Environmental, Social, Governance (ESG) Integration Policy for Active Investment Management – DWS Global
0. INTRODUCTION

As a global asset manager, DWS Group GmbH & Co. KGaA and its legal entities (DWS) acts as a fiduciary for its clients. Their interests come first and we are guided by our obligation to preserve and grow our client’s money. The main consideration that DWS takes into account is to achieve sustainable risk-adjusted returns. The ESG Integration Policy for Active Investment Management (ESG Policy) implements DWS’s Responsible Investment Statement and is part of our responsibility as an early signatory (since 2008) to the UN-supported Principles for Responsible Investment (PRI). The ESG Policy describes how Active Investment Professionals (IPs, i.e. portfolio managers and analysts) are to incorporate ESG factors and sustainability risks into their investment analysis and investment decisions. The goal of the policy is to set out minimum standards for IPs on how to undertake a comprehensive assessment of investment risks and opportunities by incorporating ESG factors into their investment process, analysis and decisions.

In 2019 DWS has tightened the objective setting process for employees on the Active investment platform in the sense that all research and portfolio management tasks should adhere to and promote this “ESG Integration Policy for Active Investment Management”. Research analysts should include financially material and reputation relevant ESG aspects into valuation model, investment recommendations and research reports and consider material ESG aspects as part of their Investment decision.

1. EXPLANATIONS AND SCOPE

The ESG Integration Policy defines and regulates the incorporation of ESG factors and sustainability risk\(^1\) into the Active Investment Management investment process and is applicable for all Active equities, fixed-income (sovereigns/credit) and multi-asset portfolios:

ESG plays a role along the lines of the investment process:

1. DWS CIO View
2. Determination of client investment objectives and universe,
3. Security analysis,
4. Portfolio construction & monitoring
5. Trading and broker evaluation of ESG Research,
6. Performance measurement and
7. Reporting to clients.

It is supplemented by the “Statement on Controversial Conventional Weapons”\(^2\).

2. INTEGRATING ESG ALONG OUR INVESTMENT PROCESS

Investment Guidelines: Set up and review

In the implementation and review processes of the investment guidelines, the IP needs to understand the client’s ESG objectives and give an assessment on ESG constraints to be included in the investment guidelines.

ESG facets: understanding the framework

We combine a screening and integration strategy to all of our actively managed holdings. Our screening approach entails the exclusion of companies that: are involved in the manufacture, maintenance, or provision of controversial weapons (e.g., cluster bombs). Our integration approach involves the provision of financially relevant ESG information as well as detailed ESG research to

\(^{1}\) Note that both BaFin, ESMA and this policy define sustainability risks generically. Every issuer and portfolio will be affected differently so that the definition of risks is very specific.

\(^{2}\) This can be retrieved [here](#)
all analysts and portfolio managers, through the incorporation and standardization of this information in our research platform and general investment process. Within DWS the investment professionals undertake fundamental analysis of all the securities within their coverage. Their assessment is based on their outstanding expertise in their sectors as well as on the information we received from leading ESG specialists (ESG data vendors). They consider literally hundreds of indicators on e.g. resources & waste, climate change, green products, human capital, societal impact, product responsibility, business ethics, corporate governance and public policies. The interpretation of these aspects is done within the context of our security research process, and hence the impact (i.e. risks and opportunities) that these aspects have on the different analysed areas such as governance, business model, industry environment, competitive position, strategy and transparency among others. Therefore, the impact of ESG factors in all these areas of analysis determine not just the level of conviction and investment recommendation but also at the end the portfolio positioning.

Research: ESG integrated fundamental analysis
The integration of material ESG factors starts with the identification of material sustainability trends, themes as well as ESG issues (Key Performance Indicators analysis - KPI). Each country, sector and company will be impacted differently. This aspects need to be integrated in the investment case risks and opportunities as well as our valuation model (and investment recommendation).

