



Is investing in healthy workplaces a good investment?

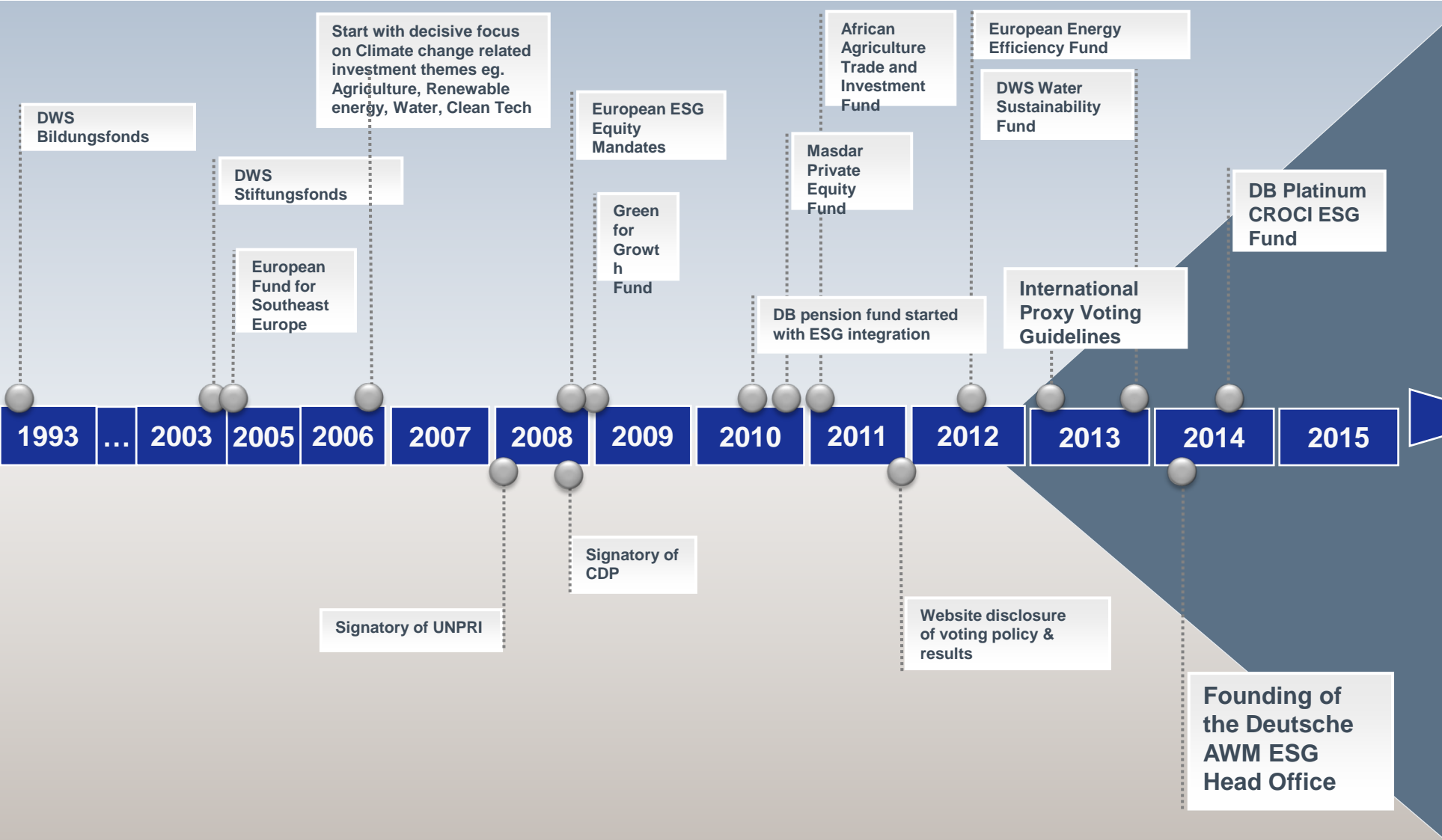
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Florianópolis, May 19th 2015



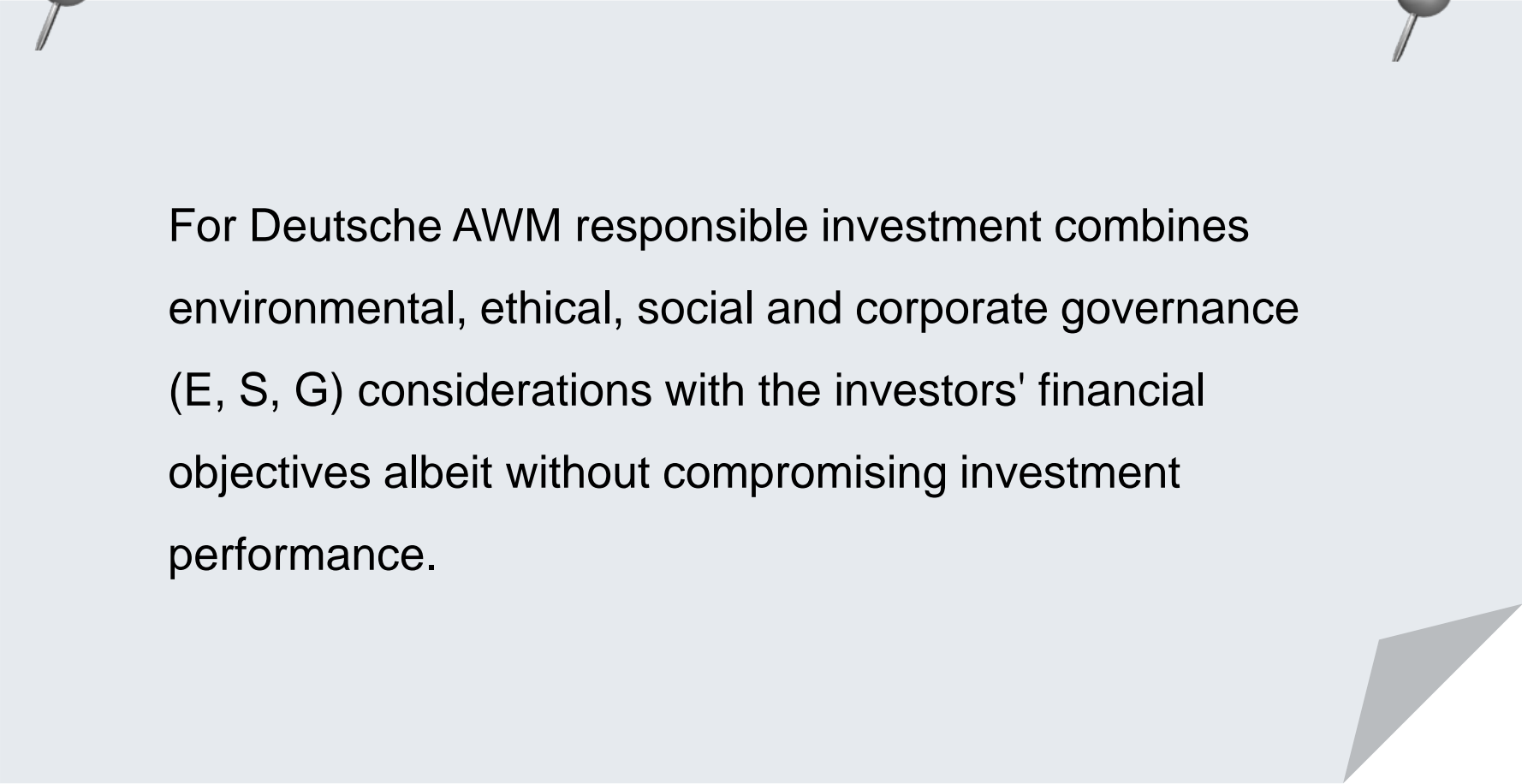
Susana Peñarrubia Fraguas
Senior Portfolio Manager European ESG

