

ESG ETF Due Diligence Checklist

With the growth of ETF options available to responsible investing-focused clients, comes a greater due-diligence challenge. The differences between the various offerings are becoming increasingly nuanced. You can use this worksheet with key questions as a framework to find ETFs that best suit your responsible investment goals.

Identifying The Right Provider

Key Questions	Considerations
<p>Experience</p> <ul style="list-style-type: none"> <input type="checkbox"/> How experienced is the firm in managing ESG assets? <input type="checkbox"/> How experienced is the index provider in ESG? 	<ul style="list-style-type: none"> • Consider a firm’s wider experience in managing ESG assets: Do they offer both active and passive? Is the firm committed to responsible investing? • Widely recognized indices typically provide additional support materials and have track records across market cycles.
<p>Depth of Firm’s Commitment</p> <ul style="list-style-type: none"> <input type="checkbox"/> Is the ETF provider a responsible steward? <input type="checkbox"/> Does the provider have all the building blocks you would need to build a portfolio? 	<ul style="list-style-type: none"> • Look for the depth of the firm’s commitment beyond product offering. Consider whether the firm is a UN PRI signatory (and for how long?) • Do they have a variety of products in the space? Active and passive? A diverse product shelf helps investors develop relationships and increase comfort with a provider.
<p>Firm’s Voting Records</p> <ul style="list-style-type: none"> <input type="checkbox"/> Is the firm committed to active ownership? 	<ul style="list-style-type: none"> • At a company level are they active owners with a commitment to shareholder voting? • How does the UN PRI rate the firm on their active ownership for listed equity, strategy and governance?
<p>Level of Support</p> <ul style="list-style-type: none"> <input type="checkbox"/> Is the firm committed to education? 	<ul style="list-style-type: none"> • Consider what level of education you are receiving from the firm on ESG considerations, and new developments in the ESG field of investing. • Providers that offer trading support and education allow investors to benefit from additional resources to better understand their products.



Be aware of “Greenwashing” – unsubstantiated claims of an investment product being ESG focused.

Identifying the Right Product For Your Client

Key Questions	Considerations
Methodology <ul style="list-style-type: none"> <input type="checkbox"/> How does the rating methodology work? <input type="checkbox"/> Is the firm public in their process, are they transparent? 	<ul style="list-style-type: none"> • Understanding the ratings methodology is important as there is a wide array of ESG approaches, from tilting a portfolio to higher rated ESG companies, to selecting only the best-in-class companies. • Consider the rebalancing frequency and liquidity constraints on securities and the portfolio. • Review the weighting methodology and understand the screening considerations for security selection.
Controversies <ul style="list-style-type: none"> <input type="checkbox"/> Does the index exclude companies involved in severe controversies? 	<ul style="list-style-type: none"> • Controversy ratings allow the index provider to analyze a company's significant social, environmental, and governance impacts, by identifying the company's involvement in major ESG controversies, its adherence to international norms and principles, and assessing. The company's performance with respect to these norms and principles.
Exclusions <ul style="list-style-type: none"> <input type="checkbox"/> Does the ETF track the market, or is it thematic (i.e. Low Carbon)? <input type="checkbox"/> Does the ETF exclude sectors, industries, or widely accepted "sin" stocks? 	<ul style="list-style-type: none"> • Note that tracking error may be higher for a portfolio using exclusions. • Your client may be investing in an ESG mandate to align their values with their investments - it is important to ensure they are comfortable with the exclusions, so there are no surprises.
Performance <ul style="list-style-type: none"> <input type="checkbox"/> How have the products performed? <input type="checkbox"/> What is the tracking error versus the parent index? 	<ul style="list-style-type: none"> • Keeping tracking error to a minimum may be important to investors to ensure their ESG integration process maintains portfolio allocations. • Review the track record of the index and consider its impact on risk adjusted returns.
Fees <ul style="list-style-type: none"> <input type="checkbox"/> What are the fees charged for the product? 	<ul style="list-style-type: none"> • Fees have an impact on performance: consider MERs, TERs as well as the bid-ask spread.



Consider whether the ETF provides full market exposure, or thematic exposure.

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