

# ESG Screening Policy and Procedures

DWS Invest ESG Climate Tech

March 2022



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# 1. Sustainability at DWS

## Responsible Investment Statement

Being a UN PRI signatory since 2008, DWS is convinced that putting ESG at the core of our fiduciary actions implies embedding ESG in the investment process more firmly. In our view, integrating ESG factors into the investment process contributes to a better understanding of businesses and the environments in which issuers operate. We incorporate ESG information in the Active investment process with the aim to improve the assessment of the future expected risk / return of a security and to increase sustainable outcomes supported by our investees. It is important to us that in addition to aligning our clients' investments with their personal values, striving to improve risk-adjusted returns or diversifying their portfolios, we can also help them to achieve a positive environmental or social contribution.

The incorporation of ESG may include the impact of several ESG issues at the sector level or the analysis of potential impacts of ESG risks and opportunities on business model and competitive position and valuation. At an operational level, DWS's Investment approach is specifically guided by:

- Standards: DWS investment approach aims to incorporate best practices for investment professionals on how to undertake a comprehensive assessment of investment risks and opportunities by enabling them to incorporate ESG factors into their investment process, analysis and decisions.
- Engagement: We encourage good governance and sustainable corporate practices at our investee companies with the goal of increasing value of equity and fixed income investments in the long-term. In addition, we plan to increasingly focus on engagement with non-issuers, such as index providers or rating agencies.

Also, our commitment to good governance is an integral part of our investment process and goes beyond our fiduciary duty to exercise our voting rights as an important means to ring-fence our investments. We regard active ownership as a powerful force in promoting better (in the context of our ESG understanding) policies and practices of our investees and, in turn, driving superior long-term performance. We believe that good Corporate Governance is an important source of higher relative returns on equity and fixed income investments in the long-term.

## 2. ESG Exclusion and Integration Criteria

The fund applies an ESG integration approach as well as a certain set of mandatory ESG standards. Those encompass the exclusion of issuers from controversial sectors or activities and of issuers that violate international norms such as the UN Global Compact. Further, an ESG best in class approach is applied in order to prevent the investment in issuers with low ESG and climate performance. The criteria screened and their applicable thresholds are compliant with the Belgian Febelfin Quality Standard (FQS) requirements.

### ESG Best-in-Class Approach

Themes	Guideline and Framework	Criteria
Environment	DWS's ESG SynRating seeks to identify the true ESG leaders and ESG laggards by peer group, consistently assessed as such by the top ESG agencies in a 360 degree review. Broad band ESG assessments from 3 data providers are taken into account, those being Morningstar Sustainalytics, MSCI ESG and ISS-ESG.	(True) ESG laggards, i.e. those with a <b>DWS SynRating of E and F</b> are not investable for the fund. Furthermore, a portfolio <b>concentration rule of 15% and 5%</b> applies to those with a <b>SynRating of D and M</b> , respectively.
Social		The rating scale goes from A to F: A = True leader in ESG B = ESG leader C = ESG upper midfield D = ESG lower midfield E = ESG laggard F = True laggard in ESG M = no rating available
Governance		Corporations are ranked against their peers. The ESG Engine defines the peer group by sector and region.

## Controversial Weapons

Themes	Guideline and Framework	Criteria
Nuclear Weapons Cluster Munition Anti-Personnel Mines Depleted Uranium Weapons Biological Weapons Chemical Weapons	Controversial weapons are widely banned by investors due to their harm to civilians and significant reputational risk.  DWS screens investments for involvement in weapons banned by international treaties (e.g., Oslo & Ottawa convention), but also for non-banned weapons such as nuclear weapons and depleted uranium weapons. Data providers include MSCI and ISS-ESG, as well as internal assessments.	We exclude issuers with a <b>Controversial Weapon Rating of D, E and F</b> .  The rating scale goes from A to F: A = Confirmed non-involvement B = Alleged C = Dual purpose D = Owning <sup>1</sup> / Owned <sup>2</sup> E = Component producer F = Weapon producer