Deutsche AWM's ESG (Environmental, Social, Governance) development: Overview



As of: January 2015
 Source: Deutsche AWM

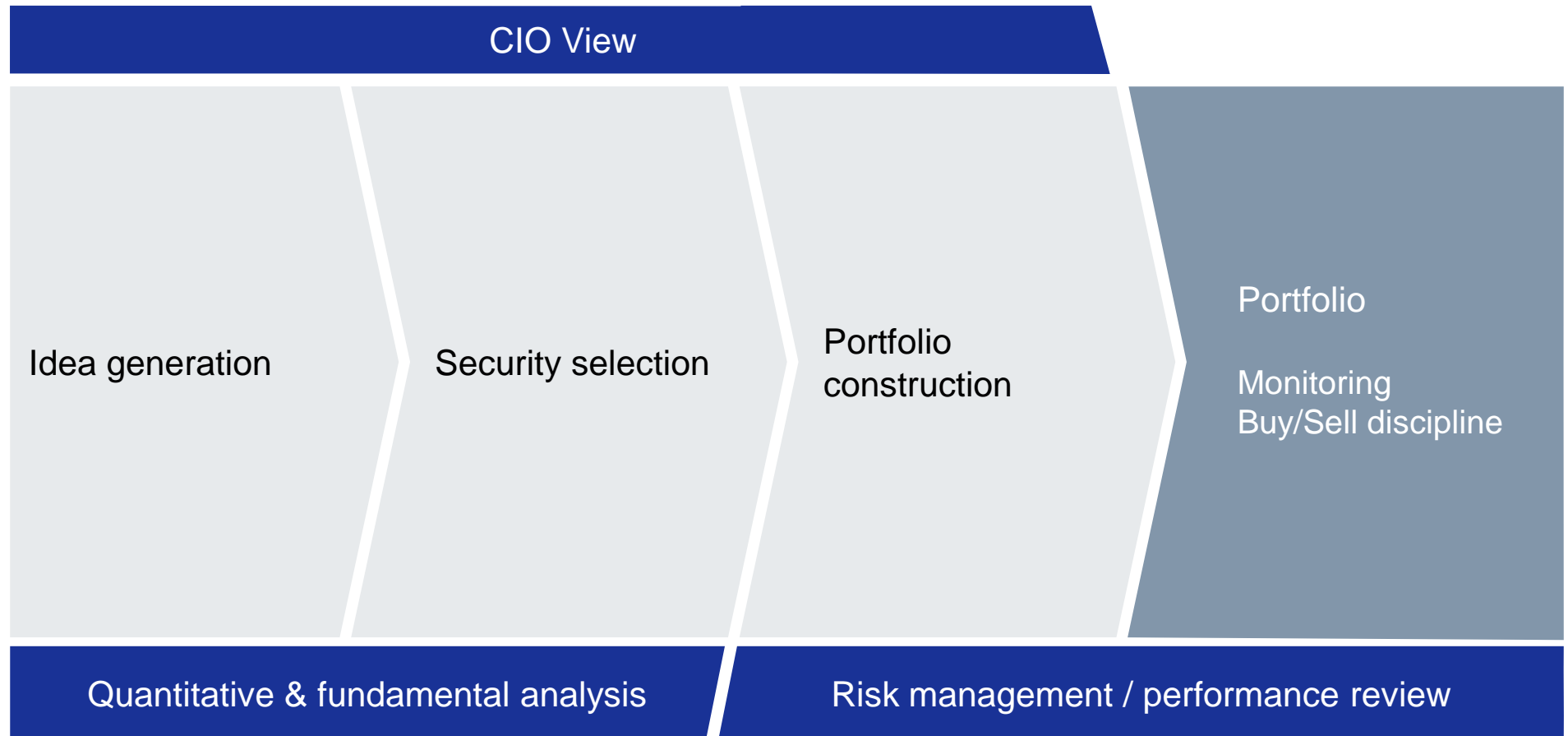
What does it mean Responsible Investing/ Integration of ESG factors for Deutsche AWM?



For Deutsche AWM responsible investment combines environmental, ethical, social and corporate governance (E, S, G) considerations with the investors' financial objectives albeit without compromising investment performance.

Investment process

Overview



Source: DWS

Which information do investors need ?

Security Selection Process/ Company analysis



Global Business Trends

Impact on Stakeholder expectations

Impact on Company Analysis



Company valuation & Investment decision

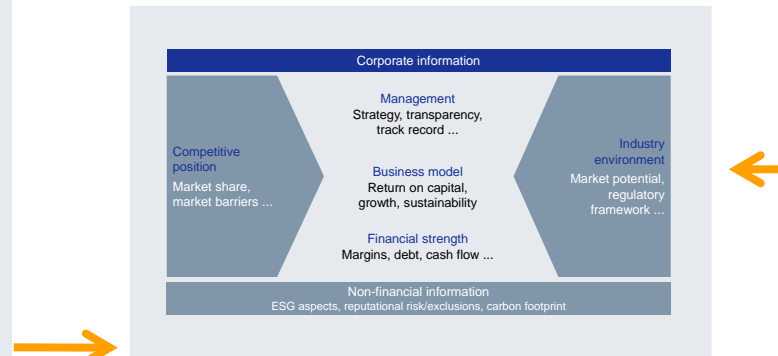
Security selection

Examples of ESG issues included analysis



Environmental

- **Product Quality & Safety**
(packaging, clean technology)
- **Climate change**
- **Environmental Management**
(system, targets, product chances, efficiency)
- **Supply Chain Management**
(environmental sourcing, monitoring, labour relations, safety)
-



