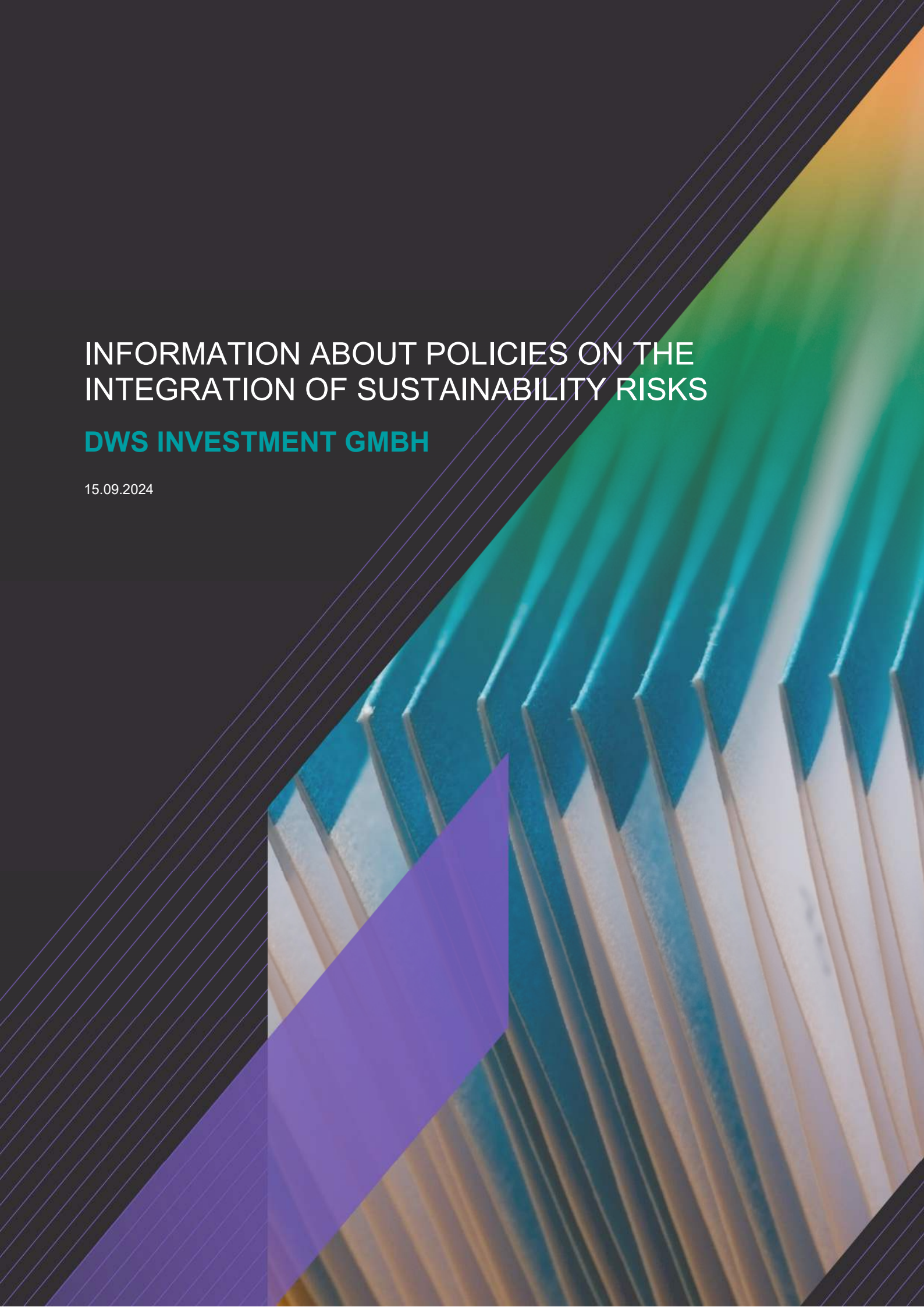


# INFORMATION ABOUT POLICIES ON THE INTEGRATION OF SUSTAINABILITY RISKS

**DWS INVESTMENT GMBH**

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# 1 / Introduction

This statement provides a summary of internal policies and procedures applied by DWS Investment GmbH [LEI-Code 549300K0BHJ9BX9J8J87] – DWS – as a member of DWS Group<sup>1</sup> regarding the integration of sustainability risks into investment decisions for financial products, namely UCITS<sup>2</sup>, AIFs<sup>3</sup> and portfolio management mandates<sup>4</sup>. In addition, it provides a summary of internal policies and procedures applied by DWS regarding the integration of sustainability risks when providing investment advice. This information shall be published to comply with the disclosure requirements laid down in Article 3 of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector, the so-called Disclosure Regulation.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Alternative Investment Funds according to the Directive 2011/61/EU on Alternative Investment Fund Managers as amended from time to time.

