

ESG Standards

applicable for DWS Invest ESG
European Small Mid Cap

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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 follows the “DWS ESG Investment Standard”. This filter incorporates certain exclusions regarding issuers with excessive climate risk, norm violation or involvement in controversial sectors. In addition, the filter includes an “ESG quality assessment” approach encompassing investments in issuers selected for positive ESG performance relative to industry peers (so-called “Best-In-Class approach”). For this fund, additional criteria are added to the screening process for compliance with the Belgian Febelfin Quality Standard (QS) requirements.

A detailed description of each theme including scope, screening framework and screening criteria is listed in the remainder of this section.

ESG Best-in-Class Approach

Themes	Guideline and Framework	Criteria
Environment (e.g. Climate change, Biodiversity, pollution & waste, water use)	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.	(True) ESG laggards, i.e. those with a DWS SynRating of E and F are not investable for the fund. Furthermore, a portfolio concentration rule of 15% and 5% applies to those with a SynRating of D and M , respectively.
Social (e.g. Health & safety, privacy & data security, supply chain labour standards)	Corporations are ranked against their peers which are defined by industry and region.	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 (e.g. Business ethics, tax transparency, board independency)		

Controversial Weapons

Themes	Guideline and Framework	Criteria
Nuclear 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.	We exclude issuers with a Controversial Weapon Rating of D, E and F.
Cluster Munition		The rating scale goes from A to F:
Anti-Personnel Mines		A = Confirmed non-involvement B = Alleged C = Dual purpose D = Owing ¹ / Owned ² E = Component producer / services F = Weapon producer
Depleted Uranium Weapons		
Biological & Chemical Weapons		
White Phosphorus	DWS screens investments for white phosphorus involvement, thereby distinguishes between white phosphorus used for obscurant purposes (e.g. smoke grenades) and white phosphorus applied for incendiary weapons.	We exclude issuers with a White Phosphorus Rating of D, E and F. The rating scale goes from A to F: A = No involvement reported B = Ceased involvement C = Alleged involvement D = Components for obscurant weapons E = Systems for obscurant weapons F = Incendiary weapons involvement

¹ Owing more than 20% equity in a company involved in grade E or F.

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

Controversial Sectors (ex Fossil Fuels and Power Generation)

Themes	Guideline and Framework	Criteria
Adult Entertainment	Controversial sectors are identified by harmful products or services to people or the environment (e.g. tobacco) and if the product or service is considered having adverse societal impacts (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"> _ Adult entertainment: ≥5% _ Gambling: ≥5% _ Military defense: ≥5% _ Civil firearms: ≥5% _ Tobacco production & trading: ≥5%
Gambling		
Military Defence		
Civil firearms		
Tobacco		

Fossil Fuels

Themes	Guideline and Framework	Criteria
Coal mining	Involvement coal mining is identified by a company's revenue share from the exploration, mining, extraction, transportation, distribution or refining of thermal coal	Exclusions are triggered by a revenue share of larger than 0%.
Conventional Oil & Gas	Involvement coal mining is identified by a company's revenue share from in the exploration, extraction, refining and transportation of oil and gas, or providing dedicated equipment or services therefor	<p>Exclusions are triggered by a revenue share of larger than 5%.</p> <p>Companies with more than 5% revenue share remain investable if they fulfil one of the following requirements:</p> <ul style="list-style-type: none"> _ SBTi target of 1.5°C or well- below 2°C _ Capital expenditures (capex) to renewable energies of more than 15% of total capex
Unconventional Oil & Gas Extraction	<p>Unconventional oil & gas is defined as tar/oil sands, shale oil, shale gas and Arctic drilling</p> <p>Involvement is identified by a company's revenue share from the exploration or extraction of unconventional oil and gas</p>	Exclusions are triggered by a revenue share of larger than 0%.

