

Sustainability Related Disclosures Article 3

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1.0. Introduction

Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (“SFDR”) requires financial market participants and financial advisors to disclose on their website information regarding the integration of sustainability risks within investment decision-making processes and investment advice.

The following sections describe DBTCA's approach to integrating sustainability risks in investment decision-making and investment advisory processes. These will be further enhanced on an ongoing basis with due consideration of regulatory and market changes.

2.0. Summary

DBTCA applies an overarching approach to the management of sustainability activities that are set out in several Deutsche Bank group-level policies and procedures. The group-wide sustainability policies delineate Deutsche Bank's main sustainability principles as well as the key requirements and responsibilities in connection with sustainability-related enquiries, non-financial sustainability reporting and ratings, environmental and social due diligence in the context of reputational risk management, and, together with relevant risk frameworks and broader commitments, provide relevant context regarding the Bank's view on sustainability topics.

Further information on Deutsche Bank's sustainability approach is available on Deutsche Bank's website.

2.1 Definition of sustainability risks

‘Sustainability risk’ as defined in SFDR means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. These risks can occur both separately and cumulatively; they can affect countries, individual companies, entire sectors/branches or regions and can have very different characteristics.

2.2 Examples of sustainability risks

- Physical risks — As a result of the occurrence of extreme weather events as a consequence of climate change, for example, production locations of individual companies or entire regions can be impaired or destroyed, leading to production stoppages, rising costs to restore the production locations, and higher insurance costs. Furthermore, extreme weather events due to climate change, such as long periods of low water during droughts, can impair the transport of goods or even make it impossible. A substantial increase in physical risks would require a more abrupt changeover in the affected economy, which in turn would lead to higher transition risks.

- Transition risks — There are risks in connection with the changeover to a low-carbon economy: for example, political measures can lead to fossil fuels becoming more expensive and/or scarcer (examples: fossil-fuel phase-out, CO2 tax) or to high investment costs as a result of requirements to renovate buildings and facilities. New technologies can displace familiar technologies (for example electric mobility), and changes in customer preferences and expectations in society can endanger companies’

business models if they do not react in time and take countermeasures (by adjusting their business model, for example).

Social risks – These arise from aspects such as non-compliance with labor law standards (for example, child labor and forced labor) and non-compliance with occupational health and safety regulations.

Governance risks — risks that arise within the scope of corporate management due to inadequate corporate governance and that can lead to high fines including non-compliance with taxpayer honesty and corruption.

While sustainability risk is not a standalone risk, it can be identified indirectly through the effect on existing traditional risk (including, but not limited to market, liquidity, credit, price change, currency risk etc.) which could have a significant negative effect on an investment.

3.1 Overall approach

Because sustainability risks can have different effects on individual companies, sectors, investment regions, and asset classes (for example, equities or bonds), when recommending financial instruments, or taking investment decision on behalf of the clients, DBTCA generally seeks broad diversification to help manage portfolio exposure to the potential financial effects of sustainability risks. Diversification does not eliminate such risks. To evaluate sustainability risks in relation to financial instruments for purposes of investment advice and its Discretionary Portfolio Management (DPM) mandates, DBTCA uses information from (an) external service provider(s) that has/have specialized in the qualitative and quantitative evaluation of Environmental, Social, Governance (ESG) factors.

Where DBTCA recommends a financial instrument to a client with sustainability preferences or takes an investment decision for purposes of strategies considering sustainability factors within its DPM mandates, DBTCA has set differentiated criteria such as minimum ESG ratings by a third-party, and exclusions of companies depending on the promoted environmental and/or social characteristics per type of financial instrument. This approach helps in reducing the likelihood of sustainability risks which may negatively affect the return of a financial instrument. These criteria are used to identify and consider certain sustainability-related exposures that may affect the financial performance of a financial instrument. They do not eliminate sustainability risks.

3.2 Discretionary Portfolio Mandate Business

Within DBTCA, both strategies not considering ESG factors and strategies considering ESG factors are offered depending on the sustainability preferences of the client.

Sustainability risks are considered at various points in the investment process when making investment decisions. Sustainability risks are taken into account during the macroeconomic consideration and development of market opinion by the Chief Investment Office (CIO) when developing DBTCA's house view, when allocating assets classes for purposes of investment strategies and when selecting individual financial instruments.

For DPM strategies that consider ESG factors and are offered to clients with sustainability preferences, Principle Adverse Impact (PAI) data is taken into consideration when selecting financial instruments. PAI are defined as “negative, material, or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity. DBTCA's portfolio managers consider this information alongside other financial and non-financial information before making investment decisions.

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