

Catholic Values Investing Due Diligence Questionnaire

A Standardized Instrument and Evaluation Framework for the Selection of Asset Managers by
Religious Institutions

Catholic Finance Institute

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1. Executive Summary

The selection of an asset manager is among the most consequential operational decisions a religious institution makes. A diocese, congregation, or foundation typically implements its policy portfolio through external managers; the prudence of those appointments, and the fidelity of the resulting portfolio to Catholic teaching, depend on the quality of the due-diligence process that precedes them. Delegation to a manager does not delegate the institution’s fiduciary duty — the institution remains responsible for the prudent selection and continuing oversight of those it engages. The due diligence questionnaire (DDQ) is the instrument through which that responsibility is discharged at the point of selection.

Standardized DDQs are well established in institutional practice for the assessment of investment skill, operational integrity, and, increasingly, responsible-investment capability. What has been lacking is a DDQ designed for the distinctive requirements of the Catholic institutional investor: one that interrogates not only the manager’s investment and operational quality but also its capacity and willingness to implement faith-based screens, to exercise stewardship and engagement consistent with Catholic teaching, and to report on both with the same rigor as on financial performance. This is the **fidelity overlay** introduced in CFI Flagship Paper No. 01 and codified as a binding selection criterion in CFI Flagship Paper No. 02; the present paper operationalizes it.

This paper presents the **CFI Catholic Values Investing Due Diligence Questionnaire** — a standardized instrument of **114 questions across eight evaluation domains** (organization; investment philosophy and process; ESG integration; Catholic screening; stewardship; engagement; reporting and transparency; and risk management and operations) — together with an evaluation and scoring methodology, a set of knockout (pass/fail) criteria, a register of red flags, and guidance on the questionnaire’s place in a disciplined manager-selection process. The questionnaire is supplied in full, ready for adaptation, with a scoring template and process checklist in the appendices.

Three propositions organize the paper. **First**, manager selection should be a structured, documented, multi-stage process — not an act of relationship or reputation — because the empirical record shows that asset owners who select on the basis of recent performance, without disciplined process, tend to hire managers shortly before they underperform and to fire them shortly before they recover. The DDQ imposes the discipline that protects against this pattern and evidences the prudence of the decision. **Second**, for the Catholic investor, investment quality and fidelity are jointly necessary and neither is sufficient: a manager of genuine investment skill who cannot or will not implement the institution’s screens and stewardship policy is unsuitable, and a manager willing to apply screens but lacking investment and operational quality is equally unsuitable. The questionnaire therefore evaluates both, and treats the core fidelity requirements as pass/fail rather than merely scored. **Third**, operational due diligence — the assessment of the firm’s controls, valuation, custody, cyber posture, and integrity — is not a secondary concern but a primary one, because operational failure and fraud, not investment underperformance, are the causes of the most serious and irrecoverable losses, and because association with operational scandal poses acute reputational risk to a religious institution.

The paper concludes with red flags, best practices, illustrative composite case studies, prioritized recommendations, and the full questionnaire and supporting instruments. It is intended to enable any Catholic institution to conduct manager due diligence to an institutional standard while ensuring that fidelity is verified rather than assumed.

2. Background and Context

2.1 What a due diligence questionnaire is, and what it is for

A due diligence questionnaire is a structured set of questions issued by a prospective investor (or its adviser) to an asset manager, to elicit the information necessary to evaluate the manager before, and during, an investment relationship. It standardizes the information request, enables comparison across managers on a consistent basis, creates a documented record of the manager’s representations, and forms part of the evidence that the investor exercised prudence in selection. In institutional practice, DDQs address three broad areas: **investment** due diligence (the assessment of the strategy, process, people, and performance); **operational** due diligence (the assessment of the firm’s infrastructure, controls, valuation, custody, and integrity); and, increasingly, **responsible-investment** due diligence (the assessment of ESG integration, stewardship, and values alignment).

The DDQ is not, by itself, a selection decision. It is one stage in a process that also includes the definition of the mandate, the construction of a candidate universe, quantitative and qualitative analysis, reference checks, finalist meetings, and the negotiation of an investment management agreement. But it is the stage at which the institution’s specific requirements — including its faith-based requirements — are put to the manager directly and on the record, and it is therefore the instrument through which the fidelity overlay is made operational.

2.2 Why a Catholic-specific DDQ is necessary

Standard institutional DDQs — including the widely used templates for hedge funds and private funds and the responsible-investment questionnaires developed by responsible-investment bodies — address investment, operational, and ESG matters competently, but they do not address the distinctive requirements of the Catholic investor with the necessary specificity. Catholic screening is not equivalent to generic ESG integration: it rests on a defined body of moral teaching, it requires the application of specific exclusions and materiality judgements, and it raises questions — such as the treatment of material versus formal cooperation, the handling of pooled vehicles, and the willingness to engage with the institution’s theological and canonical advisers — that generic instruments do not pose. Likewise, Catholic stewardship and engagement are oriented to priorities (human dignity, the dignity of work, the care of creation, the common good) that a generic stewardship questionnaire does not foreground. A Catholic-specific DDQ closes this gap by adding a dedicated screening domain and by orienting the stewardship and engagement domains to the institution’s mission, while retaining the full rigor of institutional investment and operational due diligence.