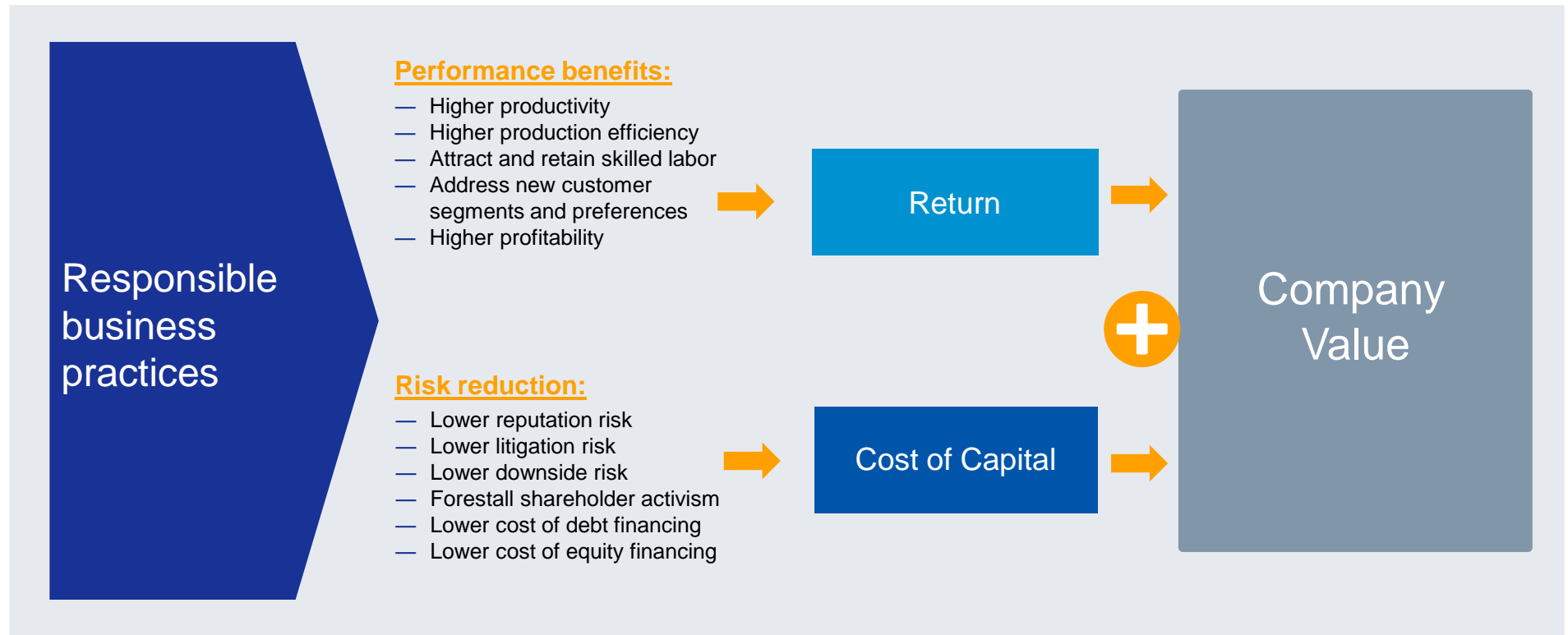
Social

- **Health & Safety**
(Workers, communities)
- **Human and Workers Rights**
- **Employee Attraction & Retention**
- **Community Relations**
(engagement, operations, impact assessment)
-

Governance

- **Quality of Reporting of Financial & ESG Aspects**
- **Corporate Strategy Implementation of ESG** (remuneration linkage)
- **Anti Competitive Practices**
- **Reputational Issues** (corruption & bribery)
-

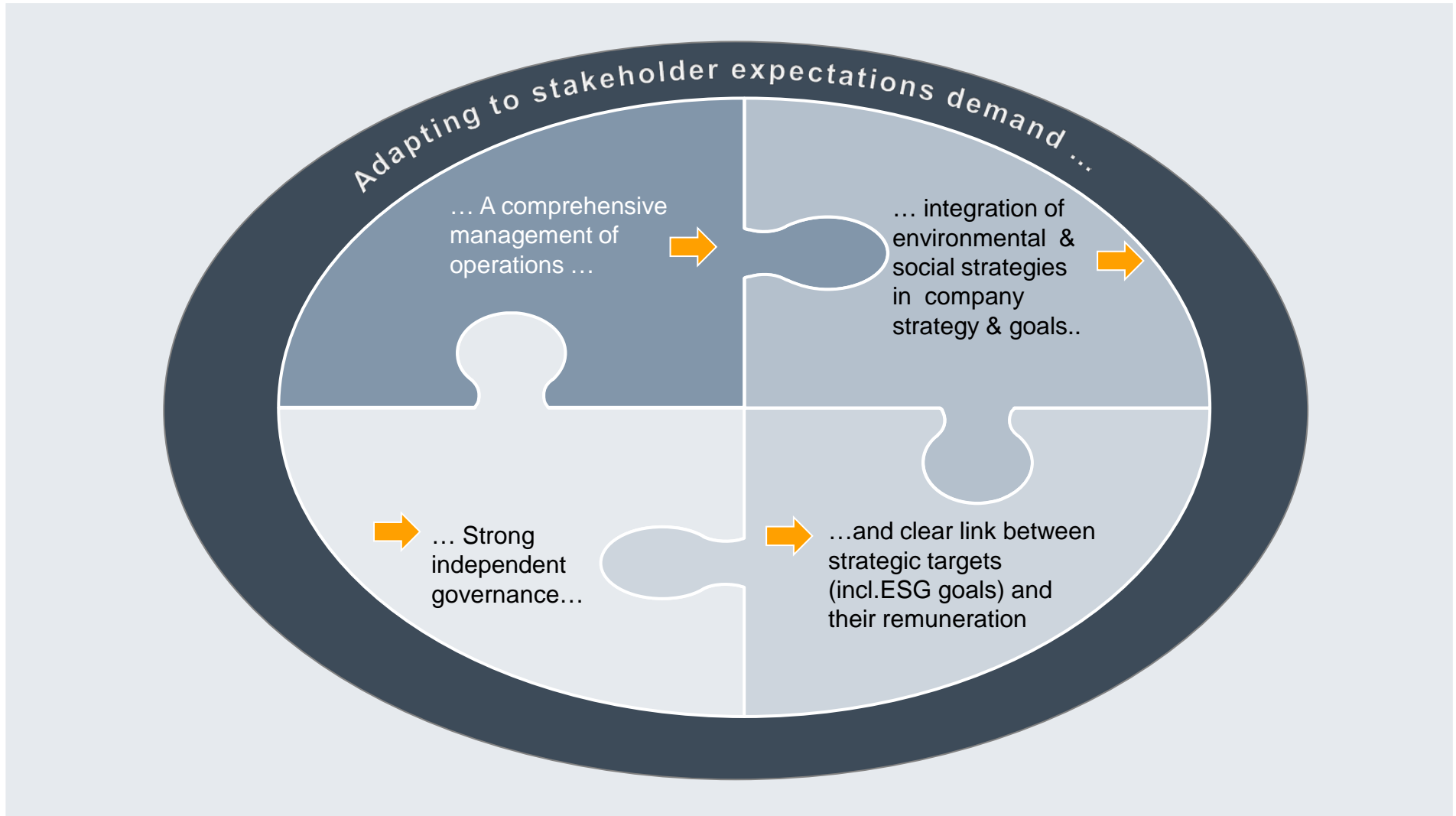
Responsible business practices are thus becoming crucial in order to stay competitive in the future.



Numerous studies support the idea that responsible business practices can enhance company performance and reduce its cost of external financing.

