DWS Coal Policy

DWS investment approach
to coal companies

April 2023

Investors for a new now

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1 / Introduction

Summary

DWS Group GmbH & Co. KGaA´s (“DWS Group” or “DWS”) Coal Policy (“Policy”) follows on from DWS’s Net Zero commitment and constitutes an essential part of DWS’s sustainability risk strategy. For the actions imposed by this Policy, please refer to section 2 “Objectives and key actions”. For the applicability of this Policy in terms of legal entities and products, please refer to section 3 “Scope and applicability”. Section 6 “Terms and Definitions” contains defined terms.

Applicability

Region / Country	Global (with regional specifications as outlined further in this document)
DWS Legal Entity/ies	Most legal entities, but with applicability of different phases as defined in section 3
Applicable local jurisdictions	All (with regional specifications as outlined further in this document)

2 / Objectives and key actions

With this Policy, DWS takes actions that are designed to reduce its investments in and funding of **coal**-related activities. Throughout this Policy, "**coal**" refers to unabated thermal coal, i.e. coal used to generate electricity and coal used for heating, but does not refer to metallurgical coal or coking coal used to produce steel or cement. The definitions in section 6 apply throughout this Policy.

Actions

Action 1: Exclusion of coal developers

Products in scope of this Policy will no longer make new investments in **coal developers** and will divest from existing holdings in such **coal developers,** as soon as this Policy has been reflected in the relevant legal documentation of such products. For the avoidance of doubt, this applies to all investments in **coal developers**, including green bonds and more general **use-of-proceed bonds** issued by **coal developers**.

Action 2: Exclusion of companies with excessive coal exposure

Products in scope of this Policy will no longer make new investments in companies with a **coal share of revenues** greater than 25% and will divest from existing holdings in such companies as soon as this Policy has been reflected in the relevant legal documentation of such products. The foregoing exclusion will not apply to **use-of-proceed bonds** (including green bonds) issued by such companies since, in our view, they are supporting the low-carbon transition of such issuers.

Action 3: Phase-out of investments in coal companies with more than 5% coal-share of revenues

Products in scope of this Policy will cease investments in all companies with more than a **de-minimis exposure to coal** (i.e. with more than 5% **coal share of revenues**) by 2040, i.e. such products will divest from existing holdings in such companies by 2040 and will no longer make new investments after 2040. Moreover, an earlier exit date of 2030 will apply in case of all such companies with **coal** activities that are headquartered in the EU/OECD. The foregoing exclusion will not apply to **use-of-proceed bonds** (including green bonds) issued by such companies since, in our view, they are supporting the low-carbon transition of such issuers.

Action 4: Engagement with coal companies with more than 5% coal-share of revenues

This action describes our approach to those products that invest in companies which are subject to divestment in 2030/40 under Action 3 but remain investable until then The relevant DWS legal entities in scope of this Policy will engage with those **companies** regarding their phase-out from **coal**. This applies to (a) DWS legal entities which are subject to the DWS Proxy Voting Policy and Engagement Policy (currently DWS Investment GmbH, DWS Investment S.A., and DWS International GmbH[1]), and (b) to products of such DWS legal entities that are in scope of this Policy. Additionally, in respect of **institutional client mandates** this Action only applies where the voting rights have been delegated by the relevant client to the respective DWS legal entity and / or where the client has agreed to apply this Policy to the mandate.

In such cases, our engagement approach will follow three steps:

1. Engage: engage with investee **coal companies** with more than 5% coal-share of revenues to demand that they accelerate their phase-out from **coal.** Ideally they should commit to phasing out their **coal** activities by 2040 (or 2030 for EU/OECD), in line with Action 3, publish their transition plan, and track and publish progress on an at least annual basis.
2. Escalate: DWS expects investee **coal companies** with more than 5% coal-share of revenues to publish a transition plan by end of 2025 at the latest. In cases where investee companies fail to comply with this request, DWS may consider active ownership measures (including voting against management) as well as partial or full divestment from products in scope.

[1] DWS International GmbH and DWS Investment S.A. have delegated all corporate governance activities to DWS Investment GmbH

3. Exit**:** Notwithstanding such engagement and escalation, if any **company** retains a **coal share of revenue** greater than 5%, the ultimate end dates for such investments as defined in Action 3 will apply (although individual products and portfolios may decide to exit such investments earlier).

