

Non Group Policy - 2022

# Environmental, Social, Governance (ESG) Integration Policy for EMEA Passive Investment Management

## 1. 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 clients' money, in a sustainable manner. The ESG Integration Policy for Passive Investment Management describes how DWS defines Sustainability Risks, and how passive investment professionals consider and incorporate these risks and other ESG factors into their investment and due diligence processes, including index selection, and the approach taken to engage and vote on these passively managed assets.

## 2. EXPLANATION AND SCOPE

This policy defines the consideration of ESG factors and Sustainability Risks into the Passive Investment Management investment process and is applicable for all EMEA Passively Managed Portfolios across all asset-classes, including:

1. Xtrackers UCITS ETFs;
2. DWS Passively Managed Portfolio Mandates;

together, the “**Passively Managed Portfolio Business**”; and

3. Xtrackers ETCs

## 3. DEFINITION OF SUSTAINABILITY RISKS

“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 an investment's value. Sustainability Risk can either represent a risk on its own or have an impact on other risks and contribute significantly to risks, such as market risks, operational risks, liquidity risks or counterparty risks.

These events or conditions are split into "environment, social, and governance", 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;
- avoidance and reduction of environmental pollution;
- protection of healthy ecosystems; and
- sustainable land use.

### *Social affairs*

- compliance with recognized employment law standards (no child and forced labour, 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; and
- inclusive projects or consideration of the interests of communities and social minorities.

### *Corporate Governance*

- tax compliance;

- anti-corruption measures;
- sustainability management by the board;
- board remuneration based on sustainability criteria;
- facilitation of whistle-blowing;
- employee rights guarantees; and
- data protection guarantees.

#### *Physical climate events or conditions*

- Extreme weather events
  - heat waves;
  - droughts;
  - floods;
  - storms;
  - hailstorms;
  - forest fires; and
  - 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; and
  - 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; and
- changes in customer preferences and behaviour.

Sustainability Risks can lead to a significant deterioration in the financial profile, liquidity, profitability or reputation of the underlying investment.

## **4. INTEGRATION OF SUSTAINABILITY RISKS**

DWS considers Sustainability Risks through a variety of measures for its Passively Managed Portfolio Business. This includes, but is not limited to, the regular measurement of Sustainability Risks, the potential removal of Controversial Conventional Weapons, minimum standards regarding the selection of new indices, and commitment to strong corporate governance and voting practices in relation to both equity and debt investments.

DWS constantly collects and monitors data relating to the Sustainability Risks and profile of its products, including principle adverse sustainability 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. Securities identified by this process will be removed in subsequent index rebalances for relevant products, as well all products identified as Article 8 and 9.

For Xtrackers ETCs, DWS endeavours to adhere to relevant responsible sourcing guidelines, where appropriate and possible, based on considerations such as liquidity. Examples include the London Bullion Metal Association (LBMA) Responsible Sourcing Programme, which is aimed at tackling money laundering, terrorist financing and human rights abuses relating to precious metals markets.

## Removal of Controversial Conventional Weapons

DWS generally seeks to remove securities involved in CCW, as determined by the DWS Controversial Conventional Weapons identification methodology<sup>1</sup>.

For Passively Managed Portfolios with a Direct Investment Policy, securities identified by DWS as being involved in CCW will be removed, subject to a materiality calculation which determines the importance of those securities to the achievement of the Investment Objective of the ETF or Mandate. The materiality calculation will involve quantifying the impact of removing the security(ies) on ex-ante Tracking Error of the sub-fund holdings against the Reference Index. If a security, or securities, are not adjudged as being material contributors to reflecting the performance of the Reference index, then they will be removed from the Sub-Fund holdings. The materiality calculations are repeated at each Index review and/or Index rebalance.

For Passively Managed Portfolios with an Indirect Investment Policy, securities identified by the CCW policy will be not be eligible securities for the Invested Assets for that Sub-Fund's portfolio.

Please note that the identification and removal of these securities is independent of the index methodology.

## Selection of Indices

With regards to the selection of any new reference indices for Xtrackers ETFs (excluding commodity indices), DWS will conduct a due diligence process that includes the assessment of Sustainability Risks, and endeavour to work in conjunction with benchmark providers to embed certain Sustainability Risks into the construction of new indexes for both new Sub-Funds and also Reference Indexes considered as a potential reference index in case of substitution for an existing Sub-Fund. As part of this process, minimum ESG standards will be applied, with different approaches dependent on the target classification under SFDR.

However, exceptions may apply in certain circumstances, where these standards are not applied. These exceptions are in line with DWS product minimum sustainability launch principles. This includes, but is not limited to, cases of broadly recognised indices, such as the Standard & Poor's 500 Index or the Nasdaq 100 index, and cases where there is no or insufficient ESG data available, or where ESG filters may lead to insufficient diversification of the index, amongst others.

