

# Stewardship Guidelines

Deka Investment GmbH

Deka International S.A.

Deka Vermögensmanagement  
GmbH

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**..Deka**



# Deka Stewardship Guidelines

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## Stewardship of Deka

The world is currently being shaped by megatrends such as climate change, electromobility, digitalization, urbanization and demographic change, to name just the most important. In this context, the sustainable orientation of the world in which we live and work is of particularly high priority. After all, the aim is to maintain future economic prosperity and the quality of life of society without further exploiting the environment and exhausting finite resources. In this context the 17 Sustainable Development Goals (SDGs for short) of the UN Agenda 2030 are regarded as a guideline, since for the first time they take into account all three dimensions of sustainability - social, environmental, economic - equally and for all countries.

The so-called "taxonomy" for sustainable economic activities - at the core of the EU action plan "Financing Sustainable Growth" - shall clarify which economic activities are to be regarded as sustainable. One of the declared aims of the EU action plan is to redirect capital flows to sustainable investments in order to achieve sustainable growth. This is because, in the view of the EU Commission, the financial system has a key role to play in combating climate change and the scarcity of resources.

Deka - as one of the largest asset managers in Germany - believes that a focused investment policy can make an important contribution to overcoming the above-mentioned challenges. This is because, as an asset manager, Deka is in direct dialogue with the companies in which it invests (hereinafter "portfolio companies") and can thus work directly towards sustainable action. "Promote innovation, support change, achieve impact" is therefore the guiding principle for Deka Investment's stewardship activities. With this framework, two key objectives can be achieved: a sustainable return for investors and solutions for a sustainable future for our planet.

The following describes how Deka understands and implements stewardship. In doing so, Deka is guided by the DVFA Stewardship Guidelines, which are based on the legal requirements of stock corporation and investment law and recognized industry standards. In a broader context, they also reflect national and EU-wide regulation with regard to sustainable finance.

### 1. Asset managers set out, through a voluntary commitment to be updated annually, how they meet their stewardship obligations (stewardship statement).

As an asset manager, Deka has fiduciary responsibility for the customer funds entrusted to it and is therefore obliged to act in the best interests of its customers. Therefore, stewardship responsibility is an integral part of the investment process at Deka.

Stewardship refers to the fiduciary duty of care on the part of asset managers, who are entrusted with the responsibility to act in the best interests of the assets they hold in trust or the ultimate beneficiaries or investors. On the one hand, stewardship is used to influence the corporate governance of companies, in order to achieve a long-term increase in the value of the investments. On the other hand, stewardship on the level of the final beneficiary or investor, stewardship means establishing a responsible investment process in order to effectively protect and enhance clients' investments.

As one of the largest asset managers in Germany, Deka acts in accordance with the provisions of the German Investment Code (KAGB), Deka acts in the interests of the investment assets it manages on a fiduciary basis or in the interests of the investors in these investment assets.

It is one of its duties to represent the interests of all investors, including vis-à-vis the companies in whose securities the investment assets invest. If necessary, Deka also uses the legal process in the form of a legal action in the form of a shareholder lawsuit.

The focus of Deka Investment's investment strategy is on both financial and sustainable aspects. In this context, the classic triangle of investment - return, risk and liquidity - was already expanded to include sustainability aspects several

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years ago. The investment assets managed by Deka do not invest in securities of companies that produce controversial weapons and do not invest in companies that account for more than 30% of sales in coal production or 40% of sales in coal-fired power generation. In addition, securities of manufacturers of handguns are excluded from the investment universe of Deka Investment. In addition, the Deka Group does not issue products that directly track food price trends.

## **Active Ownership at Deka Investment**

The terms "active ownership" or "engagement" stand for the active and committed exercise of shareholder rights. This stands for, on the one hand, active, critical and focused dialog with companies and, on the other, the exercise of voting rights at general meetings. For Deka, as an active and sustainable asset manager, engagement is lived practice. The engagement approach includes addressing all aspects that can influence the long-term sustainable value of a company.

In this context, Deka is continuously developing the integration of sustainability criteria into the investment processes of the Asset Management Securities business division. On the one hand, Deka aims in this way to actively promote the development of sustainable finance. On the other hand, it is convinced that the consideration of environmental, social and corporate governance criteria (ESG criteria) improves investment decisions in the long term, as they complement the assessment of opportunities and risks of capital investments.

