
Prospectus changes

DWS mutual funds with absolute value-at-risk approach

It should be emphasized in advance that the prospectus changes to the absolute “value-at-risk” (VaR) limit do not serve to change individual investment strategies or the risk-return profile of the respective funds. While the fund-specific risk limits in the prospectuses are being raised, the previous risk limits remain binding for the fund management teams as part of the internal investment guidelines. The amendment intends, particularly in turbulent market phases, that there is no immediate forced selling pressure on the funds that could have been triggered by exceeding the risk limit stated in the prospectus. Such forced selling could have meant that a fund in the market downturn would have to reduce riskier positions if the VaR limit was exceeded, which reduces or even prevents participation in a recovery. With the changes to the VaR limits in the prospectus and integration of internal VaR limits in the investment guidelines, DWS Risk and the fund management define an action plan for the respective situation when the internal “value-at-risk” limit has been exceeded to participate in a recovery in the value of riskier positions.

Pre prospectus change

For a number of mutual funds, DWS has worked on the basis of strategy-based absolute value-at-risk (VaR) limits, which are stated in the prospectus section of the respective fund. The fund-specific absolute VaR risk indicator is calculated based on a historical VaR model and taking into account an one-year observation period with equal weighted returns. The VaR limit specified in the fund prospectus was determined on the basis of the targeted risk-return profile of the fund strategies, taking into account historical VaR figures and historically observed market conditions. As the VaR, which is a backward-looking risk indicator, is very sensitive to market movements, shocks observed in crisis situations (financial crisis, oil price shock, Italy and more recently the COVID-19 crisis) can have a significant impact on the absolute value-at-risk actually achieved. While the strategy-based absolute VaR limit should correspond to the risk-return profile of the respective fund, the aim is to ensure that this limit is suitable for a “normal” market cycle. Extreme shock scenarios have not been taken into account of these strategy-based absolute VaR limits. Otherwise these limits would have had to be set significantly higher, which would have given the fund management significantly higher risk budgets. It is therefore not surprising that, in a crisis situation, the absolute VaR limits previously set out in the prospectus were sometimes reached or even exceeded. This could potentially result in forced selling of positions to reduce risk.

In order to avoid such a scenario, DWS has further developed the approach with implementing absolute VaR limits in the fund prospectuses and integration of strategy-based limits in the investment guidelines. The ultimate goal is that portfolio management remains able to manage the portfolio in the best interest of the client even in such adverse environments.

Post prospectus change

Going forward, the prospectus will set a maximum absolute VaR limit, which would enable the fund management teams to efficiently manage the respective strategies even in market environments with external shocks, for example after a COVID-19 event. In other words, the VaR limit in the prospectus going forward is high enough to reflect the potential VaR of the funds in a crisis situation. This gives us greater flexibility to deal internally with significant VaR movements caused by external market events in the strategies and to manage risks at fund level in better accordance with the given market assessment.

Next steps

For the weeks to come, the absolute VaR limits previously stated in the fund's prospectus will remain the binding guidelines for the funds. DWS Risk is currently reviewing the previously defined VaR risk indicators across all strategies and assessing whether these are still suitable for the risk-return profiles of the strategies. This can lead to the strategy-based absolute VaR limits remaining unchanged or to be adjusted within the scope of this review when deemed appropriate.

Effective dates and mutual funds in scope

Effective date for Invest SICAV:	May 15 th , 2020
Effective date for FCP:	May 22 nd , 2020
Effective date for German UCITS:	July 1 st , 2020*

Funds (SICAV)	Abs. VaR-Limit (old)	Abs. VaR-Limit (new)
DWS Invest ESG Floating Rate Notes	1.77%	5.00%
DWS Invest ESG Euro Bonds (Short)	1.77%	5.00%
DWS Invest Short Duration Credit	5.00%	14.14%
DWS Invest China Bonds	8.00%	14.14%
DWS Invest Corporate Hybrid Bonds	8.00%	14.14%
DWS Invest Credit Opportunities	10.0%	14.14%
DWS Invest Global Bonds High Conviction	10.0%	14.14%
DWS Invest Global Bonds	10.0%	14.14%
DWS Invest Multi Opportunities	12.0%	14.14%
Funds (FCP)		
DWS Euro Ultra Short Fixed Income Fund	1.40%	5.00%
DWS Floating Rate Notes	1.77%	5.00%
DWS USD Floating Rate Notes	1.77%	5.00%
Funds (German UCITS)		
DWS Eurozone Bonds Flexible	2.53% (1 day VaR) / 8.0% (10 days VaR)	14.14% (10 days VaR)
DWS Global Hybrid Bond Fund	2.53% (1 day VaR) / 8.0% (10 days VaR)	14.14% (10 days VaR)
DWS Inter-Renta	3.16% (1 day VaR) / 10.0% (10 days VaR)	14.14% (10 days VaR)

Source: DWS Investment GmbH, DWS Investment S.A., Date: May 14, 2020; *Effective date: DWS Global Hybrid Bond Fund April 9th, 2020

Opportunities

- _ Consistent interest income
- _ Rising prices/falling yields in the bond markets may have a positive impact on the price of the funds' units.
- _ A fall in spreads on investment grade and high yield subordinate bonds also has a positive effect on unit prices.

Risks

- _ Price losses if yields rise
- _ Issuers' credit risk
- _ Possible exchange-rate risk
- _ The value of the fund's shares may fall below the price at which the client originally bought them.
- _ Extension and coupon risk
- _ Because of its composition or the techniques used by its managers, the fund is subject to heightened volatility. Consequently, unit prices may fluctuate sharply in either direction within short periods of time.
- _ Changes in accounting and tax laws and rating methodologies

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DWS International GmbH, as of April 30, 2020

For investors in Luxembourg

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DWS Investment S.A. As of: April 30, 2020

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