2.3 Relationship to the governance framework and the IPS

This paper operationalizes a function specified in its two companion papers. CFI Flagship Paper No. 01 identified the manager-selection and oversight pillar and introduced the **fidelity overlay** as a mandatory due-diligence dimension; CFI Flagship Paper No. 02 codified manager-selection criteria, including the fidelity overlay, as binding provisions of the Investment Policy Statement. The present paper supplies the instrument by which those criteria are applied to actual managers. The three papers are designed to be used together: the governance framework establishes the responsibility, the IPS codifies the criteria, and the DDQ applies them.

2.4 The two failure modes the DDQ guards against

A Catholic institution faces two characteristic failure modes in manager selection, and the DDQ is designed to guard against both. The first is **the able but unfaithful manager**: a manager of genuine investment skill who cannot or will not implement the institution’s screens, vote and engage consistently with its values, or report on fidelity — exposing the institution to fidelity and reputational risk. The second is **the faithful but unable manager**: a manager willing to apply screens but deficient in investment quality, operational integrity, or both — exposing the institution to financial loss and operational risk. A robust DDQ evaluates both fidelity and quality and refuses to trade one for the other; the questionnaire’s structure and scoring methodology embody this refusal.

3. Literature Review

The DDQ draws on three literatures: the empirical and practitioner literature on manager selection and termination; the literature on operational due diligence; and the standards and practice of responsible-investment and faith-based manager assessment.

3.1 Manager selection and termination

The empirical literature on how asset owners select and terminate managers provides the central justification for a disciplined, documented DDQ process. A widely cited study of the hiring and firing decisions of plan sponsors (Goyal and Wahal, 2008) found that sponsors tend to hire managers after periods of strong relative performance and to terminate them after periods of weak performance, and that the post-hiring performance of newly selected managers and the post-termination performance of dismissed managers frequently disappoint the decision — implying that performance-chasing, undisciplined selection destroys value. The

practitioner literature on manager selection (Stewart, 2013, CFA Institute Research Foundation) develops the disciplined alternative: a structured evaluation of organization, people, philosophy, process, and performance, conducted with attention to the persistence (or otherwise) of skill and to the alignment of incentives. The lesson for the Catholic investor is that the DDQ is not bureaucratic overhead but the discipline that distinguishes prudent selection from the value-destroying pattern the evidence documents.

3.2 Operational due diligence

A substantial body of practice establishes operational due diligence as a distinct and primary discipline, on the premise that operational failure and fraud — rather than investment underperformance — account for a disproportionate share of catastrophic and irrecoverable investor losses (Scharfman, 2008). Operational due diligence examines the firm’s infrastructure, valuation, custody, administration, compliance, business continuity, cybersecurity, and the integrity of its principals. Standard institutional DDQ templates — such as those developed by the Alternative Investment Management Association (AIMA) for hedge funds and by the Institutional Limited Partners Association (ILPA) for private funds — codify the operational questions that experience has shown to matter, and inform the operational domain of the present instrument. For a religious institution, operational integrity carries an additional weight: association with operational scandal or fraud poses reputational risk that no investment return can offset.

3.3 Responsible-investment and faith-based manager assessment

The assessment of managers’ responsible-investment capability has been standardized by responsible-investment bodies. The Principles for Responsible Investment (PRI) operate a reporting and assessment framework against which signatory managers disclose their responsible-investment practices, and provide due-diligence questionnaires to assist asset owners in evaluating managers’ ESG, stewardship, and engagement capabilities. The CFA Institute *Asset Manager Code* establishes baseline expectations of integrity, disclosure, and client primacy against which a manager’s conduct can be assessed. Faith-based screening builds on this responsible-investment infrastructure but extends it: the magisterial and guidance corpus reviewed in CFI Flagship Paper No. 01 — including the USCCB *Socially Responsible Investment Guidelines* (2003; rev. 2021), *Oeconomicae et pecuniariae quaestiones* (2018), and *Mensuram Bonam* (2022) — supplies the substantive criteria that the Catholic-screening domain of the DDQ operationalizes. The present instrument integrates these literatures: it applies institutional investment and operational due-diligence rigor, adopts the responsible-investment assessment of ESG, stewardship, and engagement, and adds the dedicated Catholic-screening domain that generic instruments lack.

3.4 Synthesis

The literatures converge on the design of the instrument that follows. Disciplined, documented manager selection protects against the value-destroying performance-chasing the empirical record documents; operational due diligence guards against the catastrophic losses that operational failure and fraud produce; and responsible-investment assessment, extended by the Catholic-screening domain, ensures that fidelity is evaluated and verified. The CFI questionnaire combines all three, weighted and scored, with the core fidelity requirements treated as pass/fail.

4. The CFI Due Diligence Framework

4.1 The eight evaluation domains

The CFI questionnaire is organized into eight domains. The first two assess investment quality; the third and fourth assess ESG integration and the distinctive Catholic-screening capability; the fifth and sixth assess

stewardship and engagement; the seventh assesses transparency; and the eighth assesses risk management and operational integrity. Together they answer the two questions a Catholic institution must resolve before appointing a manager — *Is this manager good?* and *Is this manager faithful?* — and refuse to trade one against the other.