At Deka, ESG criteria are fundamentally integrated into the investment process. The in-house research platform includes information and data on sustainability aspects for all asset classes and is made available to all decision-makers. It combines external data with internal analyses and is supplemented by relevant findings from discussions with company representatives. Moreover, company- and sector-specific sustainability analyses are provided by external sustainability experts. A specially calculated sustainability indicator makes it possible to compare numerous asset classes.

As part of the internal ESG Academy, all portfolio managers and research analysts receive regular training on the subject of sustainability. The modular seminars cover topics such as new regulatory requirements and current trends on the capital market with regard to sustainability.

Important instruments for sustainable investment include direct dialog with the companies into whose shares and bonds Deka invests in and, secondly, exercising the voting rights associated with shares at Annual General Meetings. Voting and engagement are used to protect the value of the investments and support sustainable development in the companies. In all of Deka Investment's investment assets, attention is paid to responsible corporate governance. Possible controversies from a sustainability point of view are discussed critically with the companies as part of the investor dialogue.

## **Stewardship in Deka's investment process.**

Stewardship activities are carried out by Deka and are not outsourced. To ensure that stewardship activities are integrated and aligned throughout the investment process, the responsibilities for different teams are defined and reporting processes are established within the company.

Responsibility for the implementation of sustainability and corporate governance is assigned to the management of Deka. The Head of Sustainability and Corporate Governance reports directly and at regular intervals to the Board of Management. The ESG core team consists of six ESG specialists, three of whom are designated Certified European Environmental Social and Governance Analysts (CEESGA). This core ESG team is embedded in a sustainability network to address all aspects of fund management and product development. A special committee, known as the Sustainability Circle, which consists of members from different areas of the Deka Group, coordinates sustainability activities across the entire Deka Group.

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The ESG Core Team is responsible for voting and engagement activities. The team records the voting rights for the equity holdings of the DekaGroup's mutual funds, including exchange-traded funds (ETFs), and special funds. In addition, the core ESG team takes the lead on engagement activities. It does not work in isolation, but closely with the portfolio managers and research analysts. Deka's portfolio managers and research analysts share responsibility for effective ESG integration into the investment process.

The ESG specialists are each responsible for specific sectors, elaborating on an understanding of sector-specific ESG issues. Working closely with portfolio managers and research analysts, they identify and assess ESG risks and opportunities. In addition to discussions with corporate sustainability experts on ESG topics, the ESG specialists also take part in meetings with the company's management and supervisory bodies in order to discuss certain fundamental sustainability topics.

The ESG core team's provision of ongoing ESG training ("ESG Academy") to all portfolio managers and research analysts ensures that all parties involved act in harmony when integrating ESG aspects into the investment process.

The ESG core team regularly provides sustainability portfolio management with an up-to-date investment universe defined by product-specific exclusion criteria or sustainability approaches such as best-in-class.

Deka specifies its stewardship philosophy through a number of other guidelines, which are available on its website: Principles of Voting Policy at Annual General Meetings, Voting Report, Engagement Policy and Engagement Report.

## 2. Asset managers continuously monitor their portfolio companies.

### **Analysis of portfolio companies**

An integral part of Deka's investment strategy is the active monitoring of portfolio companies in terms of their strategies, financial and non-financial performance as well as risk, capital structure, social and environmental impact and corporate governance. Regular monitoring is the only way to identify risks at an early stage, which could otherwise result in a significant loss of asset value. Both the portfolio managers and research analysts as well as the ESG core team perform this task:

- Portfolio managers take responsibility for monitoring companies in their respective portfolios,
- Research analysts track the reporting of their sector companies,
- ESG specialists monitor companies and issues where material ESG risks have been identified and appropriate Engagements have been initiated.

The monitoring process of the portfolio companies covers all aspects that can influence the long-term sustainable value of a company. These aspects include:

- Understanding the business model and its key value drivers,
- Development of the corporate strategy,
- Capital management issues,
- Assessing the robustness of the business model with regard to climate protection,
- Compliance with social standards,
- Corporate governance practices,
- Quality and effectiveness of the management team (Executive Board and Supervisory Board) and succession planning,
- Executive and supervisory board compensation,
- Dealing with shareholder rights,
- identification of financial, operational or reputational problems that could lead to a significant loss in the company's valuation.

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Deka performs the monitoring function as follows:

- Tracking press releases of portfolio companies and their competitors,
- Analyzing interim and year-end reports and interim updates provided by the company,
- Reviewing corporate governance practices and shareholder treatment prior to voting at shareholder meetings,
- Review of environmental, social and governance risks at portfolio companies,
- Participation in investor presentations,
- Regular meetings with investor relations and corporate management,
- Meetings with Chairman/Supervisory Board Chairs and Lead Independent Directors (where possible and appropriate) to discuss issues related to strategy, governance, management team performance and succession, risk management, data security and cyber defenses, environmental and social impact management, business conduct and culture, etc,
- Exercise voting rights at the general meeting of portfolio companies.

