Adverse sustainability impacts statement for financial market participant

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DWS International GmbH

A. Introduction and summary

On 10 March 2021, the Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial sector (Disclosure Regulation) entered into force. This regulation aims to support sustainable investments by requiring Financial Market Participants (FMPs) and Financial Advisers (FAs) to disclose information regarding their approaches to the integration of sustainability risks and adverse sustainability impacts to investors and clients.

Sustainability or ESG factors ("ESG Factors") as defined in the Disclosure Regulation mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Principal adverse sustainability impacts mean significant negative effects of investments on ESG Factors. The implementing legislative acts of the Disclosure Regulation establishing detailed reporting standards for the principal adverse impacts have at the time of publication of this statement not yet entered into force and are not fully implemented in this statement.

With this statement, DWS International GmbH (LEI code 549300TPJCLC0OHGM008) – **DWS** – a member of DWS Group[1], wishes to disclose its approach on the consideration of principal adverse impacts of its investment decisions on ESG Factors in its capacity as FMP of financial products in scope of the Disclosure Regulation, namely portfolio management mandates[2].

The financial products of DWS covered by this statement are the following:

- Actively managed portfolio management mandates encompassing delegated fund management (for UCITS[3] and AIFs[4]) and managed account set-ups - the "**Actively Managed Portfolio Business**" spanning all major asset classes including equity, fixed income, cash, and alternative investments in form of tradable investments; and
- Passively managed portfolio management mandates encompassing delegated fund management (for AIFs) and managed account set-ups - the "**Passively Managed Portfolio Business**" spanning all major asset classes.

This statement does not apply to any financial products in scope of the Disclosure Regulation where DWS has outsourced the management to a third party.

DWS both in relation to the Actively and the Passively Managed Portfolio Business considers as of 10 March 2021 principal adverse impacts of its investment decisions on ESG Factors as an additional factor for review by DWS when making investment decisions. As a fiduciary, it is of the utmost importance for DWS to make all investment decisions in the best interest of its clients, considering all relevant financial and risk factors. Principal adverse impacts on ESG Factors will not automatically outweigh other relevant factors, especially for financial products set up specifically for individual clients.

B. Policies on the identification and prioritisation of principal adverse sustainability impacts

DWS Group's general approach to sustainable investment is outlined in the Responsible Investment Statement (RI).[5] DWS Group is of the view that fiduciary responsibilities include integrating ESG Factors to the best possible extent, not only in our own investment decisions but also by assuming active engagement with our investee companies, using proxy voting and engagement to drive change for the benefit of our clients.

DWS Group incorporates ESG Factors into its investment analysis and investment decision processes to the greatest extent possible, based on client interest and their business objectives. DWS Group is of

[1] DWS Group means DWS Group GmbH & Co. KGaA and its subsidiaries consisting of any companies of which DWS Group GmbH & Co. KGaA is the direct or indirect parent company with majority participations (equity or voting capital share of more than 50 %), including branches and representative offices.
[2] Portfolio management means portfolio management as defined in the Directive 2014/65/EU on Markets in Financial Instruments as amended from time to time.
[3] UCITS means undertakings for collective investment in transferable securities according to the Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as amended from time to time.
[4] Alternative investment funds according to the Directive 2011/61/EU on Alternative Investment Fund Managers as amended from time to time.
[5] Available here for additional information: https://www.dws.com/

the view that this approach helps to assess the risks and opportunities of specific investments much more comprehensively.

Depending on the financial product type, DWS applies the policies mentioned below for identifying and prioritising principal adverse impacts on ESG Factors. The policies are subject to regular as well as ad-hoc reviews, as required.

1. Actively Managed Portfolio Business

i. ESG Integration Policy for Active Investment Management (February 2021)

The ESG Integration Policy for Active Investment Management[6] sets out the general framework for the integration of ESG Factors into the investment process for the Actively Managed Portfolio Business. It establishes minimum standards for DWS's investment professionals (i.e. portfolio managers and analysts) on how to undertake a comprehensive assessment of investment risks and opportunities as well as of principal adverse impacts by incorporating ESG Factors into the investment process, analysis, and investment decision-making. The general framework outlined in the ESG Integration Policy for Active Investment Management is further specified in internal policies and procedures.

ii. DWS Controversial Conventional Weapons Policy (August 2020)

DWS Group generally seeks to minimalize the exposure to controversial conventional weapons (CCW) by avoiding entering into any kind of business relationship with government or corporate entities or individuals with clear links to the CCW business.

