

# Adverse sustainability impacts statement for financial market participant

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## DWS Investment S.A.

## A. Introduction and summary

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

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

With this statement, DWS Investment S.A. (LEI code 549300L70BS183Y6ML67) – **DWS** – a member of DWS Group<sup>1</sup>, wishes to disclose its approach on the consideration of principal adverse impacts of its investment decisions on ESG Factors in its capacity as FMP of financial products in scope of the Disclosure Regulation, namely undertaking for collective investments in transferable securities (UCITS<sup>2</sup>), alternative investment funds (AIFs<sup>3</sup>) and portfolio management mandates<sup>4</sup>.

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

- 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 (UCITS) - the “**Passively Managed Portfolio Business**” spanning all major asset classes;
- Investment funds (AIF) which have a sustainable investment as their objective – the “**Sustainable Investments Business**”; and
- Investment funds (AIF) with illiquid assets such as real estate, private equity and infrastructure – the “**Illiquid Business**”.

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

The following statements can be made:

### 1. Actively and Passively Managed Portfolio Business as well as Sustainable Investments Business

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

### 2. Illiquid Business

Within the Illiquid Business area, DWS delegates portfolio management to other legal entities within DWS Group. The delegated legal entity considers as of 10 March 2021 principal adverse impacts of its investment decisions on ESG Factors, where data is available to do so. As a fiduciary, it is of the utmost

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

importance for DWS to make all investment decisions in the best interest of its clients, considering all relevant financial and risk factors. Principal adverse impacts on ESG Factors will not automatically outweigh other relevant factors, especially for financial products set up specifically for individual clients.

## **B. Policies on the identification and prioritization of principal adverse sustainability impacts**

DWS Group's general approach to sustainable investment is outlined in the Responsible Investment Framework (RI).<sup>5</sup> DWS Group is of the view that fiduciary responsibilities include integrating non-financial, ESG Factors to the best possible extent, not only in our own investment decisions but also by assuming active engagement with our investees, using proxy voting and engagement to drive change for the benefit of our clients. DWS Group incorporates ESG Factors into its investment analysis and investment decision processes to the greatest extent possible, based on client interest and their business objectives. DWS Group is of the view that this approach helps to assess the risks and opportunities of specific investments much more comprehensively.

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

### **1. Actively Managed Portfolio Business**

#### *i. ESG Integration Policy for Active Investment Management (December 2022)*

The ESG Integration Policy for Active Investment Management<sup>6</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 assessment of investment risks and opportunities as well as of principal adverse impacts by incorporating ESG Factors into the investment process, analysis, and investment decision-making. The general framework outlined in the ESG Integration Policy for Active Investment Management is further specified in internal policies and procedures. The policy includes a reference to the identification and prioritization of principal adverse impacts on ESG factors.

#### *ii. DWS Controversial Weapons Policy (December 2022)*

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

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

Besides CCW, the policy discusses the application and scope of other types of controversial weapons by product line, client or business relationship.

#### *iii. DWS Reputational Risk Key Operating Document (October 2021)*

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

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

A specific database ("ESG Engine") is available to DWS's investment professionals for the assessment of principal adverse impacts on ESG Factors as required under the applicable policies for the Actively Managed Portfolio Business. ESG data from external data providers as well as proprietary research results of DWS Group on sovereign, quasi-sovereign, corporate issuers, and investment funds are incorporated into the ESG Engine. The availability of ESG data and the integration into relevant DWS

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

<sup>6</sup> Available here for additional information: <https://www.dws.com/>

<sup>7</sup> Available here for additional information: <https://www.dws.com/>

Group's internal systems constitutes a starting point for considering and integrating ESG Factors into the investment decision-making process. DWS encourages the consideration of ESG Factors when designing investment strategies for financial products specifically set up for individual clients.