<sup>4</sup> Portfolio management (as defined in the Directive 2014/65/EU on Markets in Financial Instruments as amended from time to time) managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.

## 2 / Sustainability risk definition

### 2.1 Sustainability risk definition

Sustainability risk is a potential negative impact to the value of an investment induced by sustainability factors. Hereby, sustainability factors include environmental, social and governance events or conditions that could either be of an “outside-in” nature (such as physical climate or transition matters) or be in direct relation to the financial impact of “inside-out” effects caused by DWS group, its employees, investee companies or any other related stakeholder.

### 2.2 Sustainability events or conditions

Sustainability events or conditions are split into Environment, Social, and Governance (ESG) and relate, among other things, to the following topics (inside-out sustainability factors):

#### **Environment**

- Failure to contribute to climate mitigation including reduction of greenhouse gas emissions
- Failure to protect biodiversity
- Non-sustainable use and protection of water and maritime resources
- Failure to transition to a circular economy, to avoid waste, and use recycling
- Exports and imports of waste violating of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- Failure of avoidance and reduction of environmental pollution, including violations of the Minamata Convention on Mercury, the Stockholm Convention on Persistent Organic Pollutants
- Failure of protection of healthy ecosystems
- Non-sustainable land use

#### **Social**

- Incompliance with recognized labour standards
- Incompliance with employment safety and health protection
- No reasonable remuneration or unfair working conditions
- Low level and no promotion of diversity and lack of inclusiveness
- Insufficient training and development opportunities
- Incompliance with trade union rights and freedom of assembly
- Failure to guarantee adequate product safety, including health protection
- Application of different requirements to entities in the supply chain
- Disregard of the interests of communities and social minorities
- Environmental damages impairing the natural bases of food and drinking water, preventing sanitary access or harming human health
- Unlawful eviction; unlawful taking of land, forest or water; use of land, forest or water securing human livelihood
- Use of security forces involved in torture; cruel, inhumane or degrading treatment; damage of life or limb; or impairing the right to organize and the freedom of association
- Other violation of general norm standards impacting employees or stakeholders

## **Governance**

- Insufficient consideration of E&S factors by the Board / management
- Insufficient Board diversity
- Insufficient anti-corruption measures
- Insufficient anti-fraud measures
- Insufficient risk management and compliance practices related to E&S factors
- Board remuneration does not consider ESG criteria or matters
- Insufficient or wrong information disclosure – in particular those related to E&S factors
- Violation of employee rights
- Violation of data protection standards
- Tax fraud
- Failure to facilitate whistle blowing

As part of the consideration of environmental issues, DWS considers especially the following aspects related to climate change (outside-in sustainability factors):

### **Physical climate factors**

- Individual extreme weather events
  - Heatwaves, Drought, Floods and Storms
  - Hail, Forest fires or Avalanches
- Long-term climate change
  - Decreasing amounts of snow or changes in rainfall frequency and volume
  - Volatile weather conditions
  - Rising sea levels, ocean acidification and changes in winds
  - Changes in land and soil productivity
  - Reduced water availability
  - Global warming including regional extremes

### **Climate Transition factors**

- Exit from fossil fuels
- Exit from specific technologies (e.g. combustion engines)
- Industry driven technology change related to the change to a low-carbon economy
- Bans and/or restrictions impacting specific sectors
- Changes in client preferences and client behavior
- Other political or regulatory measures related to the transition to a low-carbon economy

### 2.3. Likely impacts of sustainability risk on the return of a financial product

Sustainability risks can lead to a significant deterioration in the financial profile, liquidity, profitability, or reputation of the assets of a financial product. Unless sustainability risks were already expected and considered in the valuations of the relevant financial product's assets, they may have a significant negative impact on the expected/estimated market price and/or the liquidity of the investment and thus on the return of the financial product. Potential impacts on the return of a financial product may depend on various aspects, in particular how the investment policy and asset universe of the product are related to or impacted by sustainability events or conditions.

### 2.4. Relevance of sustainability risk for DWS 's financial products

The relevance of sustainability risks for DWS's financial products depends among others on the investment strategies applied. While section 2.2 provides an overview of sustainability events and conditions, practical examples of such sustainability events or conditions and their potential effects on a financial product are listed below:

<b>Sustainability event / conditions</b>	<b>Sustainability risk – potential impact materialisation</b>
<b>Environmental events or conditions</b>	A financial product invests in a company that does not comply with recognized water safety standards. An accident involving the release of toxic substances leads to environmental damage as well as reputational damage to the investee company. Consequently, reputational, and financial implications lead to a devaluation of the company.
<b>Social events or conditions</b>	A financial product invests in companies that do not comply with recognized labour standards. It becomes known that one of the companies makes use of child labour. The reputational damage for the company leads to a devaluation of the company.
<b>Governance events or conditions</b>	A financial product invests in a company that does not have a sound corporate governance. A corruption scandal and its implications to the business model and reputation of the company leads to a devaluation of the company.
<b>Physical climate events or conditions</b>	A financial product invests in a company with a business strategy that depends highly on physical assets. The assets are at risk of floods due to rising sea levels. The values of the shares decrease as soon as the physical climate risk for the assets is priced, or flood damage is incurred.
<b>Transition climate events or conditions</b>	A financial product invests in companies that are not operating their business in a way that is aligned with the "well below 2-degree path". An abrupt change in the financial market view on importance of climate related aspects (e.g., due to the pricing in of expected regulatory measures) leads to declines of the stock price of the financial product's assets.

## 3 / Sustainability governance

DWS, as a member of DWS Group, is represented in the sustainability governance of DWS Group.

Sustainability governance at DWS Group starts with the DWS Executive Board, which has the overall responsibility for managing its business activities with the objective of creating long-term value. This includes the management of sustainability related opportunities and risks. The Executive Board has delegated its authority for the implementation of the sustainability strategy to the DWS Group Sustainability Committee. The committee is mandated with implementing the sustainability strategy as approved by the DWS Executive Board on fiduciary and corporate levels across all divisions and legal entities. The responsibility for approving key risk management principles, risk appetite metrics, and thresholds related to sustainability risks and adverse impacts has been assigned to the DWS Risk and Control Committee. The DWS Reputational Risk Committee is responsible for evaluating and monitoring matters which might trigger potential reputational risk. Further details on DWS Group's sustainability governance set-up can be found in DWS Group's Climate Report integrated in the Annual Report 2023. The various DWS Group's divisions are responsible for setting up, maintaining, and reviewing policies, processes, and frameworks through which the sustainability strategy is implemented in the divisional processes.

## 4 / Sustainability risk integration in investment decision-making process

The integration of sustainability risk in the investment decision-making process depends on the types of financial products of DWS consisting of:

- Actively managed investment funds (UCITS and AIFs) and portfolio management mandates - the “Actively Managed Portfolio Business” spanning all major asset classes including equity, fixed income fixed-income securities, cash, investment funds and alternative investments in form of tradable investments,
- Passively managed investment funds (UCITS and AIFs) and portfolio management mandates - the “Passively Managed Portfolio Business” spanning all major asset classes,
- Certified Old Age Provision (OAP) products for retail clients – the “OAP Business”

### 4.1. Actively Managed Portfolio Business

In its investment decisions, DWS considers, in addition to financial data, material sustainability risks and opportunities. This consideration applies to the entire investment process, both in the fundamental analysis of investments and in the decision-making process.

The assessment of material sustainability risks and opportunities is part of the research analysis of companies and sovereigns/government-related issuers. If sustainability factors are considered material by the research analyst, an assessment of their impact on the overall research assessment is carried out.

The information sources for ESG research analysis include the DWS ESG Engine, ESG Engine Issuer FactSheets, information from ESG vendors, company disclosures, ESG broker research, sector and sovereign-related materially assessments.

The DWS ESG Engine, which is a proprietary software tool, is the centerpiece in the process to integrate ESG into investment decisions. It is a multi-source ESG data aggregation, structuring and processing device, which allows a consolidated and qualified ESG analysis, based on the ESG inputs from several ESG data providers, public sources and/or DWS internal assessments and research.

The integration of material sustainability risks and opportunities in portfolio construction and monitoring is done on both security and portfolio level. For many products, there are in addition specific ESG investment guidelines Investment Professionals have to comply with, that are also supported by information contained within the ESG Engine. Relevant ESG exclusions or limitations depend on the promoted environmental and/or social characteristics of a product, i.e., the product investment strategy as per pre-contractual disclosure. The product-specific investment guidelines are a key tool to integrate sustainability risks into the individual product characteristics and are therefore also a key factor to be considered in the investment process.



## 4.2. Passively Managed Portfolio Business

In the Passively Managed Portfolio Business, DWS integrates sustainability risks through two main approaches:

### **Selection of Indices**

With regards to the selection of any new reference indices for the Passively Managed Portfolio Business (excluding commodity indices), DWS conducts a due diligence process that includes the assessment of sustainability risks. DWS also works in conjunction with index administrators and index calculation agents to embed rules relating to certain sustainability risks into the construction of new indexes. For financial products specifically set up for clients, DWS encourages the consideration of ESG factors when selecting indices and investment policies.

### **Removal of securities involved in Controversial Weapons**

DWS aims to generally exclude companies which are involved in the development, manufacturing, procurement, distribution, services, and use of several types of controversial weapons systems or components thereof, from its investment universe. For financial products within the Passively Managed Portfolio Business with a Direct Investment Policy, DWS excludes securities identified by DWS as being involved in controversial weapons, subject to a materiality calculation (or in the case of passively managed accounts subject to investment management agreements with the client) which determines the importance of those securities to the achievement of the investment objective of the financial product.

