



# Controversial Weapons Policy

Non-Group  
Policy – December 2022



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# 1 / Introduction

This document follows the principles set up by the Deutsche Bank AG Controversial Weapons Policy. However, in order to fulfil its fiduciary duty as an asset management company, DWS Group and applicable legal entities follow their own methodology and guidelines regarding the identification of controversial conventional weapons (CCW) corporations.

The document generally covers the position of DWS Group with regards to investments (investments, financing or coverage) or business relationships with corporations involved in the controversial conventional weapon business. Controversial Conventional Weapons are defined in line with international regulations and standards, namely:

Controversial weapons in the sense of this policy are controversial conventional weapons (CCW) as well as biological weapons and chemical weapons. Cluster Munitions as defined and banned in 2008 by the Convention on Cluster Munitions (CCM). Anti-Personnel Mines as defined and banned in the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti Person Mines and their Destruction (cf. APMC); 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 (CCW).

For the sake of completeness we address biological weapons and chemical weapons as well under this term. Biological and chemical weapons have been banned by the Biological Weapons Convention (BWC: 1975) and Chemical Weapons Convention (CWC: 1997) respectively. Other than CCW have – especially military grade industry produced – Biological Weapons and Chemical Weapons long ceased to exist and are factually irrelevant for all, production by the corporate industry as well as fielding in the weapon arsenal of state actors.

Controversial Conventional Weapons are considered to be in violation of humanitarian laws and have been banned or are proposed to be banned by United Nations conventions and other multilateral bodies. Continuing to invest in or have business relationships with producers of Controversial Conventional Weapon would strongly violate our values and beliefs, and it additionally represents a significant reputational risk to all parties involved. From a regulatory perspective, CCW exposure (with the same definition of anti-personnel mines, cluster munition, biological and chemical weapons) is also listed in the Level 2 Regulatory Technical Standards (RTS) of Sustainable Finance Disclosure Regulation (SFDR) in terms of principal adverse impacts (PAI). Due to annual disclosure on a legal entity basis for entities in scope of SFDR, DWS seeks to minimize this exposure.

Other controversial weapons (CW), most notably depleted uranium weapons and nuclear weapons do not constitute controversial conventional weapons in the sense of this policy. However, DWS complies with the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) with the aim of which is to “make every effort to avert the danger of such a war (nuclear) and to take measures to safeguard the security of peoples”. For ethical reasons and for reasons of societal impact DWS deems these weapons controversial as well (controversial weapons) and excludes manufacturers with a nexus to those weapons from financial products applying certain ESG filters<sup>1</sup>. The identification of nexus for both CCW and CW is not based on revenues<sup>2</sup>. Any further standpoint on broader exclusions of manufacturers of nuclear weapons or companies associated with nuclear weapons will require additional internal approvals.

We also closely observe developments under the “Treaty of the Prohibition of Nuclear Weapons” (TPNW) but note that as of today none of the countries where manufacturers of nuclear weapons or nuclear weapons components are domiciled has signed the treaty. In 2022, DWS has also developed a methodology for identifying companies associated with white

<sup>1</sup> Please see page 34ff of DWS Group Annual Report 2021 for a definition of DWS's ESG product suite and corresponding filters. Bespoke institutional mandates may choose to exclude those manufacturers depending on client preferences.

<sup>2</sup> For nuclear weapons it not only includes production of Nuclear Weapons, but any specific involvement like (a.o.) manufacturing of components, delivery systems, or service contracts.

phosphorous (being part of incendiary weapons). The identification of such issues (both nuclear and incendiary weapons) is part of DWS's ESG Engine – our proprietary database on ESG assessments from internal and external sources.

DWS Investment Professionals are encouraged to regularly investigate an issuer's nuclear weapons nexus through relevant datasources such as ICAN (see link: <https://www.dontbankonthebomb.com/>).

For certain DWS financial products (defined under DWS ESG Product Classification Framework in DWS Group Annual Report 2021) investments into issuers associated with nuclear weapons<sup>3</sup> or white phosphorous may be prohibited. The same would hold true for issuers associated with lethal autonomous weapon systems (LAWS), which would also fall under the investment limits of ESG products (under military defense).

The following sections apply predominantly to the process around CCW. For information on controversial weapons beyond CCW please contact the CIO Office for Responsible Investments.

## 2 / Scope and Applicability

### 2.1. Scope

#### 2.1.1. Objective

Since the production and use of CCW have been deemed as regulated or prohibited under the above-mentioned Conventions, DWS considers any investments or business relationships as to be avoided.

**Investments** are defined as:

- direct investments in CCW corporations; or
- direct investments in companies that control CCW companies; or
- direct investments in debt obligations and bonds issued by CCW companies; or
- direct investment through purchasing non-tradable shares issued by CCW companies; or
- Indirect Investments into CCW corporations via mutual funds, fund of funds, and ETFs (to the extent applicable under 2.1.2), co-mingled funds, managed account solutions, feeder funds and co-investment opportunities. This has been defined in the multi-asset fund selection framework. The target fund definition covers actively and passively managed funds. Please refer to Section 3.1 for further details and responsibilities.