Table 1 — The eight evaluation domains

Domain	Question it answers	Questions	Primary concern
A. Organization	Is the firm sound, stable, and aligned?	Q1–Q16	Stability; alignment; reputation
B. Investment philosophy & process	Is there a credible, repeatable source of return?	Q17–Q32	Skill; discipline; capacity
C. ESG integration	Are material ESG factors analyzed?	Q33–Q44	Materiality; substance; non-greenwashing
D. Catholic screening	Can fidelity be implemented and verified?	Q45–Q62	Screening capability; the fidelity overlay
E. Stewardship	Are ownership responsibilities exercised?	Q63–Q74	Voting; policy; resourcing
F. Engagement	Is ownership used to promote the good?	Q75–Q86	Engagement practice; escalation; outcomes
G. Reporting & transparency	Can the institution see and account for the program?	Q87–Q100	Transparency; verification; bespoke reporting
H. Risk management & operations	Are risks and operations controlled?	Q101–Q114	Controls; valuation; custody; cyber; integrity

4.2 The evaluation and scoring methodology

Each question is assessed and assigned a score; domain scores are aggregated to a weighted total. The CFI framework recommends a five-point scale, applied to the manager’s response to each question and rolled up to a domain rating.

Table 2 — The five-point evaluation scale

Score	Rating	Meaning
4	Excellent	Best-practice; clearly exceeds the requirement; strongly evidenced
3	Strong	Meets the requirement fully; well evidenced
2	Adequate	Meets the requirement with minor gaps or weak evidence
1	Weak	Significant gaps; requirement only partially met
0	Unacceptable	Fails the requirement; or a knockout breach (see §4.3)

Domains are weighted to reflect their importance to the institution; weights should be set deliberately by the committee. The framework offers an indicative weighting that gives substantial weight to the Catholic-screening domain (consistent with the fidelity overlay) without diminishing the centrality of investment quality and operational integrity. The institution may, and should, adjust these weights to its own priorities and to the asset class in question.

Table 3 — Indicative domain weights (to be set by the committee)

Domain	Indicative weight
A. Organization	12%
B. Investment philosophy & process	20%
C. ESG integration	8%
D. Catholic screening	20%
E. Stewardship	8%
F. Engagement	7%
G. Reporting & transparency	10%
H. Risk management & operations	15%
Total	100%

The weighted total yields a comparable score across candidate managers. The framework cautions, however, that the total score is an aid to judgement, not a substitute for it: a high total achieved despite a critical weakness (for example, an unresolved operational control deficiency, or an inability to implement core screens) should not override the committee's judgement, which is why the framework supplements scoring with knockout criteria.

4.3 Knockout (pass/fail) criteria and the fidelity overlay

Certain requirements are so fundamental that failure on them disqualifies a manager regardless of its score elsewhere. These **knockout criteria** are assessed pass/fail before, or alongside, scoring. They express the principle that for a Catholic institution fidelity and integrity are not tradable against investment merit.

Table 4 — Knockout (pass/fail) criteria

#	Criterion	Failure means
K1	Ability to implement the institution's core exclusionary screens (security-level, in the proposed vehicle)	Cannot deliver a faithful portfolio
K2	Willingness to accept the institution's screening policy as binding in the IMA, with remediation obligations	Fidelity is not enforceable
K3	Willingness to vote proxies per the institution's policy (not a vendor default)	Stewardship cannot be directed
K4	Independent custody and administration (assets not in the manager's sole control)	Unacceptable fraud/operational risk
K5	Independent or robust valuation of assets	Unreliable pricing; concealment risk
K6	Clean (or fully explained and remediated) regulatory and litigation record	Unacceptable reputational/legal risk
K7	Adequate cybersecurity and payment-fraud controls	Unacceptable cyber/fraud risk
K8	No association creating grave reputational risk for a religious institution	Unacceptable reputational risk to witness

A manager that fails any knockout criterion is excluded from further consideration unless the failure can be cured (for example, by offering a separately managed account that permits screening, or by remediating a control deficiency) to the committee's satisfaction and on the record.

4.4 The questionnaire in the manager-selection process

The DDQ is one stage in a disciplined selection process. The framework situates it within an eight-stage sequence, consistent with the manager-oversight pillar of CFI Flagship Paper No. 01 and the manager-selection provisions of CFI Flagship Paper No. 02.

Table 5 — The eight-stage manager-selection process

Stage	Activity	Output
1	Define the mandate (asset class, role, screening requirements, vehicle)	Mandate specification
2	Construct the candidate universe	Long list
3	Issue the DDQ; assess investment, operational, and fidelity responses	Completed DDQs; scores
4	Apply knockout criteria; score and rank	Short list
5	Conduct reference checks (incl. a faith-based asset-owner reference)	Reference findings
6	Hold finalist meetings and on-site/operational review	Finalist assessment
7	Select; negotiate the IMA with binding screening and stewardship terms	Executed IMA
8	Onboard; begin ongoing monitoring (Flagship Paper No. 01, §4.5)	Monitoring in place

The framework emphasizes three disciplines. First, **document everything**: the completed DDQ, the scores, the knockout assessment, the reference findings, and the rationale for selection together evidence the prudence of the decision. Second, **make fidelity binding**: the screening and stewardship requirements must be written into the investment management agreement, with defined remediation obligations, so that fidelity is enforceable and not merely promised. Third, **do not stop at selection**: the DDQ is also the baseline for ongoing monitoring, and the institution should re-confirm key representations (especially fidelity and operational integrity) periodically thereafter.