Note on more stringent exclusion criteria in selected products

The actions described above constitute minimum standards applicable to the products in scope of this Policy. However, some of these products may go further regarding some of these actions, based on their specific investment policies or regulatory standards. For example, instead of the exclusion of **coal companies** with a **coal share of revenues** greater than 25% (Action 2), the following exclusions already apply at the time of publication of this Policy and remain unaffected by this Policy:

— actively managed funds following the “DWS ESG Investment Standard” exclude companies with a coal share of revenues greater than 15%; and

— European-domiciled passively managed ETFs disclosing pursuant to Article 8 or Article 9 SFDR exclude companies with a coal share of revenues greater than 5%.

Methodology and data

Implementation of this Policy will utilize data points and signals pertaining to the **coal** activities of companies as published internally by the ESG Engine & Solutions team. Specifically, the assessment of **coal developer** status will rely on an in-house analysis carried out and owned by the Research House Micro Research team that takes into account data points including, but not limited to, companies’ **coal** capex spend, **coal** production and processing capacity, and published **coal** exit plans. This and other relevant information will be sourced from commercial data providers, NGOs, and company disclosures. Combining data from these various sources is designed to improve data quality and coverage, as reliable data on the **coal developer** status of a company may not be readily available from a single source. Due to this limitation, the quantitative application of the qualitative criteria is on a best-effort basis, subject to our internal data governance.

3 / Scope and applicability

DWS will apply this Policy to all assets under management of all DWS legal entities, to the extent consistent with our obligations to act in the best interests of our clients and our relevant fiduciary obligations and standards, as well as the legal, regulatory and contractual frameworks applicable in the relevant jurisdiction. Applicable fiduciary, regulatory, legal and/or contractual obligations vary by jurisdiction and/or by client and may prevent the application to certain products and / or regions. The application of this Policy will be phased in, as described below.

Investments in scope

This Policy applies to the following investments within the products that are included within the scope of this Policy as noted below:

— listed and unlisted equity and debt instruments issued by coal companies (with the exception of use-of-proceed bonds, including green bonds, issued by coal companies – their use-of-proceed bonds are excluded from Actions 2 and 3 listed in section 2),
— direct investments into coal-related businesses or assets, and
— (single-name) derivatives issued on the instruments above.

Note that for the definition of direct real estate investments in **coal**-related businesses, the SFDR PAI definition referring to the use of the buildings is applied, hence investments in real estate assets involved in the extraction, storage, transport, or manufacture of **coal** are prohibited.

Application / phasing-in of this Policy

Regarding the general application of this Policy, it is necessary to distinguish between products regarding which the relevant DWS entity:

(i) is entitled to implement the investment principles of this Policy unilaterally based on the contractual / legal / regulatory requirements of the product **(“Products under unilateral DWS control”)**, or

(ii) has to take into account contractual / legal / regulatory obligations and / or further interests of third parties / clients – such as, for instance, obligations towards fund boards, interests of institutional clients and / or cooperation partners (“hereinafter together “Clients”) – and therefore is dependent on their cooperation and / or approval to implement the actions specified in section 2 “Objectives and key actions” of this Policy **(“Products not under unilateral DWS control”).**

This Policy thus applies to (i) all **Products under unilateral DWS control** (subject to the exclusions stated in the different implementation phases described below) as well as (ii) those **Products not under unilateral DWS control** where DWS has obtained the third-party cooperation and / or approval as required and the application of this Policy is possible in accordance with applicable contractual / legal / regulatory obligations. DWS endeavours to actively seek cooperation / approval from Clients whose cooperation and / or approval is required as described below. For new Products not under unilateral DWS control, Clients whose cooperation and / or approval is required shall be obliged to explicitly object to the application of the investment principles of this Policy to the relevant product, as explained in the phases below.

Please note, that the application and scope of this Policy in respect of each DWS legal entity is dependent on its business area and the products it services as well as its license and / or registration status. Further, some of these legal entities may manage products on behalf of other legal entities – whether a product is in scope of this Policy for the phases defined above depends on the legal entity that issued or sponsored this product, not on the legal entity where the portfolio management of the product is based.
For the avoidance of doubt, the respective DWS legal entities cannot prescribe or commit to an outcome or specific result of the endeavours to implement the investment principles of this Policy as described in phases 1b and 3.

Phase 1a: New Products under unilateral DWS control

This Policy applies with immediate effect to all new **Products under unilateral DWS control** launched by the following business units:
— Active,
— Liquid Real Assets,
— Illiquid Alternatives.

An exception is made for those new **Products under unilateral DWS control** whose legal documentation is already in the final stage of receiving regulatory approval on the implementation date of this Policy. These Products would then fall under phase 2.

