINER may serve in an advisory role in a corporate acquisition/sale, which would not be disclosed to the EXAMINER's or INVESTMENT MANAGER's employees involved with the EXAMINATION engagement. Depending on the nature of the other services provided to the INVESTMENT MANAGER by the EXAMINER, an independence issue may or may not be created. EXAMINERS MUST establish policies and procedures to attempt to identify all other services provided to an INVESTMENT MANAGER so the potential effect on independence may be assessed.

The EXAMINER and management of the INVESTMENT MANAGER who are responsible for oversight of the EXAMINATION MUST spend as much time as is reasonably necessary for them to agree that none of the relationships between the two organizations will impair the independence of the EXAMINER.

Independence Issues

The EXAMINER and the INVESTMENT MANAGER MUST discuss with each other identified issues that could potentially affect independence as they arise. The EXAMINER and the INVESTMENT MANAGER MUST determine whether these issues can be resolved such that independence is achieved. The EXAMINER MUST document the conclusions reached and the rationale for their conclusions. Disclosure alone does not resolve an independence issue.

It may be helpful for both the EXAMINER and the INVESTMENT MANAGER to consider independence as a continuum. At one extreme of the continuum is an EXAMINER with no other relationships with the INVESTMENT MANAGER. At the other extreme is an EXAMINER with existing relationships and independence issues with the INVESTMENT MANAGER that cannot be resolved, such that the EXAMINER cannot conduct the engagement because independence cannot be achieved. The EXAMINER and the INVESTMENT MANAGER MUST determine where on this continuum their relationship lies and whether it is appropriate to proceed with the EXAMINATION engagement.

When an EXAMINER determines that an independence issue prevents it from continuing to provide EXAMINATION services to an INVESTMENT MANAGER, the EXAMINER MUST immediately inform the INVESTMENT MANAGER of the independence issue. The EXAMINER and the INVESTMENT MANAGER MUST also determine whether the newly discovered independence issue extends to any periods that were covered under prior EXAMINATIONS. If it does, the INVESTMENT MANAGER MUST cease making any claims that the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT has been examined for the period the independence issue existed and the EXAMINER MUST rescind any previously issued EXAMINATION REPORTS covering the affected time period. The INVESTMENT MANAGER may choose to subsequently have an INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT examined by an independent third party for the affected time period.

Guiding Principles

- The EXAMINER MUST be independent from the INVESTMENT MANAGER.
- The EXAMINER and the INVESTMENT MANAGER MUST adhere to the Examiner Independence Guidelines.
- The EXAMINER MUST adhere to any independence guidance for its profession, if applicable.
- The EXAMINER MUST create and document its own policies and procedures that address independence.
- The EXAMINER and the INVESTMENT MANAGER MUST consider their entire relationship when analyzing potential independence issues.

- The EXAMINER and the INVESTMENT MANAGER MUST conclude that the EXAMINER is independent prior to the start of the engagement, as evidenced by the engagement letter.
- The EXAMINER and the INVESTMENT MANAGER MUST discuss, and the EXAMINER MUST document, all potential independence issues that arise during or after the engagement and how they were resolved.
- All independence issues MUST be adequately resolved prior to issuing an EXAMINATION REPORT.
- If at any time an independence issue cannot be adequately resolved, the EXAMINER MUST NOT perform or continue to perform the EXAMINATION.
- The EXAMINER'S independence MUST be affirmed by the EXAMINER at the conclusion of the engagement as evidenced by the issuance of the EXAMINATION REPORT.
- The EXAMINATION REPORT title MUST include the word "Independent".
- The EXAMINATION REPORT MUST include language indicating that the EXAMINER is independent from the INVESTMENT MANAGER.
- The EXAMINER and the INVESTMENT MANAGER MUST reassess independence whenever any new information comes to light during or after the engagement that could affect independence. The conclusions reached and rationale for the conclusions MUST be documented by the EXAMINER.
- If it is determined that the EXAMINER issued an EXAMINATION REPORT to the INVESTMENT MANAGER when the EXAMINER was not, or is not, independent of the INVESTMENT MANAGER, the INVESTMENT MANAGER MUST cease making any claim that the INVESTMENT PRODUCT'S ESG DISCLOSURE STATEMENT was examined for the period for which the EXAMINER was not independent and MUST consider this to be a significant error.
- EXAMINERS MUST NOT engage in the following:
  - stepping into a management role that is ESG-related on behalf of the INVESTMENT MANAGER;
  - undertaking any management function or a decision-making role relative to the implementation of and compliance with the ESG Disclosure Standards; or
  - testing their own work.
- "Management functions" are tasks and responsibilities that are related to the ESG APPROACHES for an INVESTMENT PRODUCT and any related disclosure process. Management functions include, but are not limited to, the following:
  - creating policies and procedures for complying with the ESG Disclosure Standards,
  - calculating ESG-related metrics,
  - collating the underlying ESG data, and
  - preparing ESG DISCLOSURE STATEMENTS.