5. The Questionnaire

The following 114 questions constitute the CFI Catholic Values Investing Due Diligence Questionnaire. They are a template for adaptation to the institution's mandate, asset class, and circumstances; not every question applies to every mandate, and institutions should add mandate-specific questions as required. Questions marked [K] correspond to knockout criteria (§4.3). Managers should be asked to answer fully, to attach supporting documentation, and to certify the accuracy of their responses.

Domain A — Organization (Q1-Q16)

Q1. Provide an overview of the firm: legal structure, ownership, year founded, headquarters and offices, and all regulatory registrations and jurisdictions.

Q2. Describe the ownership structure, including any parent or affiliates and the percentage owned by employees. Detail any ownership changes in the last five years and any that are anticipated.

Q3. State the firm's total assets under management (AUM) and the AUM in the proposed strategy as of the most recent quarter-end, with a five-year history of each.

Q4. Describe the client base by type (institutions, endowments, religious institutions, etc.) and concentration (largest client and top-ten clients as a percentage of AUM).

Q5. Provide an organizational chart and headcount by function (investment, operations, compliance, client service, responsible investment/stewardship).

Q6. Describe key-person dependence and the firm's succession, retention, and business-continuity arrangements for principals and senior investment staff.

Q7. Describe the firm's financial condition. Is the firm profitable and sufficiently capitalized to sustain operations through a prolonged downturn?

Q8. Describe the compensation and equity arrangements for investment professionals and how they align the firm's interests with those of clients.

Q9. Summarize the firm's compliance program, the role and independence of the Chief Compliance Officer, and the code of ethics. Does the firm adhere to the CFA Institute Asset Manager Code?

Q10. [K] Disclose any regulatory examinations with material findings, deficiency letters, fines, sanctions, litigation, arbitration, or investigations involving the firm or its principals in the last ten years, with current status and remediation.

Q11. Describe the firm's conflict-of-interest policy and how conflicts (personal trading, gifts and entertainment, side-by-side management, affiliated transactions, soft dollars) are identified, disclosed, and managed.

Q12. Describe the composition of the investment team and leadership and the firm's policies bearing on the dignity and fair treatment of its own employees.

Q13. [K] Disclose any matter, association, or activity of the firm or its principals that could create reputational risk for a religious institution or that is inconsistent with the values such an institution would expect.

Q14. Describe the firm's insurance coverage (errors and omissions, directors and officers, fidelity/crime, cyber), including limits and carriers.

Q15. Provide three institutional client references, including, where possible, a faith-based or values-driven asset owner.

Q16. Is the firm a signatory to the PRI or other responsible-investment frameworks, and for how long? Provide your most recent PRI assessment scores and module results, if available.

Domain B — Investment Philosophy and Process (Q17-Q32)

Q17. Describe the strategy's investment philosophy and the specific source(s) of expected excess return (the "edge"). Why do you expect this source to persist?

Q18. Describe the investment process end to end, from idea generation through research and portfolio construction to the sell discipline.

Q19. Define the investment universe and any constraints (capitalization, geography, sector, credit quality, liquidity).

Q20. Describe how investment decisions are made (individual portfolio manager, team, or committee) and who holds ultimate decision authority.

Q21. Describe the respective roles of fundamental research, quantitative models, and external/third-party research in the process.

Q22. Describe portfolio construction: typical number of holdings, position-sizing methodology, and sector, issuer, and other concentration limits.

Q23. State the strategy's typical annual turnover and describe how transaction costs are measured and controlled.

Q24. Describe the sell discipline and the criteria and process by which positions are exited.

Q25. State the strategy's benchmark and the typical and expected tracking error and active share.

Q26. Provide performance, gross and net of fees, against the benchmark over 1, 3, 5, and 10 years and since inception, prepared in compliance with the Global Investment Performance Standards (GIPS) where applicable.

Q27. Describe the strategy's behavior in major drawdowns (e.g., 2008, 2020, 2022), what those episodes

revealed about the process, and any changes made in response.

Q28. State the strategy's capacity, how much capacity remains, and the level at which you would close the strategy to new assets.

Q29. Describe how the strategy has evolved since inception, including any changes in philosophy, process, or key personnel, and the reasons.

Q30. Describe how the integration of Catholic screening affects the investable universe, the portfolio-construction process, and the expected tracking error of a screened version of the strategy.

Q31. [K] Can the strategy be implemented in a separately managed account (or equivalent) to permit bespoke, security-level screening? State the minimum account size and any limitations.

Q32. Provide the full fee schedule for the proposed mandate, including any performance fees, and an estimate of the all-in expected total cost of ownership.

Domain C — ESG Integration (Q33–Q44)

Q33. Describe how environmental, social, and governance factors are integrated into investment analysis and decision-making, with concrete examples.

Q34. Is ESG integration applied to all holdings or a subset? Is it qualitative, quantitative, or both, and at what stage of the process?

Q35. What ESG data sources, ratings, and tools do you use, and how do you address their known limitations, gaps, and the divergence among ESG ratings providers?

Q36. How do you assess material ESG risks at the issuer level? Provide a worked example in which ESG analysis changed an investment decision.

Q37. How is climate risk — both transition and physical — assessed and incorporated? Do you measure and report portfolio carbon or other climate metrics?

Q38. How is the firm governed with respect to ESG (dedicated staff, committee oversight, accountability), and how is ESG capability resourced?

Q39. How do you ensure that ESG claims are substantiated and avoid “greenwashing”?