Source: Bauer & Hann (2011); Bauer, Derwall & Hann (2010); Bhojraj & Sengupta (2003); Chava (2012); Chava, Livdan & Purnanandam (2009); Cremers, Nair & Wei (2007); Ghoul, Guedhami, Kwok & Mishra (2011); Goss & Roberts (2009); Graham & Maher (2006); Graham, Maher, Northcut (2001); Kane, Velury, Ruf (2005); Klock, Mansi, Metrick (2005); Konar & Cohen (2001); Orlitzky, Schmidt & Rynes (2003); Schneider (2010); Sengupta (1998); Huselid (1995) Ichniowski et al. (1997) Ichniowski & Shaw (1999)

We look for an effective level of integration of ESG aspects in company management & strategy





Current Research on ESG

Is there any correlation between diligent business practices and economic performance of firms?

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ESG (Environment, Social, Governance)-Research

Current Stand



- Considerable increase of academic evidence:
 - Mainresearch: **operational performance** and **stock price performance**.
 - Increasing interest in **Active Ownership** approach.
 - Implementation of reasonable ESG policies has an influence on companies´ **cost of capital**.

- „From the Stockholder to the Stakeholder”, Clark, Feiner, and Viehs (2015)
 - Meta-Study with over 200 highest quality academic studies.
 - **88%** of the research shows that solid ESG practices result in better operational performance of firms.
 - **80%** of the studies show that stock price performance of companies is positively influenced by good sustainability practices.

Responsibility and profitability are not incompatible



90% of the studies* on the cost of capital show: sound sustainability standards **lower the cost of capital** of companies

STUDY AUTHORS	TIME PERIOD	ESG ISSUE	ESG FACTOR	IMPACT (*)
Albuquerque, Durnev, and Koskinen (2013)	2003-2012	Composite CSR index	ESG	Lower
Ashbaugh-Skaife, Collins, and LaFond (2004)	1996-2002	Several individual corporate governance attributes and a composite governance index	G	Lower
Ashbaugh-Skaife, Collins, and LaFond (2006)	2003	Governance index and individual governance attributes	G	Lower
Attig, El Ghoul, Guedhami, and Suh (2013)	1991-2010	Composite CSR index (excl. governance)	ES	Lower
Barth, Konchitchki, and Landsman (2013)	1974-2000	Earnings transparency	G	Lower
Bauer, Derwall, and Hann (2009)	1995-2006	Employee relations	S	Lower
Bauer and Hann (2010)	1995-2006	Environmental performance	E	Lower
Bhojraj and Sengupta (2003)	1991-1996	Governance attributes (institutional ownership, outside directors, block holders).	G	Lower
Bradley, Chen, Dallas, and Snyderwine (2008)	2001-2007	Several governance indices	G	Lower (1)
Cajias, Fuerst, and Bienert (2012)	2003-2010	CSE strengths and concerns	ESG	Mixed
Chava (2014)	2000-2007	Environmental performance (net concerns)	E	Lower (2)
Chava, Livdan, and Purnaanandam (2009)	1990-2004	Reversed governance index	G	Lower (3)
Chen, Chen, and Wei (2011)	1990-2004	Governance index	G	Lower
Chen, Chen, and Wei (2009)	2001-2002	Composite governance index	G	Lower

* *In this enhanced Meta-Study investigated 29 Empirical Studies on sustainability.*
 Source: *"From the Stockholder to the Stakeholder", Clark, Feiner, and Viehs. March 2015*

Responsibility and profitability are not incompatible (2)



90% of the studies* on the cost of capital show*: sound sustainability standards **lower the cost of capital** of companies.

STUDY AUTHORS	TIME PERIOD	ESG ISSUE	ESG FACTOR	IMPACT (*)
Cremers, Nair, and Wei (2007)	1990-1997	Anti-takeover index and ownership structure	G	Lower
Derwall and Verwijmeren (2007)	2003-2005	Corporate governance quality	G	Lower
Dhaliwal, Li, Tsang, and Yang (2011)	1993-2007	CSR disclosing quality	ESG	Lower (4)
El Ghoul, Guedhami, Kim, and Park (2014)	2002-2011	Corporate environmental responsibility	E	Lower
El Ghoul, Guedhami, Kwok, and Mishra (2011)	1992-2007	Composite CSR index (excl. governance)	ES	Lower (5)
Goss and Roberts (2011)	1991-2006	CSR concerns and strengths	ESG	Lower (6)
Jiraporn, Jiraporn, Boesprasert, and Chang (2014)	1995-2007	Composite CSR score	ESG	Lower
Klock, Mansi, and Maxwell (2005)	1990-2000	Governance index	G	Lower
Lima and Sanvicente (2013)	1998-2008	Composite governance index	G	Lower
Menz (2010)	2004-2007	Binary indicator variables for social responsibility	ESG	None (7)
Reverte (2012)	2003-2008	CSR reporting quality	ESG	Lower (8)
Schauten and van Dijk (2011)	2001-2009	Disclosure quality	G	Lower (9)
Schneider (2011)	1994-2004	Environmental performance: pounds of toxic emissions	E	Lower (10)
Sharfman and Fernando (2008)	2002	Environmental risk management	E	Mixed (11)
Verwijmeren and Derwall (2010)	2001-2005	Employee well-being	S	Lower

* In this enhanced Meta-Study investigated 29 Empirical Studies on sustainability.
 Source: "From the Stockholder to the Stakeholder", Clark, Feiner, and Viehs. March 2015



What information is interesting for us?

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What information is interesting for us?

