

# Information about Policies on the Integration of Sustainability Risks – DWS International GmbH

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## 1. Introduction

This statement provides a summary of internal policies and procedures applied by DWS International GmbH [LEI code 549300TPJCLC0OHGM008] – **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 portfolio management mandates<sup>1</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.

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 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

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<sup>1</sup> Portfolio management means portfolio management as defined in the Directive 2014/65/EU on Markets in Financial Instruments as amended from time to time.

- 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
<b>Physical climate events or conditions</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Transition climate events or conditions</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Environmental events or conditions</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Social events or conditions</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Governance events or conditions</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

### 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 **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 portfolio management mandates encompassing delegated fund management (for UCITS and AIFs) and managed account set-ups - 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, 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.

#### 4.1. Actively Managed Portfolio Business

The ESG Integration Policy for Active Investment Management<sup>2</sup> 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

<sup>2</sup> Available here for additional information <https://www.dws.com/>

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 delegated fund management mandates for certain 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.

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 financial product 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 delegated fund management mandates for 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<sup>3</sup> 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 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<sup>4</sup> 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<sup>5</sup> 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.

For financial products within the Passively Managed Portfolio Business with a Direct Investment Policy, DWS excludes securities identified by DWS as per the

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<sup>3</sup> Available here for additional information <https://www.dws.com/>

<sup>4</sup> Available here for additional information <https://www.dws.com/>

<sup>5</sup> Available here for additional information <https://www.dws.com/>

aforementioned policy as being involved in CCW, subject to investment management agreements with the client.

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.

## **5. Sustainability risk integration in investment advice**

DWS offers different types of investment advice: Classic ongoing investment advice mandates and investment advice using model portfolios, ongoing investment advice mandates for sustainable funds, and investment advice on a case-by-case basis. The sustainability risk integration approaches and policies differ between those businesses and are described below.

### **5.1. Classic ongoing investment advice mandates and investment advice using model portfolios**

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. In addition, DWS provides ongoing investment advice based on so-called model portfolios consisting of UCITS and Exchange Traded Funds (ETFs) and Exchange Traded Commodities.

DWS considers sustainability risks when providing ongoing investment advice (i.e. classic ongoing investment advice mandate and investment advice using model portfolios) 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. Ongoing investment advice mandates for sustainable funds**

DWS provides ongoing investment advice to investment funds and fund managers managing investment funds which have a sustainable investment as their objective.

Within this business, DWS provides investment advice in accordance with internationally recognized impact principles and sustainability standards. These principles and standards (which apply also at the fund level) form a fundamental part of the analysis when providing investment advice.

Sustainability risks are identified during the pre-assessment phase and due diligence process before providing investment advice to clients and will be monitored during the lifetime of the sustainable investment.

Internationally recognized impact principles and sustainability standards which are considered in the investment advice include, above all, the ten principles of the United Nations Global Compact, ILO core labour standards, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the Impact Operating Principles led by IFC.

### **5.3. Investment advice on a case-by-case basis**

DWS provides investment advice on a case-by-case or on-off basis. The investment advisory universe for on-off investment includes various financial instruments primarily issued by DWS Group, including UCITS and AIFs.

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

## 6. Glossary

Term	Definition
<b>AIF</b>	Alternative investment fund within the meaning of the AIFM-D
<b>AIFM-D</b>	Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers as amended from time to time
<b>Direct Investment Policy</b>	(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
<b>Disclosure Regulation</b>	Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial sector
<b>DWS Group</b>	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
<b>ESG</b>	Environmental, social and governance – a collective term referring to all aspects considered conducive to sustainability
<b>IFC</b>	International Finance Corporation
<b>Indirect Investment Policy</b>	(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
<b>Investment Fund</b>	a UCITS or an AIF
<b>Management Company</b>	A UCITS or AIF management company
<b>OAP</b>	Old Age Provisions
<b>OECD</b>	Organisation for Economic Co-Operation and Development
<b>UCITS</b>	Fund set-up in compliance with the UCITS-D
<b>UCITS-D</b>	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
<b>UN</b>	United Nations, an intergovernmental organization whose sustainability-related initiatives include the Sustainable Development Goals, the Global Compact and the Principles for Responsible Investment