Q40. How do you reconcile ESG integration with fiduciary duty and the requirement of financial materiality?

Q41. How does your ESG approach relate to the concerns of Catholic social teaching (human dignity, the dignity of work, the care of creation, the common good)? Where do they align, and where might they diverge?

Q42. Do you measure and report ESG or sustainability outcomes for client portfolios? Describe the metrics.

Q43. Are you subject to, and compliant with, applicable sustainability-disclosure regulation in your operating jurisdiction(s)?

Q44. How do you address ESG considerations in asset classes where issuer-level ESG data is limited (e.g., sovereign debt, private assets, securitized products)?

Domain D — Catholic Screening (Q45–Q62)

Q45. Have you previously managed assets subject to Catholic investment guidelines (e.g., the USCCB Socially Responsible Investment Guidelines or equivalent)? Describe the mandates, their size, and their tenure.

Q46. [K] Can you implement client-specific exclusionary screens at the security level in the proposed vehicle? Describe the mechanism, the systems used, and any limitations.

Q47. How do you source, verify, and update the involvement and revenue data used to apply exclusions (e.g., revenue-threshold tests for excluded activities)?

Q48. How do you treat companies with incidental versus material involvement in an excluded activity? What materiality thresholds do you apply, and can they be customized to the client's policy?

Q49. How do you handle indirect exposures (subsidiaries, holding companies), passive or index exposures, and derivative exposures to excluded issuers?

Q50. Describe your capacity to implement each category of the applicable Catholic guidelines (e.g., protection of human life, promotion of human dignity, economic justice, care for creation, avoidance of certain armaments). Identify any categories where you have gaps.

Q51. How frequently are holdings screened against the restricted list, and how quickly are inadvertent breaches identified?

Q52. Describe your process and remediation timeline when a held security becomes newly restricted (e.g., owing to new information or a corporate action).

Q53. Which faith-based or values-screening data providers do you use, and how do you validate and, where necessary, override their classifications?

Q54. Can you accommodate a client's bespoke restricted list that differs from a standard provider's screen? Describe the onboarding process, system requirements, and any additional cost.

Q55. [K] How do you handle commingled vehicles in which security-level screening cannot be applied? What compliant vehicle options (e.g., separately managed account, fund-of-one) can you offer?

Q56. Do you offer a dedicated Catholic-screened product, a separately managed account capability, or both? Describe the screened product's methodology and track record.

Q57. What is the typical effect of Catholic screens on the investable universe, expected return, and tracking error for your strategy, based on your experience?

Q58. How do you report screening compliance to clients, including any exceptions, breaches, and remediation, and at what frequency and level of detail?

Q59. [K] Will you accept the client's Catholic screening policy as a binding provision of the investment management agreement, with defined breach-remediation obligations?

Q60. How do you stay current with developments in Catholic investment guidance (e.g., Mensuram Bonam) and translate them into screening practice?

Q61. Are you willing to engage with the client's theological or canonical advisers on the application of screens, including questions of material versus formal cooperation?

Q62. Describe an instance in which you declined or exited an investment specifically for faith-based or values reasons, and the process you followed.

Domain E — Stewardship (Q63-Q74)

Q63. Do you maintain a written stewardship policy? Provide it. How is it governed, and how frequently reviewed?

Q64. [K] Do you maintain a written proxy-voting policy, and will you vote proxies in accordance with the client's policy rather than your standard policy or a proxy adviser's default recommendations?

Q65. Describe your proxy-voting process, including any use of proxy advisers and the safeguards by which you avoid mechanical reliance on their recommendations.

Q66. Provide your proxy-voting record for the last three years, including the incidence of, and rationale for, votes against management.

Q67. Describe how you vote on issues of particular relevance to Catholic teaching (e.g., human dignity and life issues, labor and human rights, executive compensation, environmental stewardship).

Q68. How do you identify and manage conflicts of interest in proxy voting?

Q69. Do you disclose your voting records publicly and to clients? At what frequency and level of granularity?

Q70. Are you a signatory to a stewardship code (e.g., the UK Stewardship Code)? Provide your most recent stewardship report.

Q71. How do you measure and demonstrate the effectiveness and outcomes of your stewardship?

Q72. How are stewardship responsibilities staffed and resourced within the firm, and how are they integrated with the investment team?

Q73. How would you accommodate stewardship priorities specific to the client's charism or mission?

Q74. How do you exercise stewardship in asset classes beyond public equity (e.g., corporate fixed income, private markets, real assets)?

Domain F — Engagement (Q75–Q86)

Q75. Describe your approach to corporate engagement: its objectives, how engagement targets are prioritized and selected, and how engagement is documented.

Q76. Describe your escalation process when initial dialogue does not produce the desired result (your engagement “escalation ladder”).

Q77. Provide three engagement case studies, each stating the objective, the actions taken, the timeline, and the outcome — including any that remain unresolved.

Q78. Do you engage directly, through sub-advisers or external managers, collaboratively with other investors, or by some combination? Describe each channel.

Q79. Are you a member of any collaborative engagement initiatives or investor coalitions (e.g., the Interfaith Center on Corporate Responsibility, Climate Action 100+, or similar)? State which, and describe the level and nature of your participation.

Q80. Will you undertake engagement aligned with the client's stated priorities, and report on that engagement specifically?

Q81. How do you decide between engagement (voice) and divestment (exit) when concerns remain unresolved, and how do you document that decision?