Power Generation

Themes	Guideline and Framework	Criteria
Coal-based power generation	For power generation, a strong focus is set on climate change mitigation and transition. In scope are companies classified as Electric Utilities (55101010), Gas Utilities (55102010), Multi-Utilities (55103010), and Independent Power Producers & Energy Traders (55105010)	Companies shall either have a revenue share from coal-based nuclear-based power generation of 0% or no capital expenditures (capex) to such. In addition, one of the following four transition criteria must be met: <ul style="list-style-type: none"> – SBTi target of 1.5°C or well- below 2°C – Capex to renewable energies of more than 50% of total capex – Revenue share from activities attributable to SDG 7 or SDG 13 of more than 50%³ – Max. carbon emission intensity: 374 gCO₂/kWh.
Nuclear-based power generation	Companies in scope shall have no increase in coal-based and nuclear-based power generation capacity and show an indication of transition.	However, no more than 15% and 5% revenue share from coal-based activities and nuclear power generation, respectively, are allowed as per DWS' ESG Investment Standards

Climate & Transition Risks

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 DWS Climate & Transition Risk Rating of F are excluded from the investment universe and those with a rating of E and M are limited to 5% each on portfolio level.
Carbon Transition Risk	DWS's Climate & Transition Risk Rating also incorporates qualitative expert opinions 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		

³ SDG stand for the UN Sustainable Development Goals. SDG 7 refers to affordable and clean energy, SDG 13 refers to climate action.

Norm 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.	We exclude issuers with a Norm Controversy Rating F and limit those with a Norm Controversy Rating E to 5% on portfolio level.
Employment rights		
Child Labour		
Forced Labour		
Environment	DWS has created a holistic Norm Controversy Rating which seeks for a reconfirmed assessment of norm controversies from 3 leading ESG data providers.	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
Business Ethics & Corruption		
Governance		
Product Safety		

Further themes

Themes	Guideline and Framework
Pollution & waste	These four criteria are not explicitly considered in the fund's screening. However, each of the four criteria is part of the DWS ESG SynRating as described above in "ESG Best-in-Class Approach". The ESG SynRating covers more than 30 themes across the pillars E, S and G. The weight of each theme in the overall SynRating is determined by DWS's data providers and is based on relevance and materiality.
Water use	
Gender and diversity	
Taxation	
Alignment with Paris agreement	For more information, please see "ESG Best-in-Class Approach"
Oppressive regimes	While considering several environmental aspects, the fund does not explicitly follow the framework for Paris-aligned benchmarks as proposed by the Technical Expert Group on Sustainable Finance (TEG) of the European Commission.
Death penalty	The fund does not invest in fixed income securities issued by sovereign issuers
Agricultural commodities	The fund does not invest in forward contracts on agricultural commodities

3. Data and Methodology

ESG Data

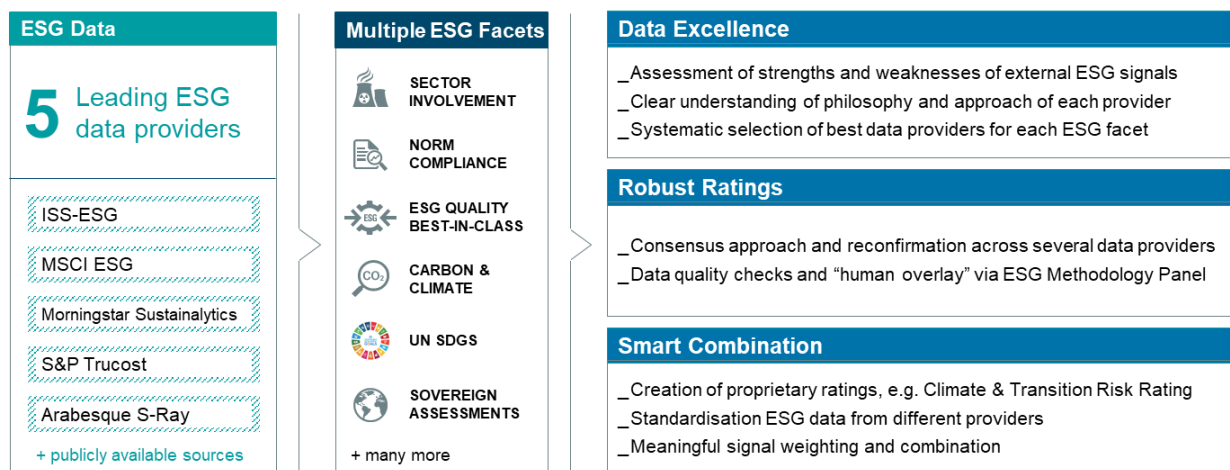
DWS acknowledges that different ESG specialists will come to different conclusions when assessing one and the same company. But, in our view, that diversity constitutes a strength. If different ESG data providers with different ESG indicators and different ESG methodologies come to the same or a similar 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.

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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