Phase 1b: New Products not under unilateral DWS control – engagement with Clients to encourage compliance with the investment principles of this Policy

The investment guidelines for new **Products not under unilateral DWS control** are ultimately determined by the Client. However, for all new **Products not under unilateral DWS control** proposed by the following business units
— Active,
— Liquid Real Assets,
— Illiquid Alternatives.

DWS will ask Clients to reflect the investment principles of this Policy in the investment guidelines and / or agreements for the product, i.e. the default offer to Clients will be products complying with the investment principles of this Policy. If a Client rejects the implementation of the investment principles of this Policy into the respective investment guidelines and / or agreements of the product, DWS should document the Client's choice in their documentation tools before the set-up of the product can proceed.

An exception from this engagement with Clients to encourage implementation of the investment principles of this Policy is made for those new **Products not under unilateral DWS control** whose strategy and/or investment guidelines have already been agreed on and determined prior to the implementation date of this Policy.

Phase 2: Existing Products under unilateral DWS control

With immediate effect the relevant DWS legal entities in scope will initiate the process of integrating actions 1-3 of this Policy (defined in section 2) into the relevant legal documents (e.g. fund prospectuses) of existing **Products under unilateral DWS control**, except for
— physically replicating passive funds,
— funds issued by the Illiquid Alternatives business.

For each existing **Product under unilateral DWS control** that is in scope, the actions of this Policy (defined in section 2) will then apply from the date when the respective revised legal documents come into effect, which is as soon as practically possible (in most cases mid 2023 due to the regulatory process of amending fund documentation).
For the avoidance of doubt, in passive funds with an indirect investment policy ("synthetic products"), securities identified for divestment by this Policy shall not be eligible securities for the invested assets for a sub-fund's portfolio. The identification and removal of these securities is independent of the index methodology which governs the synthetic exposure of the product and such index may contain names that do not comply with this Policy.

Phase 3: Expansion of scope to other business units, jurisdictions and existing Products not under unilateral DWS control

In general, every product not covered under the previous phases is part of this phase 3 ambition to expand the scope of this Policy (to the extent consistent with DWS´s obligations to act in the best interests of its clients as well as regulatory and legal obligations): in particular, for existing **Products not under unilateral DWS control,** the implementation of this Policy is subject to receiving an approval / cooperation from other stakeholders, e.g. individual clients for existing **institutional client mandates**, fund boards and / or fund investors for funds sponsored by US legal entities or cooperation partners. DWS will initially focus on engaging with Clients who are also committed to Net Zero to encourage the implementation of the investment principles of this Policy into the investment guidelines and / or agreements for their respective product.

Regarding passive products, DWS is committed to, and already engaging with index providers on excluding **coal developers** and phasing out **coal companies** from climate, ESG and, wherever possible, mainstream benchmarks, improving disclosure and expanding Net Zero index solutions. The existence of suitable indices and agreement of a majority of investors to transition their exposure is a pre-requisite to converting existing and offering new passive funds in line with this Policy (as taking on a substantial tracking error would violate our fiduciary duty with regards to adequate risk management).

4 / Roles and responsibilities

Business Heads and senior management responsible for the relevant DWS legal entities in scope must ensure adherence to this Policy by all employees within their business / region. When structuring and managing products, DWS staff of legal entities in scope (including outsourced personnel) must comply with the exclusion and engagement criteria described in this Policy.

Investment Division

The **Head of the Portfolio Net Zero working group** is responsible for this Policy and its periodic review.

The **ESG Engine and Solutions team** supplies the assessments to identify **coal companies**, **coal developers**, and related status, as well as the **coal share of revenues,** and the identification of **use-of-proceed bonds** (including green bonds) to the investment platform and to Client & Investment Monitoring. To that end, the ESG Engine collects both external raw data as well as internal assessments from the Research House Micro Research team concerning **coal developers**. The methodology and the implementation ownership of these assessments resides with the ESG Methodology Panel (EMP) / the ESG Engine Team, except for the **coal developer** assessment whose methodology is owned by the EMP but the process of analysis and providing data to the ESG Engine is owned by the Research House Micro Research team.

The **Portfolio Net Zero working group** has a strategic role in developing and further enhancing this Policy, in supporting the Global Head of Research in their role with regard to this Policy, in supporting the ESG integration team in training activities for Active, in coordinating training activities for Passive, Alternatives, PD and CCD, and in supporting the ESG Engine and Solutions team with expertise on the coal data points and methodology.

The **Research House Micro Research** team carries out the qualitative analysis to ascertain the coal developer status of individual companies and provides the results to the ESG Engine and Solutions team.

