

# SMART INTEGRATION

## MORE DIALOGUE, MORE IMPACT

Smart Integration is a sophisticated approach that enables well-founded investment decisions and can thus contribute to a responsible economy, society and environment.

More and more investors want to invest in companies that meet certain environmental and social standards and are well managed (ESG\*) without sacrificing positive performance. And they want to be sure that their capital does not flow to companies that have high climate transition risks or those that violate international norms.

\*ESG = Environmental, Social, Governance

## FORWARD-LOOKING INFORMATION FOR A COMPREHENSIVE ANALYSIS

Not every business model that looks sustainable at first glance will stand up to a close examination. On the other hand, not all players in a critical economic sector are bad from an ESG perspective, so that the entire sector should actually be excluded.

Sales, margins, costs: every day, portfolio managers use countless key figures to assess the opportunities and risks of their investments as accurately as possible. Disadvantage: Many of these key figures are backward looking – meaning they report on what has already happened. However, for a conclusive overall picture, forward-looking data must also be included in the analysis.

That's why DWS follows four important steps for all actively managed funds in Europe within the investment process.

SMART INTEGRATION IS A PIONEERING APPROACH TO

## ESG-INTEGRATION

THAT GOES BEYOND COMMON

INDUSTRY STANDARDS.

### STEP 1

#### ROBUST RESEARCH

Our proprietary DWS ESG Engine provides an accurate picture of the ESG quality of individual investments such as stocks or bonds. It combines data from several leading data agencies specializing in different ESG criteria to create ESG ratings for companies and sectors. Not only can these ratings be used to identify ESG pioneers, they also provide possible warning signals.

CLIMATE RISKS AND THE VIOLATION OF INTERNATIONAL NORMS ARE

## DEFINITE INVESTMENT RISKS

HOWEVER THE AVAILABLE INFORMATION IS COMPLEX AND VERY OFTEN NOT CLEAR-CUT.



### STEP 2

#### OPEN DIALOGUE

In case our investment specialists see potential in a poorly valued target investment, they are encouraged to approach the company to discuss business model and strategies and to demand improvements directly from the management. They can potentially identify opportunities, that would have remained undiscovered without the direct conversation and thus – in addition to the signals from the DWS ESG Engine – arrive at a differentiated and forward-looking assessment.

Engagement is the most powerful tool we have as a fiduciary asset manager to influence companies and ensure they adopt ESG practices in their strategies.



### STEP 3

#### DISCUSSION WITHIN THE COMMITTEE

As part of the smart integration approach, DWS is adding another step to its existing practice: portfolio managers who wish to continue to invest in a company with potentially high sustainability risks on the basis of their findings must discuss their arguments with a committee for responsible investing, which has been specifically created for this purpose. The committee consists of experts from the CJO Office for Responsible Investments, representatives of relevant risk functions, as well as specialists in equity and bond analysis and compliance.

An in-depth analysis by various experts is necessary to jointly assess whether a company is on the right track in terms of ESG.



### STEP 4

#### QUALITATIVE ASSESSMENT COMPLEMENTS DATA

The committee discusses investment decisions in the event of potential sustainability risks and considers, for example, development prospects and issuers' objectives with regard to ESG factors, voting rights exercise and general economic development prospects – ex ante and ex post.

SMART INTEGRATION IS AN APPROACH THAT USES AND PROMOTES EXISTING POTENTIAL.

As a result of the review, the Committee may decide to lift the restriction imposed by the DWS ESG Engine, restrict further investments or even prohibit them altogether. Existing stocks will then be sold. However, this should only be seen as a last resort. The goal is to accompany companies as long as possible in order to achieve a positive effect.



## OBJECTIVE EVALUATION

### WITH A LOOK AHEAD

With these four steps, DWS deliberately decides against an approach in which sector-based exclusions occur automatically. Instead, we intensively investigate cases of climate laggards or serious violations of international norms. Open discussion with companies is the most effective tool we have for positively influencing ESG practices. The proactive approach of Smart Integration gives us the opportunity to actively approach companies and initiate improvement measures.

SMART INTEGRATION IS A FORWARD-LOOKING ESG-APPROACH WHICH IS BASED ON THE POSITIVE CHANGE OF CORPORATES



## IMPORTANT INFORMATION

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they operate their business activities. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

The document was not produced, reviewed or edited by any research department within DWS and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other legal entities of DWS or their departments including research departments.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document contains forward looking statements. Forward looking statements include, but are not limited to estimates, projections, estimates, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this document. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document. Past performance is not guarantee of future results.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information. All third party data are copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks, including market fluctuations, regulatory change, possible default on repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of any investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to any transaction.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. DWS or persons associated with it may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

This document may not be reproduced or circulated without DWS written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

### UK

Issued in the UK by DWS Investments UK Limited which is authorised and regulated by the Financial Conduct Authority (Reference number 429806).

© 2020 DWS Investments UK Limited

### APAC

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

© 2020 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2020 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

© 2020 DWS Investments Australia Limited