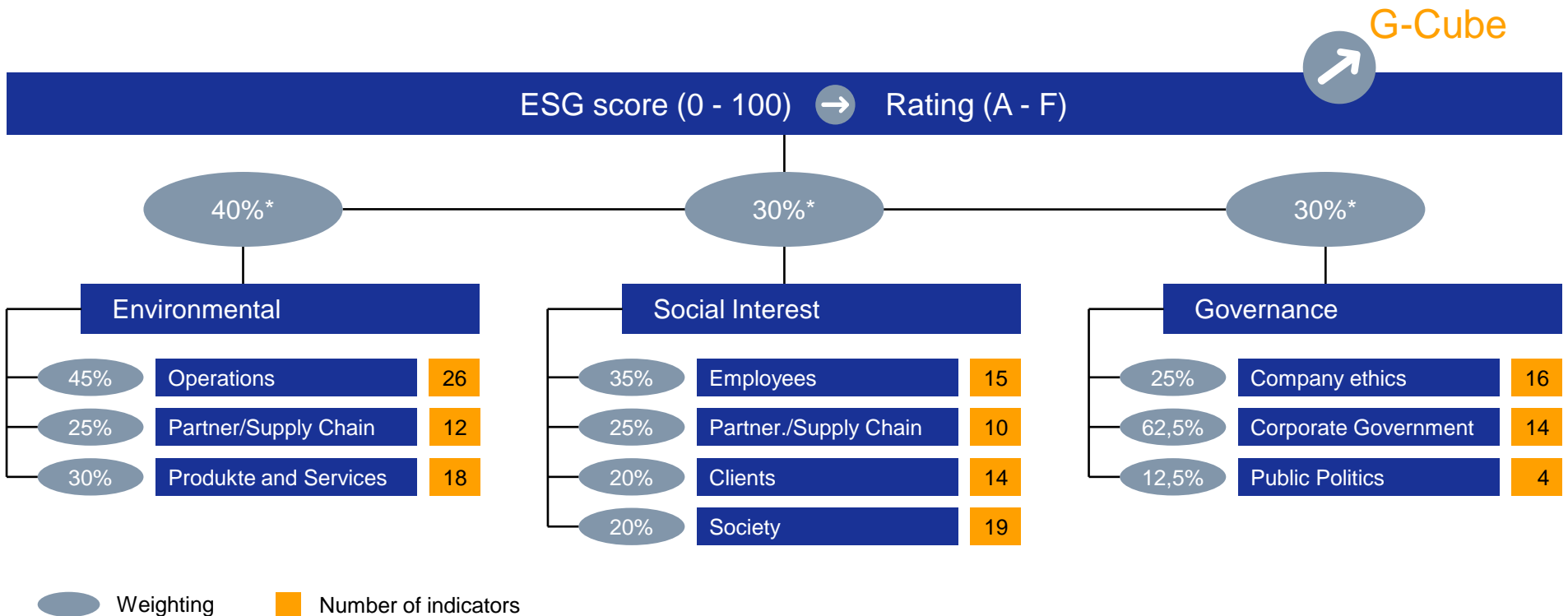


Standard ESG analysis

Key steps



Proprietary calculation of ESG scores

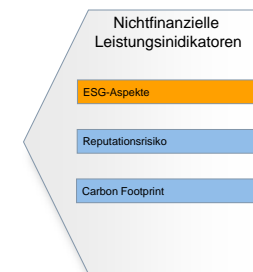


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* Current weighting; recommended allocation by Deutsche Asset & Wealth Management ESG Advisory Panel between 30% - 40%. The weight will depend on the sub-sector where company operates.

Source: Deutsche Asset & Wealth Management

Top 10 ESG Issues



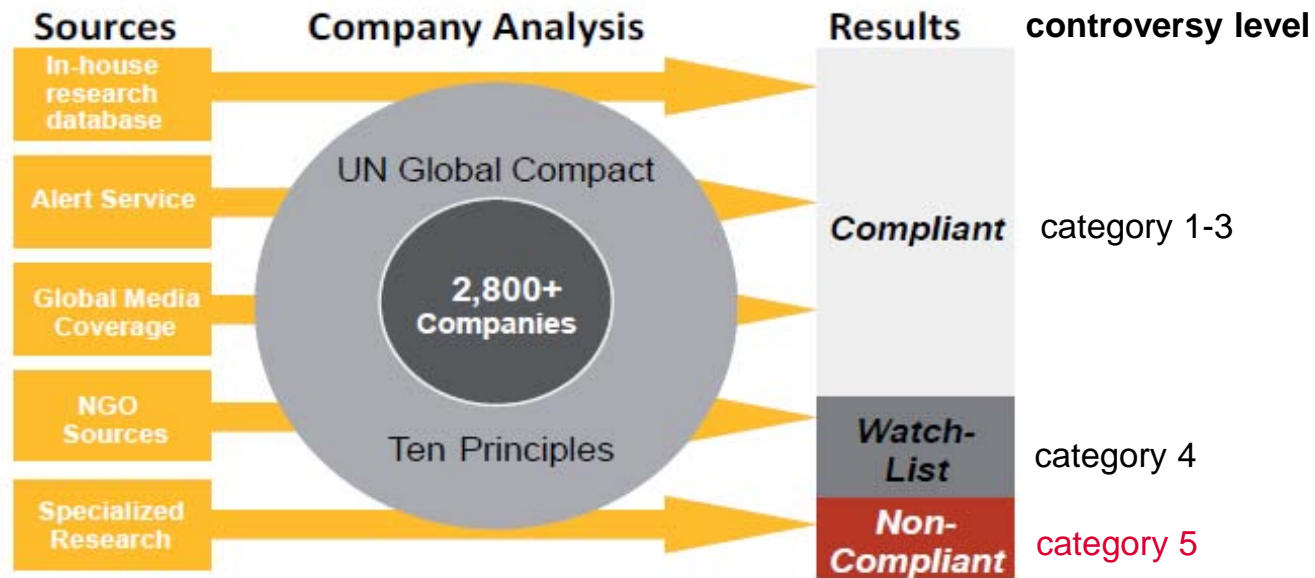
ESG issue*	% of Subsectors affected	Relevance/ Materiality
Eco-Efficiency	57%	policies & management systems; biodiversity; (unless assigned as stand-alone KPIs): waste management; climate change; emissions & releases; land use; water management; sustainable products & services
Supply Chain Management	52%	supply chain monitoring; child & forced labour; health & safety; freedom of association; discrimination; wages, benefits & training; environmental sourcing (unless assigned as a stand-alone KPI)
Labour Relations	43%	workforce diversity; discrimination; freedom of association; employee turnover; strikes & lockouts; wages, benefits & training; health & safety (unless assigned as a stand-alone KPI)
Anti-Competitive Practices	40%	Collusion; patent infringement; price fixing ; manipulation; bid-rigging,
Climate Change	36%	GHG reduction targets; renewable energy use; carbon intensity; fleet efficiency;
Business Ethics	33%	bribery & corruption; conflict of interest; tax transparency; insider trading; money laundering
Employee Health and Safety	33%	programs & targets to promote health & safety; certifications; injuries and fatalities; employee wellness
Sustainability related Products and Services	29%	eco-design; clean technology; life-cycle analysis; packaging& labeling; fair trade; organic products; green buildings; electric vehicles
Product Quality & Safety	26%	Product recalls; quality certification; product safety; off-label use; animal testing; genetic engineering; disclosure; privacy protection
Waste Management	21%	hazardous waste; end-of-life product management; e-waste; tailings management systems;

* Environmental, Social, Governance

Source: Sustainalytics

Reputational risk / Controversies

UN Global Compact Assessment by our ESG Research Provider



Research Process - Global Compact Compliance

ESG Rating, Reputational risk and Carbon Footprint Integrated in DeAWM Internal Information Tools



G-Cube: ESG Implementation

ESG Rating [GUIDE](#)

	Rating vs. Global Universe	Rating vs. European Universe
TOTAL RATING SCORE	A	B
Environment	A	A
Operations	A	A
Contract./Supply Chain	E	E
Products & Services	B	B
Social interests	A	A
Employee	A	B
Contract./Supply Chain	A	A
Customers	B	B
Society & Community	B	B
Corporate governance	D	D
Corporate ethics	D	D
Corporate govern.	C	C
Public Policy	E	E

Sustainalytics link [?](#)

Legend

A	excellent ESG performance	D	below average ESG performance
B	very good ESG performance	E	questionable ESG performance
C	good ESG performance	F	poor ESG performance

Reputational Risk

Serious concerns, not investable
Some concerns, refer to further ESG research
No obvious concerns

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Quelle: Deutsche Asset & Wealth Management, Abbildung dient lediglich der Veranschaulichung



How to assess the value of investing in healthy workplaces?