## 4.3 OAP Business

DWS as manufacturer of the guaranteed OAP products DWS BasisRente Premium, DWS RiesterRente Premium, DWS TopRente, DWS Vermögenssparplan Premium, DWS Premiumsparplan für Versorgungsausgleich does not directly consider sustainability risks when selecting investment funds as underlying for these products. The selection of investment funds is primarily based on criteria that are relevant for compliance with the guarantee component.

The investment funds for guaranteed OAP products are actively managed investment funds set-up only by DWS Investment S.A. or DWS Investment GmbH. Information about whether and how the Management Company of the relevant investment funds chosen by DWS Investment GmbH integrates sustainability risks in investment decisions relating to such investment fund can be found in the respective fund prospectuses.

For the non-guaranteed OAP product DWS BasisRente Komfort, DWS does not directly consider sustainability risks when selecting investment funds as underlying for this product. In the end it is the client who chooses the investment fund underlying for the individual non-guaranteed OAP contract. Whether and to what extent the fund management of the relevant investment fund includes sustainability risks in its investment decisions can be found in the respective fund prospectus.

## 5 / Sustainability risk integration in investment advice

Within its classic ongoing investment advice mandates business, DWS provides ongoing investment advice in accordance with an advisory agreement concluded with the relevant client. The investment advisory universe of DWS for classic ongoing investment advice includes a broad range of financial instruments, e.g., equities, fixed-income securities, structured securities as well as UCITS and AIFs.

DWS considers sustainability risks when providing classic ongoing investment advice mandates in addition to financial data. This consideration applies to the entire ongoing investment advice process. Within this advisory process, sustainability risks are defined and identified using the data from the DWS ESG Engine.

The effects of the sustainability risks on the other parameters (such as return) are decisive. Sustainability risks are taken into account through binding elements (e.g., exclusion of controversial sectors or violations of norms) in the ESG filters for the different investments or the selection of investments that reduce ESG risks via ESG benchmarks.

Furthermore, risks that may arise due to climate change or risks arising from the violation of internationally recognized guidelines are subject to special assessment. The internationally recognized guidelines include, above all, the ten principles of the UN Global Compact, ILO core labour standards, or UN guiding principles for business and human rights, and the OECD guidelines for multinational companies.

The DWS ESG Engine forms part of the DWS ESG assessment methodology of the funds. The DWS ESG Engine, which is a proprietary software tool, is the centrepiece in the process to integrate ESG into the investment decisions for all funds in scope. It is a multi-source ESG data aggregation, structuring and processing device, which allows a consolidated and qualified ESG analysis, based on the ESG inputs from several ESG data providers, public sources and/or DWS internal assessments and research.

# 6 / Sustainability Risk integration in the risk management process

## 6.1 Approach and Objective

Complementary to sustainability-related investment guidelines the risk management function of DWS has established independent oversight processes related to sustainability risks. The framework for traditional liquid investments aims to provide additional governance which is integrated into overall investment risk management policies and procedures within DWS Group. It aims to raise sustainability risk awareness across involved parties and to provide transparency through highlighting identified sources of elevated levels of sustainability risk. To achieve this, selected sustainability-related sources of risk per fund are identified, and observations are made transparent and where deemed required evaluated with all relevant stakeholders.

## 6.2 Risk Analysis and Reporting

For each fund, based on its investment objective and risk profile, sustainability risk appetite levels related to selected sustainability risk indicators are defined. Such indicators may amongst others include high concentrations of issuers showing a poor sustainability risk profile or the exposure of such issuers in comparison with the relevant reference benchmark.

The risk management function monitors and reports the risk indicators related to the individual funds and identified exceedances or other relevant observations are reviewed regularly with stakeholders from the investment and product divisions. The reports include sustainability risk metrics as well as selected market risk metrics to provide a holistic overview for each fund.

Where deemed necessary, fund managers or asset class responsible persons are informed, and corresponding investment rationale or actions may be requested by the risk management function. Key results of the oversight process are also reported to the Risk and Control Committee of DWS Group as well as the impacted legal entity Boards.

## 6.3 Integration in other investment risk management processes

In addition to the above, selected sustainability risk indicators are also integrated in other investment risk management processes, such as the counterparty risk management or concentration risk management. Within such processes, selected sustainability risk indicators are considered as additional indicators in the evaluation of the individual issuers.

Version history

Date	Explanation of changes
15.09.2024	Amendments in the content and depth of section 3 and section 4.1
15.03.2024	Amendments in the content and depth of section 3 and section 4.1.1 based on an updated version of the ESG Integration Policy for Active Investment Management.