## Controversial Sectors

Themes	Guideline and Framework	Criteria
Adult Entertainment Coal Gambling Military Defence Civilian Firearms Nuclear Power Tobacco Conventional Oil & Gas Extraction Unconventional Oil & Gas Extraction <sup>3</sup>	Controversial sectors are identified by harmful products or services to people or the environment (e.g. tobacco, coal) and if the product or service is considered being sinful (e.g. gambling, adult entertainment).  Involvement in controversial sectors is identified by a company's revenue share from a controversial sector. If a company exceeds its revenue share with activities mentioned in this table, it is excluded from the investment universe.	Exclusions are triggered by the following thresholds:  <ul style="list-style-type: none"> <li>_ Adult entertainment: ≥5%</li> <li>_ Gambling: ≥5%</li> <li>_ Military defense: ≥5%</li> <li>_ Civilian firearms: ≥5%</li> <li>_ Nuclear power: ≥5%</li> <li>_ Tobacco production: ≥5%</li> <li>_ Tobacco production &amp; trading: ≥10%</li> <li>_ Coal extraction: ≥10%</li> <li>_ Coal extraction &amp; power generation: ≥15%</li> <li>_ Unconventional oil &amp; gas extraction: ≥ 10%</li> <li>_ Conventional oil &amp; gas extraction: Min. % revenue based on natural gas or renewable energy &gt;40%</li> </ul>

<sup>1</sup> Owning more than 20% equity in a company involved in grade E or F.

<sup>2</sup> Being owned by more than 50% of company involved in grade E or F.

<sup>3</sup> It is meant the extraction of tar/oil sands, shale oil, shale gas and Arctic drilling

## Controversies

Themes	Guideline and Framework	Criteria
Human rights	When controversies are assessed, international norms are applied, whereby the guiding principles are codified in the United Nations Global Compact (UNGC). Other important norms are manifested by the International Labour Organisation (ILO) and the OECD guidelines.  DWS has created a holistic <b>Norm Controversy Rating</b> which seeks for a reconfirmed assessment of norm controversies from 3 leading ESG data providers (MSCI, ISS-ESG, Morningstar Sustainalytics).	We exclude corporate issuers with a <b>Norm Controversy Rating F</b> and limit those with a <b>Norm Controversy Rating E</b> to 5% on portfolio level.  The rating scale goes from A to F: A = Confirmed no Issues B = Minor Severity C = Moderate Severity D = Serious Severity E = High Severity F = Highest Severity/Global Compact Violation
Employment rights		
Child Labour		
Forced Labour		
Environment		
Business Ethics & Corruption		
Governance		
Product Safety		
Sovereign Freedom	Sovereign freedom assesses the condition of political rights and civil liberties	We exclude sovereign issuers with a <b>Freedom House Status</b> of “not free”

## Climate

Themes	Guideline and Framework	Criteria
Carbon Footprint	In order to assess a company's risks and opportunities which arise from the transition into a sustainable business world, DWS pays particular attention on two exposures: carbon and water.	Issuers with a <b>DWS Climate &amp; Transition Risk Rating of F</b> are excluded from the investment universe and those with a rating of <b>E and M</b> are limited to 5% each on portfolio level.
Carbon Transition Risk	The <b>DWS's Climate &amp; Transition Risk Rating</b> incorporates qualitative expert options on how a company has already taken action to tackle its transition risks, hence it includes also a forward-looking component.	The rating scale goes from A to F: A = True climate leader B = Climate solution provider C = Low transition risk D = Moderate transition risk E = High transition risk F = Excessive transition risk M = No rating available
Water Risks & Opportunities		
Power Generation Carbon Intensity	Electric utility companies that are not on a transition path in line with the Paris Agreement pose environmental risk.	Max. carbon emission intensity: 393 gCO <sub>2</sub> /kWh.