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Firstly, assessing which global trends are affecting employee management



For example, how demographic trends affects attraction, retention and productivity of human capital.

Which are the key impacts?

- Older workforce and consequently additional health challenges
- Technology development and impacts on the workplace
- Talent shortages in Western European countries
- Skill deficits in concrete areas
- Younger generation with changing values. They pay more attention to:
 1. Work-life balance
 2. More flexible workplace (working from home, etc.) and work times
 3. More alignment with company's values

Secondly, assessing how these impacts are affecting a concrete sector and company



Is the management taking care of it? Factors we look at...

- Sector, where the company is operating (general impact of demographic trends)
- Business Model and key activities (employee related: risks & opportunities)
- Business specific issues (factors affecting employee productivity/ Disclosure)
- Complexity of the organisation (centralized, decentralized, etc.)
- Level of integration of employee management in company‘ strategy
- Quality of internal measures (quality of programmes internally, certifications, etc.)
- Link between internal objectives and management remuneration
- Company controversies: Reputational Risk

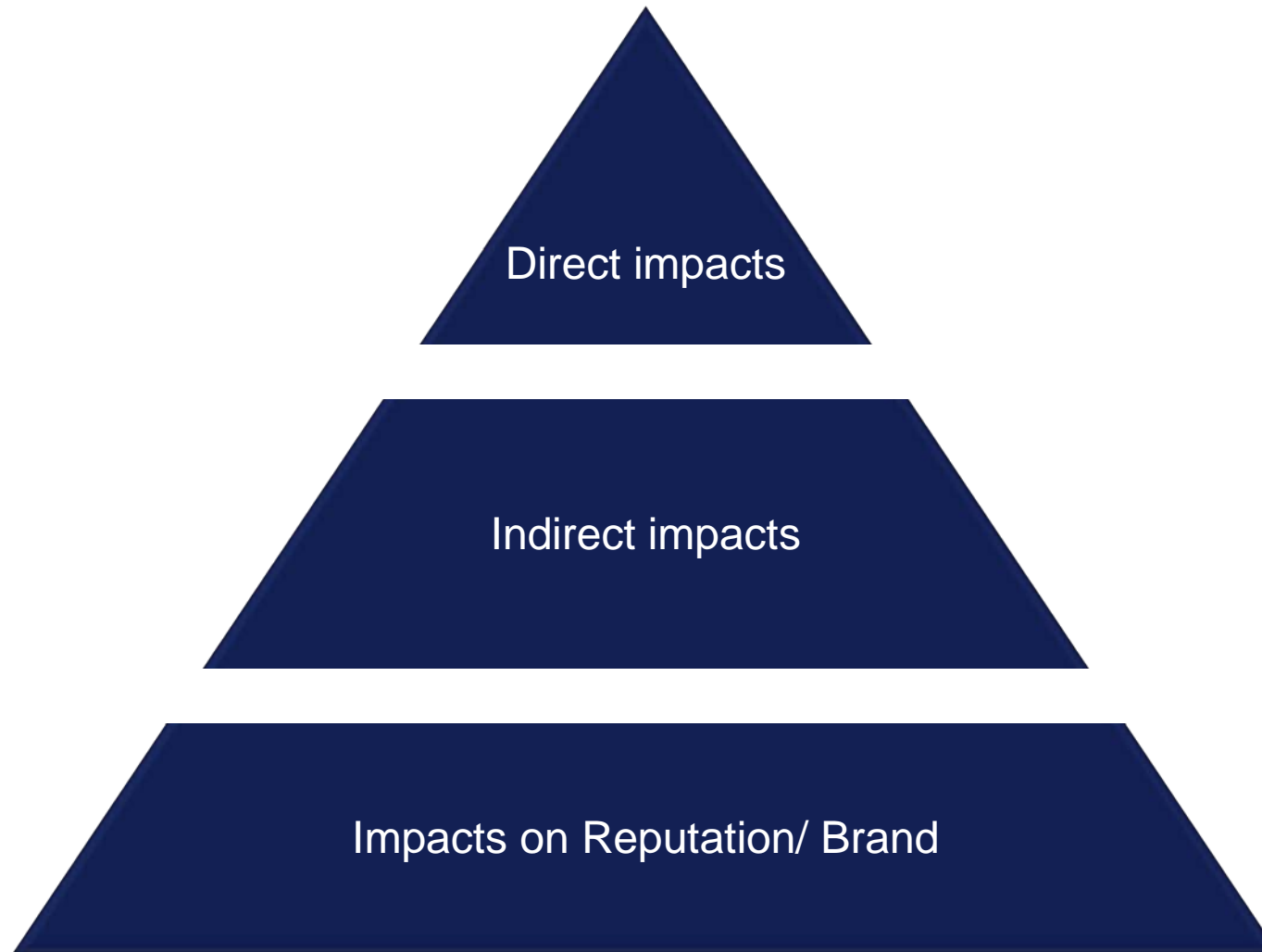
Thirdly, we assess the adequacy of H & S programs

Questions to be asked ...