Q82. How do you track and measure engagement outcomes, and what is your demonstrated success rate?

Q83. Do you file or co-file shareholder proposals? Provide examples relevant to Catholic concerns, with outcomes.

Q84. How is engagement integrated with the investment process and with proxy voting?

Q85. How do you approach engagement on systemic issues (e.g., climate change, human rights) as distinct from company-specific issues?

Q86. How do you report engagement activity and outcomes to clients, and at what frequency and depth?

Domain G — Reporting and Transparency (Q87–Q100)

Q87. Describe the standard client reporting package: its contents, frequency, and means of delivery.

Q88. [K] Can you provide full transparency of holdings (complete look-through) to the client, and at what frequency?

- Q89.** How do you report performance and attribution, and against which benchmarks? Are performance reports GIPS-compliant?
- Q90.** How do you report screening compliance, exceptions, and remediation?
- Q91.** How do you report stewardship and engagement activity and outcomes?
- Q92.** How do you report risk metrics (e.g., volatility, drawdown, tracking error, factor and sector exposures, liquidity)?
- Q93.** Can you provide ESG or impact-outcome reporting where the client adopts positive, thematic, or impact allocations?
- Q94.** How are fees and total costs disclosed, itemized, and reconciled in client reporting?
- Q95.** Are you willing to provide bespoke reporting to meet the client's governance and canonical reporting needs (e.g., reporting suitable for a finance council, a council of a religious institute, or members and donors)?
- Q96.** How do you ensure the accuracy and independent verification of reported data (e.g., independent administrator, custodian reconciliation, external audit)?
- Q97.** What is your responsiveness to ad hoc client queries, and who will be the client's day-to-day contact and senior relationship owner?
- Q98.** Do you provide a secure portal or system for client access to data and documents? Describe its security and access controls.
- Q99.** How do you communicate with clients during periods of stress or significant events (e.g., a screening breach, a key-person departure, a market dislocation, an operational incident)?
- Q100.** Can you deliver data in the formats and to the systems the client requires (e.g., for consolidation across multiple managers)?

Domain H — Risk Management and Operations (Q101-Q114)

- Q101.** Describe your investment risk-management framework, including the categories of risk monitored and the limits applied.
- Q102.** Who is responsible for risk management, and is the risk function independent of portfolio management?
- Q103.** What risk systems and models do you use, and how are they validated and reviewed?
- Q104.** How do you monitor and manage liquidity risk, including under stressed conditions and for any less-liquid holdings?
- Q105.** How do you conduct stress testing and scenario analysis? Provide representative examples and the scenarios used.
- Q106.** How do you monitor and manage concentration risk and counterparty risk?
- Q107. [K]** Describe your operational infrastructure: trade execution, settlement, valuation, and reconciliation. Identify your administrator and custodian and confirm that client assets are held independently of the firm.
- Q108. [K]** Describe your valuation policy, including the treatment of hard-to-value assets and the independence of pricing.
- Q109.** Describe your business-continuity and disaster-recovery plans and when they were last tested.
- Q110. [K]** Describe your cybersecurity program, including governance, technical and organizational controls, penetration testing, incident history, and controls against payment and wire fraud.

Q111. Describe your operational controls against fraud, including segregation of duties and the authorization and verification of cash movements.

Q112. Who audits the firm and any commingled funds? Provide recent audited financial statements and any internal-controls reports (e.g., SOC 1/SOC 2) available.

Q113. How do you manage vendor and outsourcing risk, including oversight of administrators, data providers, and sub-advisers?

Q114. How do you handle and protect client data and confidential information, consistent with applicable data-protection law?

6. Red Flags and Warning Signs

Beyond the scored responses, certain patterns warrant heightened scrutiny. The following register collects red flags observed in institutional due diligence, organized by domain. The presence of a red flag is not necessarily disqualifying, but it requires investigation and, where unresolved, should weigh heavily against selection.

Table 6 — Red-flag register

Domain	Red flag	Why it matters
Organization	High client concentration; rapid AUM loss; unexplained personnel turnover	Instability; possible undisclosed problems
Organization	Reluctance to disclose regulatory or litigation history; vague answers	Possible concealment; reputational risk
Organization	Acute key-person dependence with no succession plan	Continuity risk
Philosophy & process	Inability to articulate a clear, persistent edge; “black-box” opacity	Skill may be illusory or non-repeatable
Philosophy & process	Style drift; performance inconsistent with stated process	Loss of discipline
Philosophy & process	Strategy at or beyond capacity; closing not contemplated	Future dilution of returns
ESG	ESG claims unsupported by process or examples (“greenwashing”)	Marketing without substance
Catholic screening	Cannot implement security-level screens; only “ESG-like” capability	Fails the fidelity overlay
Catholic screening	Unwilling to make screening binding in the IMA	Fidelity unenforceable
Catholic screening	Reliance on a single provider’s screen without validation or override	Misclassification risk
Stewardship	Proxies voted by vendor default; no client-specific voting	Stewardship not directed
Stewardship	No voting record provided, or record inconsistent with stated policy	Policy not implemented
Engagement	Engagement asserted but no documented outcomes or case studies	Engagement may be nominal
Reporting	Resistance to full holdings transparency	Concealment risk; oversight impaired
Reporting	Performance not independently verified or GIPS-compliant	Reliability of reporting in doubt
Risk & operations	Risk function not independent of portfolio management	Weak control; conflict
Risk & operations	Manager controls custody or valuation; no independent administrator	Fraud risk (a primary cause of catastrophic loss)

Domain	Red flag	Why it matters
Risk & operations	Weak or untested cyber and payment-fraud controls	Cyber and fraud exposure
Risk & operations	Qualified audit, or refusal to provide audited statements/SOC reports	Serious integrity concern

7. Best Practices

The following practices govern the effective use of the questionnaire and the conduct of manager due diligence.