### 3. Data and Methodology

#### ESG Data

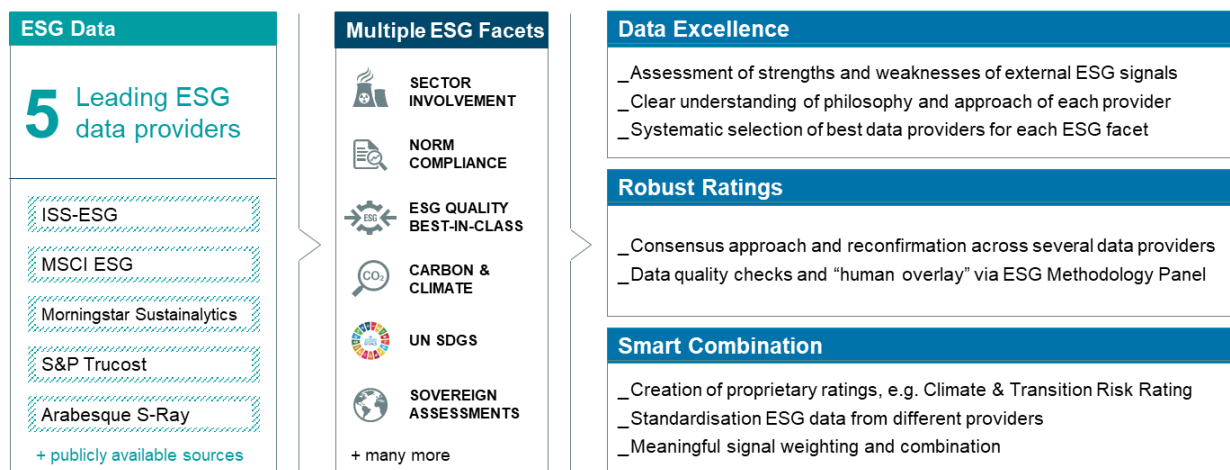
DWS acknowledges that different ESG specialists will come to different conclusions when assessing one and the same company. But, in our view, that diversity constitutes a strength. If different ESG data providers with different ESG indicators and different ESG methodologies come to the same or a similar ESG assessment, and if they are concordant or even consensual on their view, it is more likely that the assessment is objectively correct.

Why using multiple ESG data specialists? First, it increases reliability. Asking for multiple opinions means that an ESG assessment is based on the consensus, or the re-confirmation, of different specialists, providing valuable insights before making an investment decision. Second, it increases coverage. Third, it allows DWS to create unique and meaningful ESG ratings that are developed in-house.

As of now DWS contracts with ISS-ESG, MSCI ESG, Morningstar Sustainalytics, Arabesque S-Ray as well as S&P Trucost.

#### DWS ESG Ratings

For our analysis of relative ESG performance, we rely on a proprietary ESG rating methodology. The ESG Engine is a proprietary software system that represents a centerpiece in our efforts to integrate ESG into our investment processes for all liquid asset classes (equity, fixed income). It is a data aggregation, structuring and processing device, which allows an objective data driven ESG analysis, based on the ESG expertise from five leading ESG data providers.



For illustrative purposes only. Source: DWS Investment GmbH.

The ESG database is based on the data and figures as well as on internal assessments that take into account factors beyond the processed data and figures, such as an issuer’s future expected ESG development, plausibility of the data with regard to past or future events, an issuer’s willingness to engage in dialogues on ESG matters or corporate decisions.

DWS’s ESG Engine supports the automated analysis of multiple ESG facets, those being overall ESG quality, exposure to controversial sectors and weapons, violations of international norms such as the UN Global Compact, climate transition risks, and carbon footprint, among others.

## 4. Active Ownership

In our view, sound Corporate Governance centers on a clearly defined and stress-resilient business model with a corresponding corporate structure in place. We believe companies should take more responsibility in the way in which goods are produced, services are provided, and resources are used. Investors have the opportunity to encourage companies to change their policies and practices. We expect investee companies to integrate their environmental and social impacts and the possible effect on their relevant stakeholders into their thinking, strategy, and remuneration systems in order to secure sustainable value creation. We have more than 25 years of experience in engaging with companies on governance topics; in the past few years, we have been expanding our dedicated engagements on environmental and social matters. Our experience is helping us ask the right questions to develop our investment stewardship and encourage companies to pursue change and accelerate investments for a sustainable future.

DWS's approach to good Corporate Governance is based on four core values:

- Adequate board composition
- Comprehensible and ambitious executive remuneration
- Transparency on auditors
- Appropriate treatment of shareholder rights

These values are described in detail in section II. ("Our Core Governance Values and Expectations") of [DWS's Corporate Governance and Proxy Voting Policy](#).

In cases where we identify gaps between our expectations and an issuing company's attitude towards them, we seek to start a direct engagement process with company representatives and/or the management/supervisory board. DWS's dedicated governance engagements are undertaken pursuant to our core governance values and expectations as described in our Corporate Governance and Proxy Voting Policy.



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DWS Investment GmbH, March 2022.

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