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 regarding the integration of sustainability risk into investment decisions for financial products in scope of the Disclosure Regulation, namely UCITS, AIFs, portfolio management mandates and pension products. In addition, it provides a summary of internal policies and procedures applied by DWS regarding the integration of sustainability risks when providing investment advice.

Over the recent years, DWS has been paying increased attention to sustainability aspects, in particular to the integration of sustainability risks in the investment and risk management processes of its organization. As part of its group-wide sustainability strategy, DWS Group has initiated a process to review its entire operating model with regards to the integration of ESG factors and sustainability risks. This includes in particular the integration of ESG standards into its corporate activities as well as the integration of sustainability risks into investment and risk management processes. Additionally, the ESG regulatory framework developed by the EU, including the Disclosure Regulation, as well as publications and recommendations given on national level relating to ESG factors and sustainability risks have been considered by DWS.

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

2. Sustainability risk definition

This section includes DWS's definition of sustainability risks, describes sustainability events and conditions as well as likely impacts of sustainability risk on returns of investments.

2.1. Sustainability risk definition

Sustainability risk means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a negative material impact on the value of an investment. Sustainability risk can either represent a risk on its own or have an impact on and contribute significantly to other risks, such as market risks, operational risks, liquidity risks or counterparty risks.

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:

Environment
- Climate mitigation
- Adjustment to climate change
- Protection of biodiversity
- Sustainable use and protection of water and maritime resources
- Transition to a circular economy, avoidance of waste, and recycling
- Avoidance and reduction of environmental pollution

- Protection of healthy ecosystems
- Sustainable land use

Social affairs
- Compliance with recognized labor law standards (no child and forced labor, no discrimination)
- Compliance with employment safety and health protection
- Appropriate remuneration, fair working conditions, diversity, and training and development opportunities
- Trade union rights and freedom of assembly
- Guarantee of adequate product safety, including health protection
- Application of the same requirements to entities in the supply chain
- Inclusive projects or consideration of the interests of communities and social minorities

Corporate Governance
- Tax honesty
- Anti-corruption measures
- Sustainability management by the board
- Board remuneration based on sustainability criteria
- The facilitation of whistle-blowing
- Employee rights guarantees
- Data protection guarantees
- Information disclosure

As part of the consideration of environmental issues, DWS considers especially the following aspects related to climate change:

Physical climate events or conditions
- Extreme weather events
  - Heat waves
  - Droughts
  - Floods
  - Storms
  - Hailstorms
  - Forest fires
  - Avalanches
- Long-term climate change
  - Decreasing amounts of snow
  - Changed precipitation frequency and volumes
  - Unstable weather conditions
  - Rising sea levels
  - Changes in ocean currents
  - Changes in winds
  - Changes in land and soil productivity
  - Reduced water availability (water risk)
  - Ocean acidification
  - Global warming including regional extremes

Transition events or conditions
- Bans and restrictions

- Phasing out of fossil fuels
- Other political measures related to the transition to a low-carbon economy
- Technological change linked to the transition to a low-carbon economy
- Changes in customer preferences and behavior

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 taken into account 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 condition, practical examples of such sustainability events or conditions and their potential effects on a financial product are listed below:

Sustainability event / condition	**Sustainability risk – potential impact materialization**
Physical climate events or conditions	• A financial product contains shares of 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.
Transition climate events or conditions	• 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.
Environmental events or conditions	• 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.
Social events or conditions	• A financial product invests in companies that do not comply with recognized labor standards. It becomes known that one of the companies makes use of child labor. The reputational damage for the company leads to a devaluation of the company.
Governance events or conditions	• 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.

3. Sustainability risk governance, roles and responsibilities

Within this section, key aspects on roles and responsibilities of main functions or units of DWS that are involved in the integration of sustainability risks in investment decisions and investment advice are being described.

The **Senior Management** of DWS is responsible for the consideration of sustainability risks when endorsing the business strategy, risk strategy, and sustainability strategy as well as for the allocation of responsibility for managing sustainability risks within the organization.