For the Actively Managed Portfolio Business, DWS applies the Controversial Conventional Weapons Policy.[7] DWS aims to generally exclude companies, which are involved in development, manufacturing, procurement, distribution, and use of several types of CCW systems or components thereof, from its investment universe as long as this is in line with DWS's fiduciary responsibilities.

iii. DWS Reputational Risk Key Operating Document (December 2020)

DWS Group is subject to internal policies, which foresee enhanced due diligence with subject matter experts for controversial sectors or business areas bearing heightened reputational risks. This includes for example industries with high carbon intensity or sectors prone to the violation of international norms.

iv. Usage of ESG Engine (methodology and data sources)

A specific database ("ESG Engine") is available to DWS's investment professionals for the assessment of principal adverse impacts on ESG Factors as required under the applicable policies for the Actively Managed Portfolio Business. ESG data from external research companies as well as proprietary research results of DWS Group on sovereign, quasi-sovereign, corporate issuers, and investment funds are incorporated into the ESG Engine. The availability of ESG data and the integration into relevant DWS Group's internal systems constitutes a starting point for considering and integrating ESG Factors into the investment decision-making process. DWS encourages the consideration of ESG Factors when designing investment strategies for financial products specifically set up for individual clients.

The methodology of the ESG Engine consists of an assignment of one out of six possible proprietary scores or ratings to issuers. Available ESG data include for instance:

- exposure to fossil fuels[8] and estimate on possible asset stranding risks,
- carbon emissions: the ESG Engine calculates portfolio carbon footprint data, measured in volume and in carbon intensity;
- further data on greenhouse gas emissions, energy performance, biodiversity, water, and waste,
- data on social and employee matters, human rights, anti-corruption, and anti-bribery;
- information on whether an issuer is involved in the development, manufacturing, procurement, distribution and use of several types of controversial conventional weapon (CCW) systems or components; and

[6] Available here for additional information: https://www.dws.com/
[7] Available here for additional information: https://www.dws.com/
[8] Industries that derive revenues from the exploration, mining, extraction, distribution or refining of hard, liquid or gaseous fuels (i.e. coal, oil, natural gas).

- data on human rights, including information on the existence of a human rights policy, appropriate due diligence, on measures to prevent human trafficking or to identify severe human rights issues and incidents.

The ESG data also encompasses an assessment of scope, severity, probability of occurrence and potentially irremediable character of ESG Factors.

2. Passively Managed Portfolio Business

i. ESG Integration Policy for Passive Investment Management (March 2021)

The ESG Integration Policy for Passive Investment Management[9] sets out the general framework for the integration of ESG Factors into the investment process for the Passively Managed Portfolio Business. It establishes minimum standards with relation to the selection of new indices, as well as detailing the approach regarding removal of securities with involvement in controversial conventional weapons as outlined in the section about the DWS Controversial Weapons Policy. For financial products specifically set up for clients, DWS encourages the consideration of ESG Factors when selecting indices and investment policies.

ii. DWS Controversial Conventional Weapons Policy (August 2020)

Please refer to section 1.(ii) above about the DWS Controversial Conventional Weapons Policy, which also applies to the Passively Managed Portfolio Business. Additionally, the exclusion of companies is subject to a materiality calculation.

iii. Usage of ESG Engine (methodology and data sources)

Please refer to section 1.(iv) above about the usage of the ESG Engine, which also applies to the Passively Managed Portfolio Business. Additionally, the ESG Engine is used as a starting point for the selection of new indices. Further, ESG data from sources other than the ESG Engine may be utilised in the index selection due diligence process (e.g. ESG data from index providers).