1. **Treat the DDQ as one stage in a disciplined process, not the whole of it.** The questionnaire informs, but does not replace, reference checks, finalist meetings, on-site operational review, and the negotiation of binding terms. The empirical record warns against undisciplined, performance-driven selection; process is the safeguard.
2. **Adapt the questionnaire to the mandate.** Tailor the questions to the asset class and vehicle (a private-fund mandate requires additional questions on terms, fees, capital calls, and governance; a passive mandate requires emphasis on screening implementation and tracking). Add mandate-specific questions; remove those that do not apply.
3. **Apply the knockout criteria first.** Do not expend analytical effort scoring a manager that fails a fundamental requirement — the inability to implement core screens, the absence of independent custody, an unresolved integrity concern. The knockouts are a gate.
4. **Verify, do not merely collect.** Treat the manager's responses as representations to be tested — against documentation, references, public records, and, where material, independent verification. Operational claims in particular should be confirmed, because operational failure and fraud are the causes of the most serious losses.
5. **Weight the domains deliberately, and let judgement govern the total.** Set domain weights to the institution's priorities; use the weighted score as an aid to, not a substitute for, the committee's judgement, and never let a high total override a critical unresolved weakness.
6. **Make fidelity binding and enforceable.** Write the screening and stewardship requirements into the investment management agreement, with defined remediation obligations and the institution's rights on breach. A promise that is not in the contract is not a control.
7. **Prefer structures that permit screening.** Where bespoke screening is required, favor separately managed accounts or equivalent structures; where only pooled vehicles are available, assess them for material inconsistency and prefer the most compliant, documenting the rationale.
8. **Document the decision.** Retain the completed DDQ, the scores, the knockout assessment, the references, and the selection rationale. This record evidences the prudence of the appointment and supports continuity and accountability.
9. **Use the DDQ as the baseline for ongoing monitoring.** Re-confirm key representations — especially on fidelity and operational integrity — periodically, and treat material changes (in personnel, ownership, controls, or screening capability) as monitoring triggers (Flagship Paper No. 01, §4.5).
10. **Engage the right expertise.** Involve investment, operational, legal, and — for the screening domain — theological or canonical expertise in the assessment, internally or through advisers.

8. Case Studies (Illustrative Composites)

The following composites illustrate the questionnaire in use. They do not describe any identifiable manager or institution.

Case Study A — The high-scoring manager that failed a knockout

A diocese's committee evaluated a manager that scored strongly on investment philosophy, process, and performance and on operations — an evident first-quartile candidate on conventional criteria. On the Catholic-screening domain, however, the manager could implement only its standard “ESG” exclusions within a commingled fund and was unwilling to offer a separately managed account at the diocese's size or to make screening binding in the agreement (failing knockouts K1, K2, and K5-adjacent custody aside). Under the framework, the manager was excluded notwithstanding its high conventional score, and the committee selected a slightly lower-scoring manager that could implement the diocese's screens at the security level and accept them as binding. *Lesson: the fidelity overlay is a gate, not a weighting; investment merit cannot purchase exemption from it.*

Case Study B — The operational red flag that averted a loss

A foundation's committee was attracted to a manager with a compelling strategy and strong returns. Operational due diligence (Domain H) revealed that the manager valued certain hard-to-value positions itself, without an independent administrator, and that its audit had been delayed two years running. These were red flags in the operations register and failures of knockouts K4 and K5. Reference and public-record checks surfaced further concerns. The committee declined to invest. The discipline of operational due diligence — assessing controls, valuation, and custody rather than only performance — averted a potential and irrecoverable loss and the reputational damage that association with an operational failure would have caused the foundation. *Lesson: operational integrity is a primary, not secondary, criterion; the most serious losses are operational, not investment.*

Case Study C — Turning a “no” into a compliant solution

A congregation wished to access a particular asset class for which no suitable Catholic-screened pooled product existed, and where managers initially answered that they could not screen. Rather than abandon the allocation or accept an unscreened vehicle, the committee used the DDQ process to identify a manager willing to establish a separately managed account that permitted the congregation's bespoke screens, to accept the screening policy as binding, and to report on compliance — at a negotiated minimum size the congregation could meet by aggregating with a peer institution. *Lesson: a disciplined DDQ process can convert an apparent “no” into a compliant solution, sometimes through customization and collaboration among institutions.*

9. Recommendations

For institutions. 1. **Adopt the CFI questionnaire (adapted)** as the standard instrument for manager due diligence, and apply it within the eight-stage selection process. 2. **Apply the knockout criteria as a gate**, and never trade core fidelity or operational integrity for investment merit. 3. **Make screening and stewardship binding in every IMA**, with remediation obligations. 4. **Conduct genuine operational due diligence**, verifying custody, valuation, audit, and cyber controls. 5. **Document the process and use it as the baseline for ongoing monitoring**, re-confirming key representations periodically.