**Business relationships** are defined as:

- Any kind of business where DWS provides or receives services (e.g. financing, advisory, investment management) to / from CCW corporations; or
- Any kind of business where DWS or a fund which is managed by DWS enters into a contractual arrangement with CCW corporations

For mutual funds having the potential for indirect investments under (v) a Key Operating Procedure for a Multi Asset Fund Selection Framework will be in place.

<sup>3</sup> For the avoidance of doubt, as of today a green bond issued by a company with confirmed links to producing controversial weapons is deemed non-eligible for ESG products even if the ESG assessment applies to the issue rather than the issuer in the case of green bonds.

## 2.1.2. Overview of application within DWS Group

The table below highlights the groups of controversial weapons and to which extent DWS Group applies exclusionary regimes in its product group from an investment perspective or other types of relationships. Please note that the table below can change depending on applicable ESG filters for ESG products.

Table

		Investments			Other	
		Active	Passive Systematic	Alternatives incl LRA	Client relationship	Business relationship*
CCW	Landmines	X	X <sup>1</sup>	X	X	X
	Cluster Munition	X	X <sup>1</sup>	X	X	X
	Biological weapons	X	X	X	X	X
	Chemical weapons	X	X	X	X	X
Examples of other controversial weapons	Nuclear weapons	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Allowed / subject to review <sup>4</sup>	Allowed / subject to review <sup>4</sup>
	Depleted Uranium Weapons	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Allowed / subject to review <sup>4</sup>	Allowed / subject to review <sup>4</sup>
	White Phosphorous	Case by case <sup>3</sup>	Case by case <sup>3</sup>	Case by case <sup>3</sup>	Allowed / subject to review <sup>4</sup>	Allowed / subject to review <sup>4</sup>
	Lethal autonomous weapons	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Disallowed for ESG <sup>2</sup>	Allowed / subject to review <sup>4</sup>	Allowed / subject to review <sup>4</sup>
	Others	Subject to review by responsible DWS bodies	Subject to review by responsible DWS bodies	Subject to review by responsible DWS bodies	Subject to review by responsible DWS bodies	Subject to review by responsible DWS bodies

1 currently only Passive EMEA, Passive Americas is work-in-progress and subject to relevant internal and external approvals.

2 for funds subject to transparency under e.g. Art 8 (incl Art 8 Basic) or Art 9 under Sustainable Finance Disclosure Regulation (SFDR) – provided that there is a clear nexus based on EMP decision. Please see page 34ff of DWS Group Annual Report 2021 for a definition of DWS's ESG product suite and corresponding filters. Bespoke institutional mandates may choose to exclude those manufacturers depending on client preferences

3 for certain clients or local labels (as of today, Towards Sustainability Label in Benelux) for retail products this might be required or preferred.

4 CAAF or RRC approval may be required. \* business relationship as defined above and may also include tenant contracts of companies in real estate owned directly or indirectly by DWS funds on behalf of clients. "X" Since the production and use of CCW have been deemed as regulated or prohibited under the above-mentioned Conventions, DWS Group considers any investments or business relationships as to be avoided

### 2.1.3. Applicability

This policy applies to:

- All business lines that belong to DWS Group;
- All countries where DWS Group operates and/or invests. However given the regulatory requirements and local laws, its implementation is subject to compliance with the regional laws and regulation;
- All new investments or new business relationships (as defined in section 2) with CCW corporations.

The following considerations apply:

- Any pre-existing investments or business relationships with CCW related corporations at the time of publication of this policy must not increase their exposure. In addition, timelines for reduction must be agreed, where applicable, between the business unit and the CIO Office for Responsible Investments.
- It is acknowledged that for index funds and passive products, separate implementation measures apply as the objective of portfolios that replicate the composition of indices should not be affected. Therefore, passive products (including European domiciled ETFs<sup>4</sup>) that replicate external indices or indices provided by third parties are exempt but will be evaluated differently. The nature of DWS's manufacturing of passive products is to track the index as closely as possible in order not to affect the product quality. In the context of this CCW policy we aim to exclude CCW stocks from the investment universe, where possible. In Passive for all indirect replication (IR; synthetic) passive products, the exclusion list is applied to substitute basket stocks. For direct replication equity and fixed income products the decision is taken after careful analysis with the Passive portfolio management teams to measure the materiality of any exclusions. For the avoidance of doubt, when excluding significantly affects tracking error, DWS has to act as fiduciary for its clients, and will not exclude securities. For ETFs domiciled in the US, DWS is working on a similar methodology for excluding CCW issuers in line with the above-mentioned process subject to required internal and external approvals.
- Multi Asset & Solutions aims at reducing CCW exposure in passive, index-replicating target funds to the best extent possible. Therefore, all portfolio managers must assess the CCW exposure (as defined by DWS' CCW list) of the fund holdings based on the last available portfolio constituents list.