Deka records its stewardship activities in a database. The progress of companies confronted with specific demands is monitored on a regular basis. However, it must be borne in mind that it often takes a certain time before significant changes are implemented within a company's business processes. This is taken into account when tracking progress.

## Dealing with "insider information"

Stewardship activities aim to influence the behavior of a company. If material, non-public information is obtained through stewardship activities, the Compliance Coordinator of Deka Investment will inform the Compliance department immediately via the Deka Compliance Coordinator. All persons who have gained relevant knowledge as a result are then registered on the so-called watch list by the Capital Markets & Real Estate Compliance unit. Until the relevant information has not become public, the colleagues are not allowed to pass on this information or to make use of it. As soon as this information becomes public, this ban is lifted again by the Compliance unit.

As an active asset manager, Deka generally avoids receiving price-sensitive information from companies that is not yet public. This is because, as a so-called "insider", it is then not permitted to trade in shares of the company concerned. Deka therefore explains this interest to companies to ensure that confidential information is not inadvertently passed on without prior consent. If necessary, the Compliance corporate center is informed and involved immediately.

## 3. Asset managers promote the interests of their investors through constructive dialog with the portfolio companies in the interests of their investors.

As part of the engagement, Deka summarizes the assessments of portfolio managers, research analysts and ESG specialists in order to identify risk factors of a company that subsequently require discussion with the respective companies. In this process, the following events may lead to an engagement process being initiated:

- the company is selected for engagement activities as part of the annual determination of focus areas,
- the company attracts attention in the course of research activities due to non-sustainable behavior (controversies),
- on a quarterly basis, Deka reviews predefined data sources of companies that violate the UN Global Compact or the OECD Guidelines for Multinational Enterprises. Based on the nature and severity of such cases, it is decided for which cases engagement should be initiated.



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The main objective of engagement is to increase shareholder value by improving sustainability behavior and corporate governance or by addressing reported deficiencies against internationally recognized codes of conduct for corporate governance, social responsibility, environmental standards and transparency.

Deka Investment prioritizes activities based on the importance of the particular issue to be addressed and the nature and scope of the investment in the respective company.

In determining the focus topics for the corporate dialogs, Deka is guided by international principles and objectives. These include, in particular, the principles of the UN Global Compact and the ILO core labor standards, but also sustainable development goals of the United Nations, the climate targets of the European Union and the requirements of the Task Force on Climate-related Financial Disclosures.

In cases where the research analysts, in the course of their company analyses, identify deficits in the company's approach to the principles of sustainable development or the principles and goals mentioned, these are addressed in direct contact with the companies.

For this purpose, Deka uses more than 1,500 company contacts per year in order to discuss various ESG issues in direct discussions, depending on the sector or company. If controversies arise at a company from an ESG perspective, the causes are investigated and the company in question is confronted with any allegations. The company is called upon to provide appropriate clarification or to remedy a justifiably criticized grievance.

Against this background, Deka joins forces with other investors where it makes sense to do so, for example within the framework of the Principles of Responsible Investment association. If the deficits are not remedied by the company, the company can be excluded from the investment universe as a last resort. This exclusion may apply not only to specific sustainability products, but in principle to all relevant investment products of Deka. This is in the interest of preserving the value of an investment, as reputational damage often also leads to financial losses.

## 4. Asset managers should provide for escalation of their stewardship activities if constructive dialogue with the portfolio company is not possible.

Deka Investment usually raises concerns during the regular meetings that portfolio managers, research analysts and ESG specialists hold with company representatives. Should the case arise that companies do not respond constructively, Deka Investment has implemented various escalation levels to implement the desired changes.

The engagement process provides for various escalation levels:

- Active and global use of our voting rights at AGMs and consistent use of our voting guidelines for good corporate governance,
- Investor meetings with Investor Relations, the Executive Board and relevant specialists in the company,
- Corporate governance discussions with the Supervisory Board,
- Joint intervention with other institutional investors,
- Interviews and/or statements in the media on specific topics in the run-up to general meetings,
- Speeches at annual general meetings,
- Rejection of proposed resolutions at the Annual General Meeting,
- Submitting own or supporting shareholders' motions,
- Filing shareholder lawsuits.