The responsibilities of the **Investment Division** include in particular setting up and maintaining suitable processes for the integration of sustainability risk in the investment decision process. Furthermore, the Investment Division is responsible for designing and implementing controls to manage sustainability risks as part of the investment management processes.

The **Committee for Responsible Investments (CRI)** is (in relation to smart integration funds – see also section 4.1.2) responsible for an enhanced level of due diligence for assets bearing significant levels of sustainability risks and decisions to limit investments in / exclude certain issuers from the portfolio of investible assets triggered by poor sustainability scores.

The **Engagement/Proxy Voting** function is responsible for exercising shareholder rights to influence the behavior of companies in relation to sustainability risks. This includes among others attending annual general meetings, proxy voting or communication with investee company management.

The responsibility of **Client Coverage Division** regarding sustainability risk is the appropriate consideration of sustainability risk aspects in investment advice processes.

With regards to the oversight of sustainability risk, the **Risk Management function as well as other control functions are** responsible for regularly assessing the potential impacts of sustainability risks.

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, cash, investment funds and alternative investments in form of tradable investments,
- Passively managed investment funds (AIFs) and portfolio management mandates encompassing delegated fund management (for UCITS) and managed account set-ups - the "Passively Managed Portfolio Business" spanning all major asset classes, and
- Certified Old Age Provision (OAP) products for retail clients – the "**OAP Business**".

4.1. Actively Managed Portfolio Business

The ESG Integration Policy for Active Investment Management[1] 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 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.

DWS distinguishes between two general approaches to integrate sustainability risks in the investment process for the Actively Managed Portfolio Business: ESG integration and smart integration. Smart integration is only applied for actively managed mutual Investment Funds.

4.1.1. ESG integration

The ESG integration concept encompasses the following:

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

In the fundamental analysis, ESG criteria are particularly evaluated in the internal market analysis. In addition, ESG criteria are integrated into any further investment research. This includes the identification of global sustainability trends, financially relevant ESG issues and challenges.

Moreover, risks that may arise from the consequences of climate change, or risks arising from the violation of internationally recognized guidelines are subject to special examination. 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.

In order to take ESG criteria into account, the portfolio management uses a special database into which ESG data from other research companies, as well as proprietary research results of DWS Group on sovereign, quasi-sovereign, corporate issuers, and Investment Funds, are incorporated.

If investments are made according to an ESG-integrated fundamental analysis, these investments will continue to be monitored also from an ESG perspective. In addition, a dialogue is sought with companies regarding better corporate governance and greater consideration of ESG criteria (e.g. via participation as a shareholder in the company, or by exercising voting and other shareholder rights).

4.1.2. Smart integration

The smart integration concept encompasses the following.

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

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

For this purpose, the portfolio management uses a special database. After analysing the data, this database assigns one of six possible scores to each possible investment. If the investment has the lowest score, the investment is not suitable for the portfolio unless an individual review of the score by a committee of DWS determines that the investment is nevertheless suitable. In its review, the committee considers further criteria, such as development prospects in relation to ESG criteria, voting rights exercise, or general economic development prospects. If in the case of existing investments, the investment receives the lowest valuation based on an updated analysis of the database, this valuation is reviewed by the committee. If the committee determines that the investment is still suitable, the investment does not have to be sold. If the panel confirms the updated valuation, the investment must be sold.

Investments excluded based on the evaluation of the database and the panel will no longer be considered. Investments that receive a low, but sufficient score based on the database are reviewed, particularly regarding potential sustainability risks.

In the fundamental analysis of investments itself, ESG criteria are considered especially in the internal market analysis.

In addition, ESG criteria are integrated into the entire investment research. This includes the identification of global sustainability trends, financially relevant ESG topics and challenges.

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

If investments are made according to an ESG-integrated fundamental analysis, these investments will continue to be monitored, also from an ESG perspective. In addition, a dialogue is sought with companies regarding better corporate governance and greater consideration of ESG criteria (e.g. via participation as a shareholder in the company, by exercising voting and other shareholder rights).