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

- exposure to fossil fuels<sup>8</sup> and estimate on possible asset stranding risks;
- carbon emissions: the ESG Engine calculates portfolio carbon footprint data, measured in volume and in carbon intensity;
- further data on greenhouse gas emissions, energy performance, biodiversity, water, and waste;
- data on social and employee matters, human rights, anti-corruption, and anti-bribery;
- information on whether an issuer is involved in the development, manufacturing, procurement, distribution, and use of several types of controversial conventional weapon (CCW) systems or components; and
- data on human rights including information on the existence of a human rights policy, appropriate due diligence, on measures to prevent human trafficking or to identify severe human rights issues and incidents.

The ESG data may also encompass an assessment of scope, severity, probability of occurrence and potentially irremediable character of ESG Factors, subject to data availability.

## 2. Passively Managed Portfolio Business

### *i. ESG Integration Policy for Passive Investment Management (December 2022)*

The ESG Integration Policy for Passive Investment Management<sup>9</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 as outlined in the section about the DWS Controversial Weapons Policy. DWS considers ESG Factors when selecting indices and investment policies.

### *ii. DWS Controversial Weapons Policy (December 2022)*

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

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

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

## 3. Sustainable Investments Business

### *i. Policies and guidelines as defined per fund<sup>10</sup>*

DWS manages investment funds which have a sustainable investment as their objective following policies and guidelines that take into consideration adverse sustainability impacts. Third party advisors, when engaged, manage and report impacts across environmental, social and governance (ESG) factors. In addition, investment funds shall not make any investment in any company engaged in any of the following activities:

- production or activities involving forced labour or child labour;
- any business relating to pornography or prostitution;
- production or trade in and any business relating to weapons and munitions.

<sup>8</sup> Industries that derive revenues from the exploration, mining, extraction, distribution or refining of hard, liquid or gaseous fuels (i.e. coal, oil, natural gas)

<sup>9</sup> Available here for additional information: <https://www.dws.com/>

<sup>10</sup> These policies and guidelines are available in the fund documentation

*ii. DWS Reputational Risk Key Operating Document (December 2020)*

DWS Group is subject to internal policies, which requires enhanced due diligence with subject matter experts for matters that may deem to pose reputational risk based on profile of counterparties, nature of the transaction involved as well as for certain industries and sectors.

#### **4. Illiquid Business**

*i. DWS ESG & Sustainability Policy for investment funds investing in real estate (2020)*

The DWS ESG & Sustainability policy<sup>11</sup> sets out the general framework for the integration of ESG Factors into the investment decision for investment funds investing in real estate, both in the investment process and in the investment decision on asset level. It establishes guidelines and minimum standards for the data-driven integration of sustainability in the investment process.

*ii. DWS internal policy for investment funds investing in infrastructure (November 2019)*

This policy sets out the general framework for the integration of ESG Factors in the investment lifecycle for investment funds investing in infrastructure. It integrates ESG Factors into sourcing, acquisition processes, asset management, and divestment processes.

*iii. DWS Controversial Weapons Policy (December 2022)*

Please refer to section 1.(ii) about the DWS Controversial Weapons Policy, which also applies to the Illiquid Business.

*iv. DWS Reputational Risk Key Operating Document (December 2020)*

Please refer to section 3.(iii) about the DWS Reputational Risk Key Operating Document, which also applies to the Illiquid Business.

### **C. Description of actions to address principal adverse sustainability impacts**

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

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

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

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

For the Sustainable Investment Business, principal adverse impacts are identified during the pre-

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<sup>11</sup>Available here for additional information: <https://www.dws.com/>



assessment phase and due diligence process before making an investment decision. Relevant principal adverse impacts indicators are investment funds specific but include for example total carbon emissions, carbon footprint, energy production from non-renewable resources, and implementation of fundamental ILO (International Labour Organisation) conventions. The investment funds' strategy aims at avoiding or reducing principal adverse impacts. Investments are also continuously monitored with the aim to reduce or avoid identified principal adverse impacts. In addition, The Sustainable Investments Business has comprehensive procedures, processes and controls in place to comply with anti-financial crimes requirements, for example due diligence requirements w.r.t. anti-money laundering and anti-corruption.