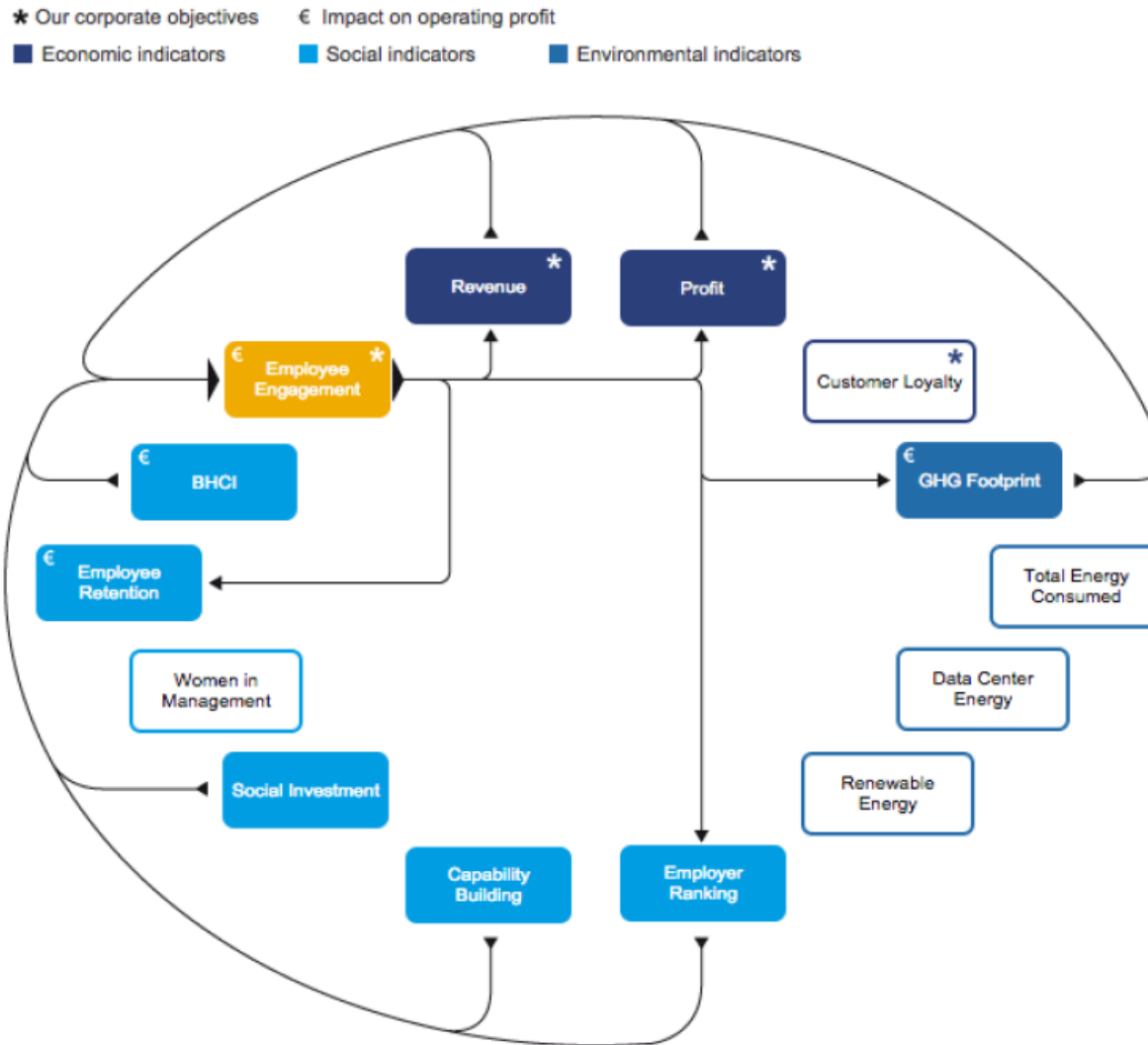
- Companies' external health & Safety certifications (OHSAS 18001, etc.) and the extent to which these apply to global operations
- Policy and scope
- Implementation of policies. Core features:
 1. Quantitative targets
 2. Timeframe (clear deadlines)
 3. Level of progress and demonstration of commitment to continuous improvement
 4. Keep records of results of periodic evaluations
- Controversial news reported: Status of incidents, corrective actions and preventative actions

Fourth, we try to assess how Health, Safety and Well being is and will be impacting the company value



Assesing the impact on company value

An example, what can be done by the companies?



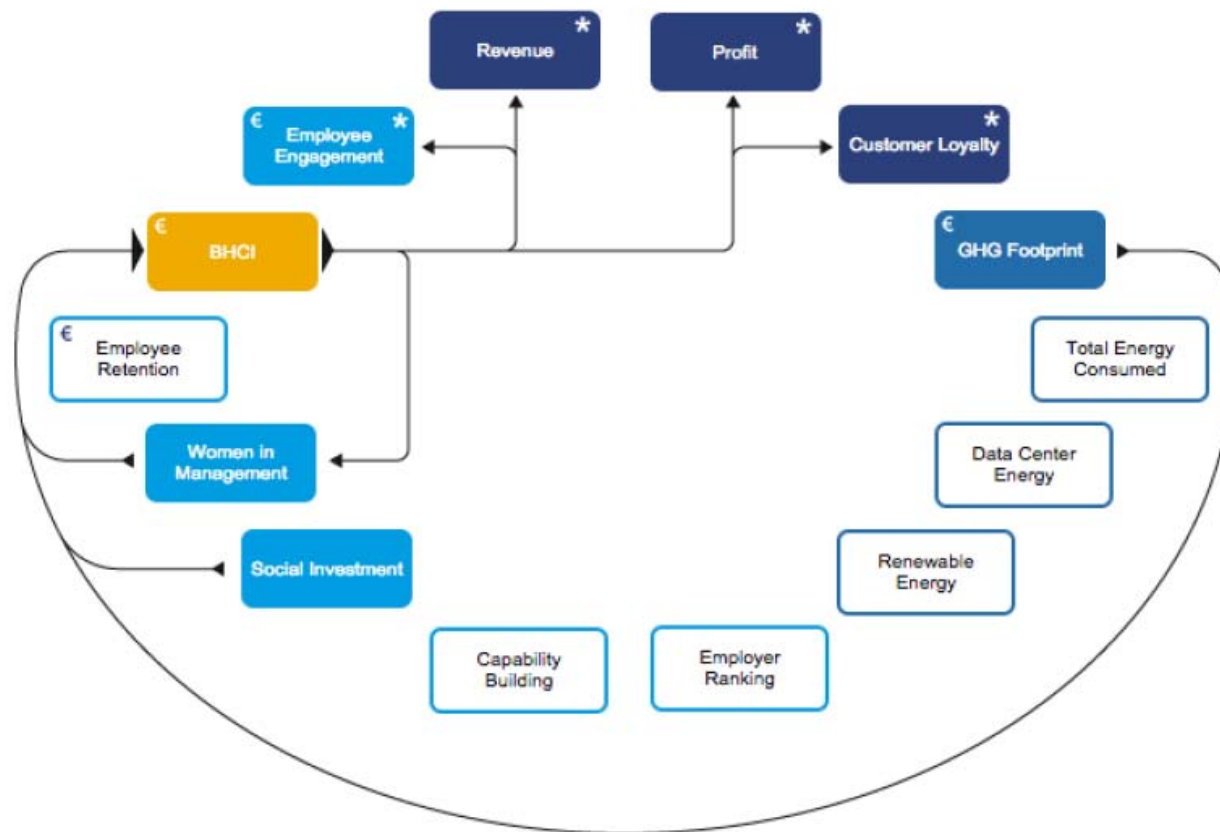
Source: *Integrated report 2014-European IT company*

Assesing the impact on company value

An example, what can be done by the companies?