4.1.3. Specifics for financial products according to Art. 8 Disclosure Regulation

For financial products within the Actively Managed Portfolio Business qualifying as Art. 8 according to the Disclosure Regulation, DWS seeks to attain a variety of the environmental, social and corporate governance characteristics by assessing potential investments via a proprietary ESG investment methodology.

This methodology incorporates portfolio investment standards according to an ESG database. After analysing the data, this database assigns one of six possible scores to each possible investment.

For actively managed Investment Funds, DWS focuses in its asset allocation on investments that obtain one of the three top scores or would have obtained a similar score based on research results. For financial products specifically set up for individual clients, the ESG Engine offers opportunities to create bespoke / customized ESG filters which can be a derivation of the abovementioned standard or can be stricter in certain characteristics or apply new different criteria.

4.1.4. Specifics for financial products according to Art. 9 Disclosure Regulation

In addition to the procedures described in section 4.1.1, for financial products within the Actively Managed Portfolio Business qualifying as Art. 9 according to the Disclosure Regulation, the approach for the integration of sustainability risk into investment decisions depends highly on the individual product characteristics and investment strategy. For further information, please refer to the pre-contractual documents.

4.1.5. Engagement

In addition, DWS commits to a strong corporate governance and to active ownership practices with investee companies worldwide across the equity and fixed income assets.

DWS's commitment to good governance is an integral part of the investment process which goes beyond the fiduciary duty to exercise voting rights and thus is an important means to ring-fence the financial product's investments. DWS regards active ownership as a powerful force in promoting improved (in the context of DWS's ESG understanding) policies and practices of investee companies and, in turn, reducing sustainability risk and driving superior long-term performance.

Both approaches are summarized below:

1. **Engagement**
   The Engagement Policy[2] 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 as an investor and DWS acting on behalf of its clients on a number of topics, including ESG.

2. **Corporate Governance and Proxy Voting**
   The Corporate Governance and Proxy Voting Policy[3] 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.

4.2. Passively Managed Portfolio Business

The ESG Integration Policy for Passive Investment Management[4] 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.

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

1. **Generally seeking to remove securities involved in Controversial Conventional Weapons ("CCW")**

   DWS considers the sustainability risks posed by entities involved in the production of CCWs, as determined by the DWS Group controversial conventional weapons identification methodology described in the CCW Policy.

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

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

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

For financial products within the Passively Managed Portfolio Business with a Direct Investment Policy, DWS excludes securities identified by DWS as per the aforementioned policy as being involved in CCW, 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. The materiality calculation involves quantifying the impact of removing the security(ies) on the ex-ante tracking error of the financial product's assets against the reference index. If a security, or securities, are not adjudged as being material contributors to reflecting the performance of the reference index, they will be removed from the financial product's assets. The materiality calculations are repeated at each index review and/or index rebalance.

For financial products within the Passively Managed Portfolio Business with an Indirect Investment Policy, securities identified by the CCW Policy will not be eligible as transferable securities for the invested assets.

2. **Embedding certain removal criteria and/or ESG selection rules into the construction of reference indexes**

With regards to any new reference indices for the Passively Managed Portfolio Business, 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.

4.2.1. Specifics for financial products according to Art. 8 Disclosure Regulation

In addition to the procedures described in Section 4.2, for financial products within the Passively Managed Portfolio Business qualifying as Art. 8 according to the Disclosure Regulation, the reference index and/or the financial product seeks to attain a variety of the environmental, social and corporate governance characteristics thereby reducing sustainability risks.

4.2.2. Specifics for financial products according to Art. 9 Disclosure Regulation

In addition to the procedures described in Section 4.2, for financial products within the Passively Managed Portfolio Business qualifying as Art. 9 according to the Disclosure Regulation, the approach for the integration of sustainability risk into investment decisions depends highly on the individual product characteristics and investment strategy. For further information, please refer to the pre-contractual documents.