For asset managers serving Catholic institutions. 6. **Develop genuine fidelity capability** — security-level screening, client-directed voting and engagement, and compliance reporting — and be willing to make

it contractually binding. Generic ESG capability is not sufficient. 7. **Be transparent:** provide full holdings look-through, independently verified performance, and candid disclosure of regulatory, operational, and integrity matters.

For the Catholic financial ecosystem (including CFI). 8. **Promote a common DDQ standard and a shared scoring discipline,** so that the cost of rigorous due diligence falls, smaller institutions are not excluded, and managers face consistent expectations that raise the quality and availability of compliant products.

10. Conclusion

The appointment of an asset manager commits a religious institution's patrimony to another's stewardship, but it does not transfer the institution's responsibility for prudence or fidelity. The due diligence questionnaire is the instrument through which that responsibility is discharged at the point of selection: it interrogates the manager's investment skill, operational integrity, and — distinctively for the Catholic investor — its capacity and willingness to implement screens, exercise stewardship and engagement consistent with the faith, and report on fidelity with the same rigor as on returns.

This paper has supplied that instrument: the CFI Catholic Values Investing Due Diligence Questionnaire of 114 questions across eight domains, with an evaluation and scoring methodology, knockout criteria that make fidelity and integrity non-negotiable, a red-flag register, and guidance on the questionnaire's place in a disciplined selection process. Its central conviction, shared with its companion papers, is that for a Catholic institution investment quality and fidelity are jointly necessary and neither is sufficient — and that the discipline of structured due diligence is the means by which both are secured and the prudence of the decision is evidenced.

Used together with CFI Flagship Paper No. 01 (which establishes the responsibility for manager oversight) and No. 02 (which codifies manager-selection criteria in the IPS), this questionnaire enables any Catholic institution to select managers to an institutional standard while ensuring that fidelity is verified rather than assumed. Subsequent papers in the series develop the stewardship function in full and provide handbooks for practitioners, completing the operational toolkit for the faithful and prudent stewardship of ecclesiastical patrimony.

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Note on sources. References to magisterial and canonical texts are given by document and year; readers should consult the authoritative editions and the most current revisions. References to third-party DDQ templates and frameworks are illustrative and do not constitute endorsement. The bibliography is selective; see CFI Flagship Papers No. 01 and No. 02 for fuller bibliographies of the governance, IPS, and faith-consistent-investing literatures.

12. Appendices

Appendix A — Scoring template (per manager)

Score each domain from the question-level assessments using the five-point scale (Table 2); apply the committee's domain weights (Table 3); record the knockout assessment (Table 4) separately. A manager that fails any knockout is excluded regardless of weighted score.

Domain	Weight	Domain score (0–4)	Weighted score	Notes / evidence
A. Organization	12%			
B. Investment philosophy & process	20%			
C. ESG integration	8%			
D. Catholic screening	20%			
E. Stewardship	8%			
F. Engagement	7%			
G. Reporting & transparency	10%			
H. Risk management & operations	15%			
Weighted total	100%		/4.0	

Knockout	Pass / Fail	Note
K1 Security-level screening in proposed vehicle		
K2 Screening binding in IMA		
K3 Client-directed proxy voting		

Knockout	Pass / Fail	Note
K4 Independent custody/administration		
K5 Independent/robust valuation		
K6 Clean/expained regulatory & litigation record		
K7 Adequate cyber & payment-fraud controls		
K8 No grave reputational-risk association		

Overall recommendation: ☐ Advance to finalist ☐ Decline ☐ Investigate further — Rationale:

Appendix B — Due-diligence process checklist

#	Step	Done
1	Mandate defined (asset class, role, screening requirements, vehicle, minimum size)	☐
2	Candidate universe constructed	☐
3	DDQ issued and completed responses received	☐
4	Knockout criteria applied	☐
5	Domains scored and weighted; ranking produced	☐
6	Documentation verified (audited statements, SOC reports, regulatory records)	☐
7	References checked (incl. a faith-based asset-owner reference)	☐
8	Finalist meetings and operational/on-site review conducted	☐
9	Selection rationale documented	☐
10	IMA negotiated with binding screening and stewardship terms and remediation rights	☐
11	Onboarding completed; baseline captured for ongoing monitoring	☐
12	Monitoring schedule and re-confirmation cadence established	☐

Appendix C — Glossary of selected terms

Term	Meaning in this framework
Due diligence questionnaire (DDQ)	A structured information request used to evaluate an asset manager before and during a relationship.
Investment due diligence	Assessment of strategy, people, process, and performance.
Operational due diligence (ODD)	Assessment of infrastructure, controls, valuation, custody, cyber, and integrity.
Fidelity overlay	A manager's capacity and willingness to implement the institution's screens and stewardship.
Knockout criterion	A fundamental requirement assessed pass/fail; failure disqualifies regardless of score.
Separately managed account (SMA)	An account holding the client's own assets, permitting bespoke screening.

Term	Meaning in this framework
Commingled / pooled vehicle	A fund pooling many investors' assets, in which bespoke screening usually cannot be applied.
Active share / tracking error	Measures of how far a portfolio departs from its benchmark.
GIPS	Global Investment Performance Standards, governing the calculation and presentation of performance.
Look-through	Full disclosure of underlying holdings.
Investment management agreement (IMA)	The contract governing the mandate, in which screening and stewardship terms are made binding.

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