## 2.2. Requirements

Due to the special legal nature of controversial conventional weapons, DWS ESG Engine & Solutions team developed an in-house methodology to assess corporate involvement and compile a restricted list. The methodology has been approved by the ESG Engine Methodology Panel (EMP).

The ESG Engine & Solutions team assessment, if available, takes precedence over external vendor information to ensure DWS-wide consistency regarding CCW. The ESG Engine & Solutions team assessment is based on external intelligence and seeks to be line with the leading CCW non-governmental organizations (NGOs).

The methodology identifies the corporations that are involved in the CCW business:

- as producer
- as producer of single purpose components, single purpose deliver devices or servicing
- via ownership relations / majority capital

<sup>4</sup> For sub-funds in Xtrackers I and Xtrackers II SICAVs and Xtrackers (IE) plc

The constituents of CCW (list of entities confirmed to be associated with CCW) are part of the “restricted list” in Aladdin which is automatically fed by a Compliance / AFC feed. The constituents are updated on a daily basis and – if needed – also ad-hoc. In Aladdin there are prohibition investment guidelines in place referencing to the restricted list directly and ensuring that orders / trades are only performed in line with the restriction list. For reasons of data licensing and confidentiality the list of CCW issuers must not be distributed externally.

### 2.2.1. CCW Identification Methodology

The methodology identifies corporations that are involved in corporate activities concerning controversial conventional weapons<sup>3</sup>.

1. **Direct CCW corporations and activities**, such as: production or manufacturing of a controversial conventional weapon, production of delivery devices and the deliberate and knowing production of primary key components.
2. **Indirect activities**, such as: servicing to ensure operational readiness of controversial conventional weapons.
3. **Indirect CCW corporations**, such as
  - a. Wholly owned CCW subsidiaries
  - b. Effected Parent corporations
  - c. Effected subsidiaries It does not apply to one (non CCW corporation) subsidiary being held by a (non CCW corporation) parent holding company which holds as well a CCW corporation subsidiary.

## 3 / Roles and Responsibilities

The dedicated implementation of the CCW investment restriction is responsibility of the business lines within DWS. All business lines have to ensure that any investment or business relationship with the identified corporations is avoided.

The integration of this policy into business procedures and relevant systems lies with the investment divisions (Active, Passive, Alternatives) as well as the Client Coverage Division regarding client acceptance.

### 3.1. Roles and Responsibilities for managing CCW relationship

Roles and responsibilities are defined along internal processes on a client relationship level, on a new product approval level or reputational risk level. Depending on the applicable case, different functions may be in charge of owning tasks or advising.

### 3.2. Process

While DWS Group avoids entering into any kind of business relationship with corporations engaged in CCW business, there may be specific cases where further consideration is required.

### 3.3. Contacts

**For ESG methodology request:** ESG Engine and Solutions team

**For Process related requests:** Responsible Investment Center / CIO for Responsible Investments of DWS; Divisional Control Office of DWS

**For Business relationships** around any kind of business where DWS provides or receives services (e.g. financing, advisory, investment management) to / from CCW corporations: Global DWS Client Acceptance Forum (CAAF). The CAAF process provides oversight and governance (globally) for:

- New Client Adoptions (HIGH risk)
- Regular Reviews and event Driven Reviews and its Overdue (all High Risk clients)
- High Risk Offboarding and High Risk Migrations
- Any other case where it is felt by Compliance, Business or COO that the client could pose increased risks to the Group
- Existing clients which are subsequently identified as having high risk factors which fit into any of the FAQs categories

**Multi Asset Fund Selection Framework:** Head of Multi Asset Research, Head of Investment Strategy Multi Asset & Solutions

## 4 / Glossary

Term	Definition
APMC	Anti-Personnel Mine Ban Convention
COO	Chief Operating Officer
CIO	Chief Investment Officer
EMP	ESG Engine Methodology Panel
ESG	Environmental, Social, Governance
GSC	Group Sustainability Council / Committee
CCM	Convention on Cluster Munitions
CCW	Conventional Controversial Weapon as defined and banned in 2008 by the <i>Convention on Cluster Munitions (CCM)</i> . Anti-Personnel Mines as defined and banned in the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti Person Mines and their Destruction (cf. APMC); 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 (CCW)
LAWS	lethal autonomous weapon systems
EPC	ESG Product Council
IR	Indirect replication / synthetic replication by Passive

Term	Definition
APMC	Anti-Personnel Mine Ban Convention
COO	Chief Operating Officer
CIO	Chief Investment Officer
EMP	ESG Engine Methodology Panel
RCRO	Regional Chief Risk Officer
NGO	Non-governmental organisation
NPT	Treaty on the Non-Proliferation of Nuclear Weapons
SME	Subject Matter Expert
RRC	Reputational Risk Committee
CAAF	Client and Asset Acceptance Forum
SFDR	<b>Sustainable Finance Disclosure Regulation</b>
TPNW	Treaty on the Prohibition of Nuclear Weapons