4.2.3. Engagement

The Corporate Governance and Proxy Voting Policy and the Engagement Policy described in section 4.1.5 on the Actively Managed Portfolio Business are equally applicable to the Passively Managed Portfolio Business.

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 underlyings for those 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 by DWS Investment S.A. and DWS Investment GmbH only. 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 make any investment decisions and thus cannot consider sustainability risks. Rather, it is the client who chooses the Investment Fund underlying for the relevant 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

DWS provides ongoing investment advice to institutional and professional clients. DWS through its department DWS Direkt also provides on-off investment advice to retail clients who keep securities accounts with DWS. The sustainability risk integration approach and policies differ between those two businesses.

5.1. Classic ongoing investment advice mandates

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. shares, bonds, structured securities as well as UCITS and AIFs.

DWS considers sustainability risks when providing ongoing investment advice in addition to financial data. This consideration applies to the entire ongoing investment advice process including fundamental analysis.

In the fundamental analysis, ESG criteria are particularly evaluated in the internal market analysis. In addition, ESG criteria are integrated into any further investment advisory research. This includes the identification of global sustainability trends, financially relevant ESG issues and challenges.

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.

In order to take ESG criteria into account, DWS uses a specific database into which ESG data from other research companies, as well as its own research results, are incorporated.

5.2. DWS Direkt – on-off investment advice

DWS Direkt, a department of DWS, provides on-off investment advice to natural persons classified as retail clients in Germany who keep securities accounts with DWS. DWS Direkt's investment advisory universe consists of UCITS and AIFs issued by Deutsche Bank Group companies only as well as Certified Old Age Provisions (OAP) contracts for retail clients certified in accordance with German law.[5]

Material sustainability risks are already considered in the risk class system of DWS Direkt because those risks are included in the other risk types applicable to the Investment Funds of the DWS Direkt advisory universe. DWS Direkt has defined five risk classes in order to make the risk content of different financial instruments comparable so that DWS Direkt can recommend suitable financial instruments (including considering the client's risk tolerance).

In addition, the advisory universe of DWS Direkt consists exclusively of Investment Funds set-up by Management Companies of Deutsche Bank Group investing in compliance with the principle of risk diversification and OAP contracts invested in such Investment Funds.

Sustainability risks can affect individual companies and investments, sectors, regions, currencies and asset classes (e.g. equity funds or bond funds) to varying degrees. DWS Direkt thus advises its client to invest in a diversified manner, in line with the client's investment objectives, including risk tolerance, in order to reduce the impact of sustainability risks across its portfolio holdings with DWS. DWS Direkt generally recommends investing into different Investment Funds, aiming at a client-specific risk-reward profile.

[5] Gesetz über die Zertifizierung von Altersvorsorge- und Basisrentenverträgen (AltZertG)

6. Glossary

Term	Definition
AIF	Alternative investment fund within the meaning of the AIFM-D
AIFM-D	Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers as amended from time to time
CRI	Committee for Responsible Investment, a Committee of DWS Investment GmbH
Direct Investment Policy	(Sub)-Fund or passive institutional portfolio management mandates with an Direct Investment Policy seek exposure to an index by investing in all, a substantial number of, or a sample of securities that provide a return similar to the Index
Disclosure Regulation	Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial sector
DWS Group	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
ESG	Environmental, social and governance – a collective term referring to all aspects considered conducive to sustainability
Indirect Investment Policy	(Sub)-Fund or passive institutional portfolio management mandates with an Indirect Investment Policy seek exposure to an index by entering into OTC swap transactions with one or more swap counterparties
Investment Fund	a UCITS or an AIF
Management Company	A UCITS or AIF management company
OAP	Old Age Provisions
OECD	Organisation for Economic Co-Operation and Development
UCITS	Fund set-up in compliance with the UCITS-D
UCITS-D	Directive 2009/65/EC of 13 July 2009 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
UN	United Nations, an intergovernmental organization whose sustainability-related initiatives include the Sustainable Development Goals, the Global Compact and the Principles for Responsible Investment