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Voting at AGMs is the broadest form of engagement with companies for Deka, as this is where the asset managers can provide the board of management and supervisory bodies with public feedback on the perception of performance and governance - practices.

Direct dialogue with portfolio companies comes into play when Deka Investment needs to clearly raise critical issues, both at board and supervisory board level.

To increase pressure, Deka joins pooled investor initiatives where appropriate (collaborative engagement). In selected cases, Deka Investment participates by making speeches at general meetings, whereby this may extend to the formulation and submission of its own shareholder resolutions.

Deka Investment's duties also include taking legal action in the form of shareholder lawsuits in the event of proven misconduct by companies.

If a controversy cannot be resolved or if the company fails to respond satisfactorily in the long term, Deka does not rule out selling the investments as a last resort.

5. Voting rights are exercised based on well-founded and independent voting decisions, which are based on the asset manager's published voting guidelines, taking into account related costs and benefits in the investor's interest.

Deka gives great importance to representing the interests and voting rights of its fund investors vis-à-vis public companies. The voting right is one of the most valuable rights of the shareholder and we are obliged to use it responsibly. Deka acts exclusively in the interests of the respective investment fund. The exercise of voting rights is an essential part of the efforts to achieve a sustainable and long-term increase in the value of customers' assets.

## Voting processes at Deka Investment

As an active investor, Deka exercises voting rights responsibly. Voting rights are exercised for investments worldwide, unless there are significant obstacles to voting rights, such as share blocking or extensive proxy requirements.

As a rule, a voting universe is determined once a quarter, but at least once a year, showing the companies in which Deka exercises its share voting rights.

The universe includes at least:

- all German companies,
- companies included in the EURO STOXX 50 (SX5E) and STOXX Europe 50 (SX5P) indices as of the creation date,
- companies in other countries depending on the respective level of investment (total ownership limit),
- isolated discretionary companies that are in the interest of the investment fund.

Investors in special funds also have the option of expanding the universe for these funds as part of the paid service "engagement/voting rights exercise".

As an external service provider for the analyses of annual general meetings and for the exercise of voting rights, Institutional Shareholder Services Inc. (hereinafter "ISS") is used.

The service provided by ISS comprises the provision of information on the Annual General Meetings (including dates, invitations, agenda items), information on the companies (including master data, key figures, annual reports), AGM



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analyses taking into account the Deka analysis guidelines, provision of various report templates and, if necessary, the exercise of voting rights in the respective market.

The service is provided via the specially developed platform (ASP solution) "ISS Proxy Exchange" (<https://proxyexchange.issgovernance.com>). For the provision of the service, ISS receives a power of attorney for the exercise of voting rights.

## Voting policy of Deka

With its principles on voting policy at general meetings, Deka defines its guiding rules. Deka's voting policy sets out its principles for exercising shareholder voting rights in a fiduciary capacity, either directly or via proxies, on behalf of the investment funds it manages. ESG issues also play an important role in Deka Investment's voting policy and are taken into account accordingly in its voting behavior.

The voting policy is based on Deka's extensive experience as one of the major capital management companies and thus a shareholder representative. The voting policy takes into account the applicable legal provisions, the current analysis guidelines for general meetings issued by the Bundesverband Investment und Asset Management (BVI), the German Corporate Governance Code, the DVFA Scorecard for Corporate Governance, international codes, relevant environmental and social standards, and the requirements of the PRI.

For the exercise of voting rights, the voting policy defined by Deka serves as a framework to enable individual, transparent and comprehensible decisions to be made on a case-by-case basis. The voting policy is regularly reviewed and adapted to current developments. Voting rights are exercised in the interests of the managed investment assets and their investors and in consideration of sustainability criteria.

The ISS voting proxy provides voting recommendations based on the voting policy defined by Deka. Before deciding on the final voting behavior at upcoming AGMs, Deka again analyzes the agenda items very carefully. New findings on the current financial situation or on ESG controversies of the company to be voted on are examined again and, if necessary, taken into account in the voting behavior.

If shareholder proposals - including those on ESG issues - are received, they are also subjected to a critical and constructive review. If necessary, Deka Investment itself submits shareholder proposals. This analysis, which is based on the voting policy of Deka Investment, takes precedence over the recommendations of the proxy. Therefore, the final voting instructions of Deka Investment may differ from the recommendations of the management and the proxy advisor.