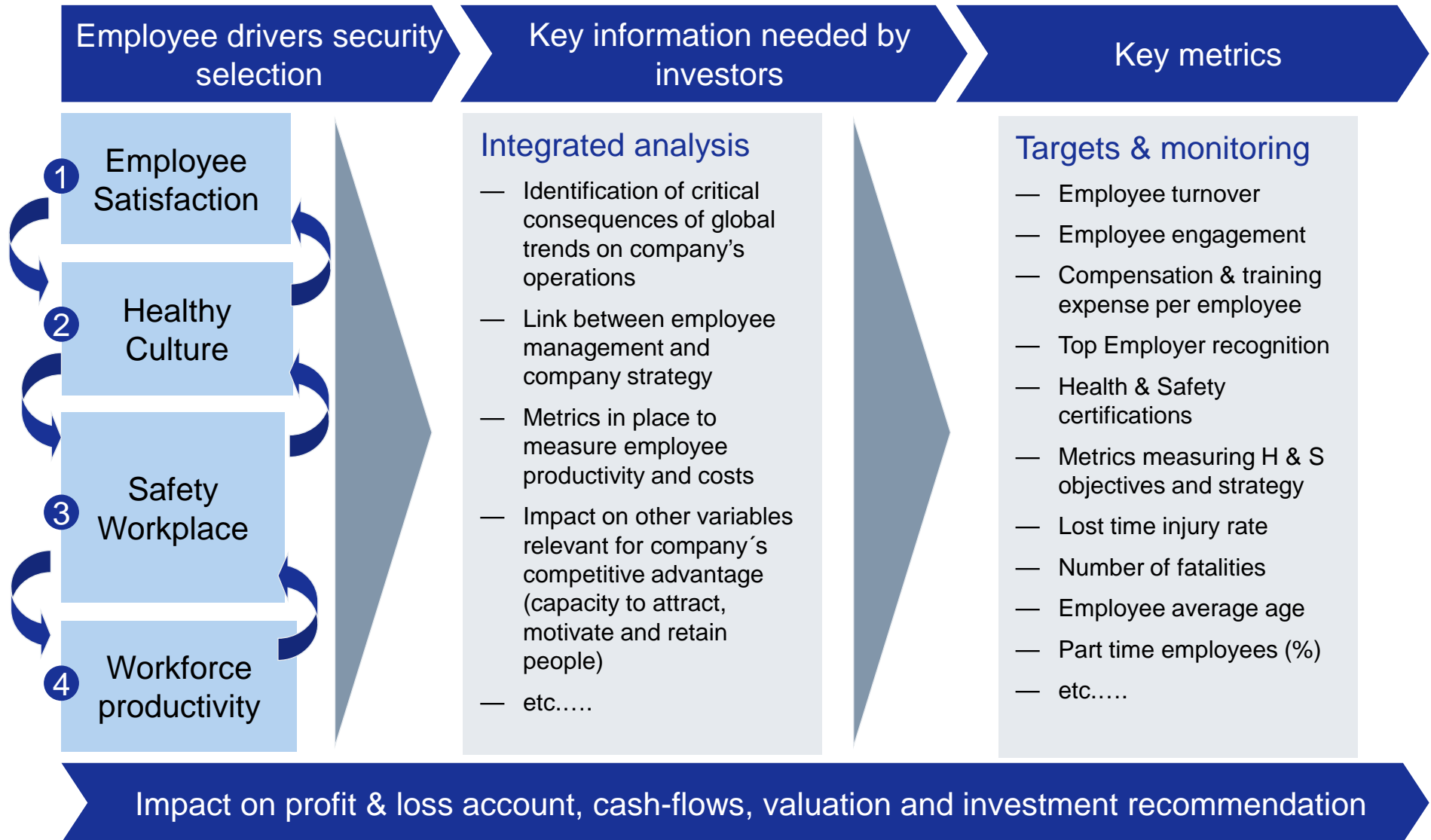
★ Our corporate objectives € Impact on operating profit
 ■ Economic indicators ■ Social indicators ■ Environmental indicators



Source: *Integrated report 2014-European IT company*

Analysis of impact of employee management

Source of competitive advantage and driver of operating returns





Conclusion

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Conclusion



- We - at Deutsche AWM understand the integration of ESG aspects in the security selection process as part of our fiduciary duty.
- Health & Safety in particular is one of our social extra-financial key performance indicators. We recognise that having a poor health & safety culture influence employee productivity and shareholder value.
- We expect the disclosure on employee criteria to become better over the next few years through the ESG Mainstreaming process.
- Over the next few years, it will be key to ...
 1. Foster integrated thinking and an integrated performance analysis on human capital issues.
 2. Address the impact of global trends on business model and human capital management in order to remain competitive.
 3. Strengthen employee productivity and therefore operating returns through an appropriate employee management
 4. Have a higher transparency on Human Capital management measures and link into management variable remuneration programs.



Appendix

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European ESG Equities

Fund manager



Susana Peñarrubia Fraguas, CFA, Director

- Senior investment manager focusing on European Equities – ESG Funds and Utility Industry: Frankfurt
- Joined the Company in 2001 after 3 years of experience as sales person for multiproduct fixed income sales at Dresdner Kleinwort Benson. Since 2009, equity portfolio manager for European ESG. She also runs the Postbank Dynamik Vision and European ESG institutional funds.
- Master's degree ("Licenciada en Económicas") in economics from Universidad de Alcalá de Henares, Madrid; additional studies at the Leeds Polytechnic (UK), Fachhochschule für Wirtschaft (Pforzheim) and Hochschule für Bankwirtschaft (Frankfurt). Dresdner Bank Training Program, INSEAD (Fontainebleau).
- She was awarded by Institutional Investor Magazine as “Best of European Buy side Analyst” in the year 2005 and 2006. Furthermore, in 2010 and 2011 she was recorded in the 75 so called “TopGun” most influential Buy side specialists in Europe.
- Member of the Working Group of the IIRC and DeAWM ESG Research & Portfolio Management working group. She teaches at UNED (MEMFI /Asset Allocation) and at EFFAS (ESG European Certification).

UN Global Compact

The 10 Principles



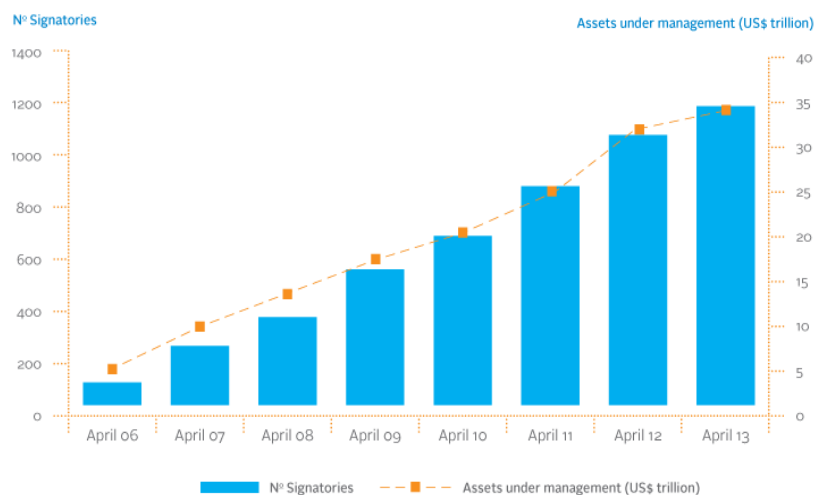
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights ; and
Principle 2	Make sure that they are not complicit in human rights abuses .
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	The elimination of all forms of forced and compulsory labour ;
Principle 5	The effective abolition of child labour ; and
Principle 6	The elimination of discrimination in respect of employment and occupation.
Principle 7	Businesses are asked to support a precautionary approach to environmental challenges ;
Principle 8	Undertake initiatives to promote greater environmental responsibility ; and
Principle 9	Encourage the development and diffusion of environmentally friendly technologies .
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

As of: 2010
Source: UN Global Compact

Principles for responsible investment - UNPRI Signatories Development



Growth of the PRI Initiative



The (UN PRI) Principles

- Principle 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4** We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5** We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6** We will each report on our activities and progress toward implementing the Principles.

Signatory Category	Number of Signatories 2013
Asset Owners	272
Investment Managers	766
Professional Service Partners	195
TOTAL	1233

Contact



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