Assessment of Examiner Independence

In addition to EXAMINATION services, EXAMINERS may provide other services to the INVESTMENT MANAGER. The EXAMINER MUST be particularly cognizant of its role as adviser to the INVESTMENT MANAGER on issues relating to compliance with the ESG Disclosure Standards. The EXAMINER MUST take into account other services currently or previously provided to the INVESTMENT MANAGER, particularly if the period covered by the other services is also covered by the independent EXAMINER'S EXAMINATION REPORT. Independence issues MUST be resolved in order for the EXAMINER to be independent. Because each situation is unique, the following section contains considerations of other services provided by the EXAMINER. Although not exhaustive, these considerations are provided to assist EXAMINERS in more precisely defining the types of other services that result in an independence issue.

Consideration of Other Services Provided by the Examiner

Other services can include both ESG-related and non-ESG-related services. When the EXAMINER provides other services that are ESG-related, the EXAMINER MUST NOT step into a management role or undertake any management function. Further, the EXAMINER MUST NOT perform, or have performed in the past, any other services that would result in the EXAMINER reporting on its own work and decisions or calling its own work into question during the EXAMINATION.

Other services performed by an affiliate of the EXAMINER may create an independence issue. Such other services MUST be considered as being performed by the EXAMINER and MUST be evaluated as potential independence issues. An affiliate is any undertaking that is connected to another by means of common ownership, control, or significant influence.

Examples of other services provided to an INVESTMENT MANAGER that, if performed by the EXAMINER, are unlikely to create an independence issue include the following:

- providing advice to the project management team that is responsible for complying with the ESG Disclosure Standards, but this MUST NOT include making decisions on these issues for the INVESTMENT MANAGER;
- identifying issues that hinder an INVESTMENT MANAGER'S compliance with the ESG Disclosure Standards;
- educating INVESTMENT MANAGER personnel about the ESG Disclosure Standards and the compliance process;
- providing advice on ESG Disclosure Standards implementation or compliance issues;
- providing generic examples of ESG DISCLOSURE STATEMENTS;
- providing ESG Disclosure Standards compliance checklists;

- providing training on ESG Disclosure Standards–related topics;
- providing examples of policies and procedures language;
- reviewing results of ESG-related system conversion testing; and
- providing advice on selecting new ESG-related systems. The EXAMINER MUST NOT receive any monetary or nonmonetary compensation from the system providers for their review or recommendation.

Examples of other services provided to an INVESTMENT MANAGER that, if performed by the EXAMINER, create an independence issue include, but are not limited to, the following:

- establishing ESG-related policies and procedures;
- functioning as a project manager or as a member of the INVESTMENT MANAGER's project management team that is responsible for complying with the ESG Disclosure Standards;
- making decisions for the INVESTMENT MANAGER about issues for complying with the ESG Disclosure Standards;
- making decisions about disclosures that will be included in an ESG DISCLOSURE STATEMENT;
- collating or creating the underlying data REQUIRED to support ESG-related disclosures;
- calculating statistics or metrics included in ESG DISCLOSURE STATEMENTS;
- preparing ESG DISCLOSURE STATEMENTS;
- implementing a new ESG-related system for the INVESTMENT MANAGER; and
- functioning as a data warehouse for ESG-related information on behalf of the INVESTMENT MANAGER. The EXAMINER can maintain data duplicated for its own purposes, but these data MUST NOT serve as the INVESTMENT MANAGER's primary data source for information included in or that supports an ESG DISCLOSURE STATEMENT.

Other Issues That Must Be Considered When Determining an Examiner's Independence Status

Other issues that are not directly related to EXAMINATION services may affect an EXAMINER's independence. For example, if the EXAMINER serves as an advocate for the INVESTMENT MANAGER (e.g., the EXAMINER promotes the INVESTMENT MANAGER in order to solicit clients on the INVESTMENT MANAGER's behalf) or acts on behalf of the INVESTMENT MANAGER in disputes with third parties, it likely creates an independence issue.

An EXAMINER and its employees MUST also consider their personal and financial relationships with their clients and consider whether they are, in fact, independent or could be influenced by such relationships. Mere disclosure of a personal or financial relationship does not resolve the independence issue.

Examples of relationships for an EXAMINER or its employees that could create an independence issue include, but are not limited to, the following:

- employment at the INVESTMENT MANAGER of immediate family members (e.g., spouse, parents, children, siblings) of members of the EXAMINER's engagement team who are able to significantly influence the EXAMINATION engagement or matters relating to the INVESTMENT MANAGER's compliance with the ESG Disclosure Standards;
- providing and receiving of non-trivial gifts and non-trivial entertainment between the EXAMINER and the INVESTMENT MANAGER;
- any discount received by the INVESTMENT MANAGER on other products, such as software or an errors and omissions insurance policy, resulting from a relationship between the EXAMINER and the product provider;
- the EXAMINER's relationship with an ESG-related software provider whereby the EXAMINER receives a referral fee or non-trivial gifts and non-trivial entertainment whenever it successfully recommends the software to an INVESTMENT MANAGER;
- personal investments by members of the EXAMINER's engagement team and their immediate family members (e.g., spouse, parents, children, siblings) in the INVESTMENT MANAGER or the INVESTMENT PRODUCT whose ESG DISCLOSURE STATEMENT is being examined; and
- a contingent fee arrangement whereby no fee is charged for the EXAMINATION unless a specified result is attained or whereby the fee amount depends on the results of the services provided by the EXAMINER.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials.

The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

ISBN 978-1-956563-00-9

9 781956 563009 >

CFA Institute