The **ESG Integration team** is responsible for training of investment professionals in the Active business unit of the Investment Division, with the support of the Portfolio Net Zero working group.

The respective **Engagement Leads** are responsible for implementing Action 4 (engagement with coal companies) within the engagement framework. The Engagement Council monitors their engagement activities and may escalate to the Sustainability Assessment Validation Council (SAVC).

Product Division

The **ESG Advisory Team** is responsible for changes in the ESG filters to reflect this Policy, for including the new filters into the relevant KODs for Product Division and for providing the necessary language for new or updated fund prospectuses.

Product Division Passive is responsible for conducting the engagement with index providers to support the expansion of products in scope of this Policy in Phase 3.

Client Coverage Division

The **Client Coverage Division (CCD)** will be responsible for the actions as described under Section 3, Phase 1b and Phase 3 (excluding the efforts relating to passive products). In addition, CCD is responsible for documenting those actions and for tracking which of those products not under unilateral control of DWS will follow the principles of this policy.

In case CCD becomes aware of potential conflicts of interest during processing those actions, those conflicts will be documented.

CFO Division

CFO Division (Finance and Risk) reports on the progress made as well as the disclosure of DWS coal-related investments annually as part of its annual TCFD Climate Report, based on analysis provided by the Head of Sustainability Risk.

CAO Division

Client & Investment Monitoring is responsible for checking the adherence to the investment limits set by this Policy (both liquid and illiquid investments).

5 / Governance

Prior to coming into effect, this Policy has been reviewed and approved by the relevant DWS legal entities. The owner of this Policy must review it on an annual or ad hoc basis. Any proposed material changes to this Policy must be pre-sented to the DWS Group Sustainability Committee for its review prior to implementation. In case of material changes to the document, the DWS Group GmbH & Co. KGaA Executive Board (through the Group Sustainability Committee) and affected entities' management boards must give their approval.

Exception process

Rare and exceptional circumstances (for instance, government-mandated actions to meet short-term energy or social security challenges) may supersede the overarching longer-term goals of this Policy. Under these exceptional scenarios, DWS acknowledges there may arise a need to suspend the applicability of this Policy to specific investee companies or geographical regions temporarily. These short-term actions, however, should not contradict the mid- to long-term strategic goal of phasing out reliance on **coal** as a major source of energy.

The process for such a suspension of parts of this Policy would require a reputational risk materiality assessment in line with the DWS Reputational Risk KOD. At a minimum, this should include the owner of this Policy, the Head of Sustainability Risk as responsible 2nd LoD oversight function, and the Portfolio Net Zero group of DWS. Depending on the materiality of the suspension, they must also seek the approval of the DWS Reputational Risk Committee (DWS RRC) for this decision, if required by the DWS Reputational Risk KOD.

6 / Terms and definitions

Term	Definition
Coal	Refers to unabated thermal coal, i.e. coal used to generate electricity and coal used for heating, but does not refer to metallurgical coal or coking coal used to produce steel or cement.
Coal share of revenues	Refers to the percentage of a company's revenues derived from primary coal activities, i.e. thermal coal mining or coal-based power generation.
Coal company	Refers to companies with a non-zero coal share of revenues.
De-minimis exposure to thermal coal	Refers to coal share of revenues no more than 5%.
Coal developer	Coal developers are thermal coal companies that are building new infrastructure or investing in new or additional thermal coal mining, production, utilization (i.e. combustion), retrofitting (except for the purpose of materially reducing greenhouse gas emissions), or acquiring coal assets (without clear commitment to closing them).
Institutional client mandate	Any agreement with an institutional client regarding portfolio management services without a fund wrapper.
Use-of-proceed bond	Any bond that complies with DWS's use-of-proceeds bond assessment (which includes checking for compliance with the ICMA Green Bond Principles, the ICMA Social Bond Principles or the ICMA Sustainability Bond Principles).

7 / Glossary

Term	Definition
CAO	Chief Administrative Officer
CCD	Client Coverage Division
CFO	Chief Financial Officer
EMP	ESG Methodology Panel
ESG	Environmental, Social, and Governance
ETF	Exchange-Traded Fund
EU	European Union
ICMA	International Capital Market Association
KOD	Key Operating Document
LoD	Line of Defense
NGO	Non-governmental organizations
OECD	The Organization for Economic Cooperation and Development
PAI	Principal Adverse Impact
PD	Product Division
RRC	Reputational Risk Committee
SAVC	Sustainability Assessment Validation Council
SFDR	Sustainable Finance Disclosure Regulation