For the Illiquid Business, when applicable, the consideration of adverse effects will be specific to each business and respective fund, and details will be stated within each fund's definitive fund document. Principal adverse impacts may be assessed in the initial screening and due diligence phases as well as over the life of the investment. DWS aims to reduce or avoid identified principal adverse impacts.

*i. Identification and prioritization of principal adverse impacts in the investment decision making process of the ESG Integration Policy for Active Investment Management*

For the Actively Managed Portfolio Business of DWS, information on principal adverse impacts on sustainability factors are sourced from the external ESG data vendors that DWS subscribes to and combines these datapoints into our ESG Engine. The use of external ESG data helps to identify principal adverse impacts on sustainability factors even though this information may vary in accuracy and breadth across asset classes globally and is dependent on disclosure of the investees. This information may affect the investment decision as well. This integration of ESG data into DWS key systems enables investment professionals to have real-time visibility on the overall sustainability profile of the respective portfolio – including information on principal adverse impacts on sustainability factors. Some external data vendors' assessments include "probability of occurrence and the severity of those principal adverse impacts, including their potentially irremediable character" (subject to data availability) as part of e.g., DWS overall Norm assessment (geared towards measuring and detecting companies' non-compliance with international norms with significant impact on communities / environment). Investment professionals may prioritize certain principal adverse impacts in the research process or in the portfolio construction, subject to precontractual disclosures or investment guidelines. Additional identified principal adverse impacts on sustainability factors may be prioritized through the sector materiality matrix as required. Integration of ESG into research, engagement of ESG topics and the sustainability profile of funds is part of regular internal management reporting. For most of DWS's financial products which provide transparency pursuant to article 6/8/9 of the Regulation (EU) 2019/2088 a selected group of principal adverse impacts on sustainability factors may constitute binding mitigations through investment limits in precontractual disclosures. For the Actively managed portfolio business of DWS the Controversial Weapons Policy seeks to fully exclude manufacturers of controversial weapons (PAI14) as defined by Annex supplementing Regulation (EU) 2019/2088 of the European Parliament from 6 April 2022.

#### **D. Engagement Policies**

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

*1. Engagement Policy (December 2022)*

The Engagement Policy<sup>12</sup> establishes *inter alia* the engagement framework for DWS on how to engage with its investees in relation to equity as well as debt investments in the Actively and Passively Managed Portfolio Business.

This policy sets out the engagement process, including the associated roles and responsibilities by the means of the DWS Engagement Council. Furthermore, the policy addresses 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.

The enhanced engagement framework of DWS foresees integration of principal adverse impacts on

<sup>12</sup> Available here for additional information: <https://www.dws.com/>

sustainability factors as part of the engagement process, objective / target setting with investees.

## 2. Corporate Governance & Proxy Voting Policy (March 2022)

This policy<sup>13</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 investees 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. DWS Investment S.A.'s Corporate Governance and Proxy Voting Policy also contains elements characterizing the voting behavior regarding board gender diversity (PAI 13).

### E. References to international standards

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

- Net Zero Asset Manager Initiative;
- United Nations Global Compact, a global initiative for corporate sustainability;
- OECD Guidelines for Multinational Corporations, recommendations on responsible business conduct addressed by governments to multinational enterprises;
- Convention on Cluster Munitions (CCM), an international treaty that prohibits the use, transfer, and stockpiling of cluster bombs;
- Anti-Personnel Mine Ban Convention (APMC), a convention on the prohibition of the use, stockpiling, production and transfer of anti-person mines and their destruction (including as well anti personal time delay explosives and non-detectable fragment explosives as defined by Protocol I, II of the Convention on Certain Conventional Weapons);
- Coalition for Environmentally Responsible Economies (CERES), a non-profit sustainability advocacy organization;
- United Nations-backed Principles for Responsible Investment (PRI), a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice;
- Taskforce on Climate Related Financial Disclosures (TCFD) recommendations, recommendations for more effective climate-related disclosures issued by a taskforce established by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system; and
- Climate Action 100+, an investor initiative to engage with important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

**Date of statement:** 14 December 2022

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<sup>13</sup> Available here for additional information: <https://www.dws.com/>