C. Description of actions to address principal adverse sustainability impacts

In line with DWS Group's aim to continuously enhance the level of ESG integration, DWS applies the policies mentioned in Section B to consider principal adverse impacts on ESG Factors in the investment decision-making and index selection process, where appropriate and in compliance with DWS's fiduciary responsibilities. DWS encourages the consideration of ESG Factors when selecting indices or designing investment strategies for financial products specifically set up for individual clients.

For the Actively Managed Portfolio Business, investments are also continuously monitored from an ESG perspective with the aim to reduce or avoid identified principal adverse impacts. The monitoring includes for example poor ESG ratings from climate and transition risks (stemming from high carbon intensity or carbon emissions) or violation of international norms driven by human rights or labour rights violations.

For delegated fund management mandates for certain mutual investment funds without a dedicated ESG strategy within the Actively Managed Portfolio Business, issuers with the worst ESG rating in the ESG Engine are subject to a review by a committee as to whether they can remain in a fund and whether new investments can be made. This committee consists of DWS-internal experts for ESG matters.

For the Passively Managed Portfolio Business, data on principal adverse impacts are monitored using the ESG Engine or ESG data from sources other than the ESG Engine (e.g. ESG data from index providers). Subject to regulatory requirements and client investment policies, DWS has the option to replace an index based on this assessment. For financial products with a dedicated ESG strategy, the index composition is also continuously monitored by the index administrator from an ESG perspective with the aim to reduce or avoid identified principal adverse impacts. The monitoring includes, for example, identifying securities with poor ESG ratings, securities with high climate and transition risks (stemming from high carbon intensity or carbon emissions and fossil fuel holdings) or violation of

[9] Available here for additional information: https://www.dws.com/

international norms driven by human rights or labour rights violations, and removal of identified securities in subsequent index rebalances.

DWS further considers engagement as a crucial element for the comprehensive integration of ESG into its investment processes relating to both its Actively and Passively Managed Portfolio Business. DWS thus engages with its investee companies to improve their corporate governance and to achieve a greater consideration of ESG criteria. Issuers in the two lower rating groups according to the results of the ESG Engine are subject to increased rules of engagement.

D. Engagement Policies

Assuming active engagement with our investee companies, using proxy voting and engagement to drive change for the benefit of clients is a key part of DWS Group's approach to sustainable investment. DWS applies the following engagement policies.

1. Engagement Policy (December 2020)

The Engagement Policy[10] establishes *inter alia* the engagement framework for DWS on how to engage with its investee companies in relation to equity as well as debt investments in the Actively and Passively Managed Portfolio Business.

This policy sets out types and methods of engagement, escalation strategies, expectations regarding communication with *inter alia* DWS acting on behalf of its clients on a number of topics, including ESG.

2. Corporate Governance & Proxy Voting Policy (December 2020)

This policy[11] details DWS's engagement framework in relation to its equity investments. It contains the core governance understanding, governance values and expectations including ESG relating to investee companies in line with the framework and principles as set out in the Engagement Policy as well as proxy voting guidelines. It includes guidelines on how to vote in relation to ESG topics such as ESG-related shareholder proposals.

E. References to international standards

DWS is a member of, endorses and adheres as the case may be to the following key sustainability-related responsible business conduct codes and internationally recognized standards for due diligence and reporting:

- United Nations Global Compact, a global initiative for corporate sustainability;
- OECD Guidelines for Multinational Corporations, recommendations on responsible business conduct addressed by governments to multinational enterprises;
- Convention on Cluster Munitions (CCM), an international treaty that prohibits the use, transfer, and stockpiling of cluster bombs;
- Anti-Personnel Mine Ban Convention (APMC), a convention on the prohibition of the use, stockpiling, production and transfer of anti-person mines and their destruction (including as well anti personal time delay explosives and non-detectable fragment explosives as defined by Protocol I, II of the Convention on Certain Conventional Weapons);
- Coalition for Environmentally Responsible Economies (CERES), a non-profit sustainability advocacy organization;
- United Nations-backed Principles for Responsible Investment (PRI), a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice;
- Taskforce on Climate Related Financial Disclosures (TCFD) recommendations, recommendations for more effective climate-related disclosures issued by a taskforce

[10] Available here for additional information: https://www.dws.com/
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established by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system; and

- Climate Action 100+, an investor initiative to engage with important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

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