Tool 05

ESG Fund Manager Due Diligence Checklist

Advisor Cheat Sheet

ED4S

VERSION 1 | May 2026

PURPOSE

To help advisors evaluate ESG fund managers by identifying key due diligence questions, assessing sustainability claims, and recognizing potential risks and red flags.

THE 5 PILLARS OF ESG EVALUATION

1. ESG INTEGRATION
ESG factors are embedded in investment decisions, risk management, and portfolio construction.

2. THEMATIC INVESTING
Clear, well-defined themes with a disciplined process and valuation awareness - not just trend-following.

3. IMPACT INVESTING
Intentionality, additionality and measurable outcomes driven by clear impact objectives.

4. STEWARDSHIP & ENGAGEMENT
Active, strategic engagement that influences outcomes and protects long-term value.

5. ORGANIZATIONAL ESG MATURITY
Strong governance, capability, accountability and incentives embedded across the firm.

Golden Rule: Focus on investment relevance, evidence of implementation and outcomes (not just policies and marketing).

WHAT TO ASK, HOW TO INTERPRET & WHAT TO WATCH FOR

ESG INTEGRATION

KEY QUESTIONS TO ASK

- How is ESG integrated into your investment process?
- At what stage is ESG considered?
- Can you share examples where ESG changed an investment decision?
- How do analysts and PMs work together on ESG?
- How do you define material ESG issues by sector?

WHAT STRONG ANSWERS LOOK LIKE

- Clear explanation tied to research, valuation, risk and portfolio construction
- Specific examples of decisions impacted by ESG
- Sector-specific materiality frameworks
- ESG embedded throughout the investment flow
- Use of internal research, not just third-party scores

POTENTIAL RED FLAGS TO WATCH

- ESG team is separate from investment teams
- No examples of ESG impacting decisions
- Reliance on third-party ESG scores (only)
- Vague statements and generic language
- > ESG considered only at reporting stage

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WHAT TO ASK, HOW TO INTERPRET & WHAT TO WATCH FOR

THEMATIC INVESTING

KEY QUESTIONS TO ASK

- How do you define your themes?
- How do you avoid theme drift?
- What percentage of revenues must align with the theme?
- How do you evaluate valuation within themes?
- How do you measure thematic exposure over time?

WHAT STRONG ANSWERS LOOK LIKE

- Clear explanation tied to research, valuation, risk and portfolio construction
- Specific examples of decisions impacted by ESG
- Sector-specific materiality frameworks
- ESG embedded throughout the investment flow
- Use of internal research, not just third-party scores

POTENTIAL RED FLAGS TO WATCH

- Themes are too broad or loosely defined
- Heavy marketing language, weak method No discussion of valuation risk
- Portfolio holdings inconsistent with theme

IMPACT INVESTING

KEY QUESTIONS TO ASK

- How do you define impact?
- What specific impact outcomes do you target?
- How do you measure and verify impact?
- How does impact influence investment selection?
- Can you demonstrate additionality?

WHAT STRONG ANSWERS LOOK LIKE

- Clear distinction from ESG integration
- Specific, measurable outcomes (KPIs)
- Robust measurement and verification framework Impact influences underwriting and portfolio construction
- Evidence of additionality (theory of change) vs. status quo

POTENTIAL RED FLAGS TO WATCH

- Confuses impact with ESG integration No measurable impact KPIs
- Reliance only on SDG mapping
- No evidence of additionality
- Reporting only highlights positives

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WHAT TO ASK, HOW TO INTERPRET & WHAT TO WATCH FOR

STEWARDSHIP & ENGAGEMENT

KEY QUESTIONS TO ASK

- How do you prioritize engagement topics
- What does success look like?
- Can you share examples of failed engagements?
- How do engagements influence investment decisions?
- What escalation mechanisms do you use?

WHAT STRONG ANSWERS LOOK LIKE

- Materiality-driven prioritization
- Clear objectives, milestones and escalation paths
- Transparency on both successes and failures
- Engagement outcomes inform voting, valuation, or divestment
- Escalation: voting, collaboration, board engagement, divestment

POTENTIAL RED FLAGS TO WATCH

- Focus only on number of engagements
- No escalation framework
- Engagement team is siloed
- Generic voting policies
- No evidence of difficult or controversial engagements

ORGANIZATIONAL ESG MATURITY

KEY QUESTIONS TO ASK

- How are ESG responsibilities distributed across the firm?
- How is ESG performance reviewed internally?
- How are incentives aligned?
- How are investment teams trained?
- How does leadership oversee ESG strategy?

WHAT STRONG ANSWERS LOOK LIKE

- Clear ownership and accountability
- Governance and oversight at senior level
- Incentives aligned where relevant
- Ongoing training and capability building
- Active leadership involvement in ESG strategy

POTENTIAL RED FLAGS TO WATCH

- ESG concentrated in small team
- Weak governance structure
- No link to incentives/ accountability
- Gap between marketing and operations
- No investment in internal capabilities

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HOW TO INTERPRET ANSWERS

STRONG MANAGERS TYPICALLY...	WEAK MANAGERS TYPICALLY...
Use specific examples and evidence	Use generic statements and vague language
Explain how ESG impacts financial outcomes	Focus on policies and aspirations
Show integration across teams and processes	ESG is siloed or "tacked on" to the process
Acknowledge trade-offs and limitations	Overly polished, one-sided narratives
Provide data, KPIs and transparent reporting	Provide marketing decks, not data

THE EVALUATOR'S CHECKLIST

- Define which ESG capabilities matter most for your mandate, asset class and client base.
- Use the 5-pillar framework to structure every manager assessment.
- Ask for evidence: examples, data, case studies, quarterly reports.
- Triangulate answers with third-party research, portfolio analytics and reference checks.
- Document strengths, risks, and open questions.
- Monitor continuously post-election

KEY TAKEAWAYS

- Evaluate process, evidence, and outcomes (not promises).
- Ask for examples, data, and real decisions.
- Look beyond policies to implementation.
- Watch for red flags and marketing language.
- Strong ESG capabilities require firm-wide commitment.