Engagement
Once the ESG integrated fundamental analysis is completed, our investment professional might decide to do engagement with the company in case he/she needs further information to assess how an issue has been managed and/ or he/she thinks that there is a need to promote change in the company’s governance structure and/or company’s operations (strategy, business model development, capital allocation decision, etc.). This engagement activity would be mainly undertaken and documented by the security analyst and if required in teamwork with an ESG specialist or a member of the Corporate Governance Center (for corporate governance issues).

Portfolio Construction & Monitoring
At DWS Investment Professionals need to monitor the ESG quality of their portfolios; portfolio distribution of ESG Ratings, Norm Ratings, Carbon Ratings, Controversial Sectors, etc. they have to be aware of the active exposure of their managed portfolios to critical ESG issues displayed in the “Portfolio Analysis” filter and “ESG Engine Reports for companies” and their impact on expected risk-adjusted return for that security.

Trading & Broker Evaluation
Within DWS, Investment Professionals evaluate the quality of research and service that they receive from external research houses. It is required, that they receive helpful ESG research from external houses and do specify this help in their broker assessments. For any trade-order based only on ESG reasons, our portfolio manager needs to choose the adequate trade rationale.

Proxy Voting
As responsible investor and fiduciary DWS is obliged to exercise our clients’ voting rights in their best interest. The exercise of voting rights (via attendance of general meetings in person by the IP or a member of the Corporate Governance Center, or via proxy voting over the ISS Proxy Exchange
Tool) takes place according to a quality-based process approved by the auditor that aims to protect the interests of our client investors. The voting decisions follow the proprietary Proxy Voting Guidelines laid down in the Corporate Governance and Proxy Voting Policy, a thorough analysis by a member of the Corporate Governance Center as well as discussions with the IP when necessary. The IP is responsible for instructing the companies assigned to him/her by the Corporate Governance Center. The representative voting rights are exercised by their respective capital management company.

3. **ROLES AND RESPONSIBILITIES**

This ESG policy and the herein described processes apply to IPs of the Active Investment Management globally. We expect all IPs to integrate ESG criteria into their investment decision. However, jurisdictional differences as well as different regulatory requirements may lead to different implementation levels of this guideline. All asset classes are responsible for implementing this policy and for taking into account supplemental ESG related policies (Corporate Governance and Proxy Voting Policy, Controversial Conventional Weapon Policy) in their respective business units and supervisory procedures.

4. **APPLICABLE PRINCIPLES**

Principles guiding our ESG Policy are: the UN Global Compact, the OECD Guidelines for Multinational Corporations, Cluster Munitions Convention, IIRC integrated Reporting Framework and CERES amongst others are our guiding principles for our respective businesses. Additionally since 2008 we have been a signatory and abide by the UN supported Principles for Responsible Investment (PRI).

5. **ASSOCIATED POLICIES**

DWS's approach to responsible investing in general and ESG Integration in particular is outlined in our Responsible Investment Statement. This statement introduces our position on central aspects, formulates corresponding principles that guide our investment, the engagement with companies, and provides a reference on how these principles influence DWS's Voting decisions on the active business. Last but not least, it explains briefly how we implement our philosophy and where we stand on controversial issues.

6. **GLOSSARY**

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<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>IPs</td>
<td>“investment professionals” defined as portfolio managers and analysts in Active Investment management</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social, Governance</td>
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<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>ESG Policy</td>
<td>Short name for ESG integration policy for Active Investment Management</td>
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<td>PRI</td>
<td>Principles for Responsible Investment</td>
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3 This can be accessed here: [https://dws.com/solutions/esg/ri-statement/](https://dws.com/solutions/esg/ri-statement/)
Annex: Principles guiding our ESG policy

- Our latest DWS Sustainability Report can be found here: https://group.dws.com/responsibility/sustainability-report/
- the UN Global Compact (https://www.unglobalcompact.org/what-is-gc/mission/principles)
- Cluster Munitions Convention (http://www.clusterconvention.org/the-convention/operative-commitments/)
- CERES (https://www.ceres.org/)
- Additionally since 2008 we have been a signatory and abide by the UN supported Principles for Responsible Investment (PRI). (https://www.unpri.org/about/the-six-principles)