The standards will act as a minimum, and additional exclusions or sustainability related rules may be included in the Index Methodology. These standards should be taken into account whilst also considering any other relevant sustainability criteria, including necessary regulatory requirements, such as the intended SFDR classification.

For Passively Managed Portfolio Mandates, DWS encourages clients to account for sustainability factors (ESG factors) when selecting indices or designing investment strategies based on the client's individual preferences, where appropriate.

## Minimum Standards for Indices for Article 6 / Mainstream Products

The removal of securities with:

- Any involvement in controversial weapons, including cluster munitions, landmines, nuclear weapons, biological and chemical weapons or production of tobacco-related products
- The most serious violations of the UNGC or the OECD Guidelines for Multinational Enterprises
- Certain Involvement in the distribution, supply or retailing of tobacco-related products
- Material involvement in thermal coal mining and power generation
- Material Involvement in military weapons

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<sup>1</sup> The DWS Policy on Controversial Conventional Weapons can be found [here](#)

## **Minimum Standards for Indices for Article 8 / Products that Promote ESG Characteristics**

The removal of securities with:

- Any involvement in controversial weapons, including cluster munitions, landmines, nuclear weapons, biological and chemical weapons or production of tobacco-related products
- The most serious violations of the UNGC or the OECD Guidelines for Multinational Enterprises
- Certain Involvement in the distribution, supply or retailing of tobacco-related products
- Certain Involvement in thermal coal mining and power generation
- Certain Involvement in oil sands extraction
- Certain Involvement in weapons (including weapons for civilian and military use)
- Worst in class ESG Ratings

## **Minimum Standards for Indices for Article 9 / Products with a Sustainable Investment Objective**

The removal of securities with:

- Any involvement in controversial weapons, including cluster munitions, landmines, nuclear weapons, biological and chemical weapons or production of tobacco-related products
- The most serious violations of the UNGC or the OECD Guidelines for Multinational Enterprises
- Certain Involvement in the distribution, supply or retailing of tobacco-related products
- Certain Involvement in thermal coal mining and power generation
- Certain Involvement in oil sands extraction
- Certain Involvement in weapons (including weapons for civilian and military use)
- Worst in class ESG Ratings

For its Xtrackers ETFs, regardless of the Investment Objective or Index Methodology, DWS also commits to strong corporate governance and to active ownership practices with investee companies worldwide across equity and fixed income holdings. DWS also applies these practices to Passively Managed Portfolio Mandates where a client delegates voting rights to DWS. Both approaches are summarized below:

### **Corporate Governance and Proxy Voting**

This policy details the DWS 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.

### **Engagement**

The Engagement Policy establishes the engagement framework on how DWS engages with its investee companies in relation to equity as well as debt investments in the Passively Managed Portfolio Business.

This policy sets out types and methods of engagement, escalation strategies and expectations regarding communication as an investor on a number of topics, including ESG.

More information on Corporate Governance and Proxy Voting can be found in the “Corporate Governance and Proxy Voting policy”, and on Engagement in the “Engagement Policy”.

### **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. ESG data from external research companies 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 Group’s internal systems constitutes a starting point for considering and integrating

ESG factors into various decision-making processes, including the selection of new indices for the Passively Managed Portfolio Business, and the screening of passively managed accounts, where applicable.

Additional (ie. outside the ESG Engine) external or internal ESG data sources may also be used, where appropriate.

## 5. APPLICABLE PRINCIPLES

Principles guiding this 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).

## 6. ASSOCIATED POLICIES

DWS's approach to responsible investing in general and ESG Integration in particular is outlined in our Responsible Investment Statement<sup>2</sup>. 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 and passive businesses. Last but not least, it explains briefly how we implement our philosophy and where we stand on controversial issues.

## 7. GLOSSARY

Term	Definition
<b>ESG</b>	Environmental, Social, Governance
<b>ETF</b>	Exchange Traded Funds
<b>ETC</b>	Exchange Traded Commodities
<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities
<b>CCWs</b>	Controversial Conventional Weapons
<b>SFDR</b>	Sustainable Financial Disclosure Regulation
<b>UNGC</b>	United Nations Global Compact
<b>OECD</b>	Organisation for Economic Cooperation and Development

### 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>)
- the OECD Guidelines for Multinational Corporations (<http://www.oecd.org/corporate/mne/1922428.pdf>)
- Cluster Munitions Convention (<https://www.clusterconvention.org/convention-text/>)
- IIRC integrated Reporting Framework (<https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf>)

<sup>2</sup> This can be found [here](#)

- 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>)