Deka will then vote against management's recommendations when it is in the best interest of the investment assets it manages and their investors. This applies, for example, in the case of poor corporate governance practices, proposals that are not in the best interests of long-term shareholders, and those proposals that are inconsistent with our policies. In particular, this also applies to violations of sustainability criteria.

Deka will discuss the findings of an Annual General Meeting with the company in question in the event of a subsequent engagement. This applies in particular in cases of negative voting results (i.e., when an agenda item has not received a majority) or if Deka Investment has voted against the management proposal in agenda items.

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## Dealing with securities lending

Lent domestic shares are transferred back to Deka in good time so that the latter can exercise voting rights at general meetings. Voting rights are exercised for foreign shares held in the investment funds if these shares have not been lent out by the date of the Annual General Meeting.

6. Asset managers shall publish their voting behavior on their website as soon as possible after the general on their website as soon as possible after the Annual General Meeting.

Deka publishes the key points of its voting behavior in the "Principles of Voting Policy at Annual General Meetings" on its website. In addition, the voting behavior for each coordinated Annual General Meeting is published. The voting report contains all agenda items of the respective companies to be voted on including the votes cast in favor, against and abstentions. In addition, the texts of speeches made by Deka's main speakers at the respective AGMs are published.

Deka cannot guarantee that the instructions are passed on along the chain of custody. Voting confirmations can only be passed on to the extent they have been received.

7. Asset managers should be prepared to cooperate with other asset managers in their stewardship activities within the framework of applicable laws.

In certain cases, it is more effective to act in concert with other asset managers to influence a company's governance and initiate positive change. This applies, for example, when bilateral discussions with company management do not achieve the desired result.

Deka is in principle prepared to work with other asset managers if this can make its own engagement activities more successful and if this is permitted by laws and regulations. At present, in some countries it may not be permissible for collaborative engagement to take place due to "Acting in Concert" suspicions due to the legal situation. In such cases, Deka will refrain from collaboration with other asset managers. However, Deka exchanges information on a general level with other asset managers in working groups, committees and networks in connection with corporate governance.

Deka is a member of notable industry initiatives that encourage collaboration with other asset managers on company-specific and industry-wide topics. Also worthy of note is Deka's signing of the Principles for Responsible Investment (PRI) in 2012. Deka reports on the measures taken to implement the six PRI principles are reported annually by Deka as part of the PRI Progress Report. As part of its PRI membership Deka participates in joint engagement initiatives with other global asset managers. For example, Deka supports an engagement campaign on the topic of cobalt and human rights. This involves, among other things, German automotive companies to increase transparency about the supply chain in the procurement of cobalt in order to improve human rights in order to better identify and combat human rights violations.

Deka has also joined the UK Farm Animal Investment Risk & Return (FAIRR) initiative. This collects data on the sustainability standards of companies involved in factory farming and industrial agriculture.

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8. Internal and external conflicts of interest arising in the course of stewardship activities are addressed by relevant Asset Manager policies.

Certain internal conflicts of interest (between asset classes and/or investment strategies) and external conflicts of interest (between clients and asset owners, among others) may arise in the course of Deka's stewardship activities. For these cases, group-wide guidelines and procedures are in place to ensure (from a regulatory) legal perspective that these conflicts are handled appropriately. Examples of these potential conflicts are:

- Deka is a wholly owned subsidiary of DekaBank, whose interests and views on certain issues may in rare cases differ from the interests of the investment assets it manages and their investors. Accordingly, strict controls and information barriers have been put in place to ensure that investment decisions and stewardship activities are implemented in the best interests of the investment assets and their investors and are not subject to undue influence.
- Deka focuses on fundamental and quantitative fund management of mutual and special funds, ETFs and asset servicing. In addition, Deka offers solutions for sustainable investments as well as services relating to the exercise of voting rights. Conflicts may arise in the exercise of voting rights and in engagement, while ensuring that decisions are always made in the interests of the investment assets and their investors.

Below policies and processes for managing conflicts of interest in proxy voting and engagement are described.

## **Corporate governance of Deka Investment**

Deka is managed by a management board. The company is integrated into the risk strategy and risk management system of the Deka Group. This covers all relevant risk types including operational, business, counterparty and market price risk. DekaBank is responsible for the methods used in the framework laid down by the Deka Group. Adjustments that have an impact on the company are made taking into account the Group-wide involvement and responsibility of the management and are adopted for the company by independent resolution on its own responsibility. The management of risks relevant to the company is the responsibility of the Board of Management. In addition, all relevant risks (incl. Deka) are monitored and managed at the level of the business division or the Deka Group. With regard to the investment assets, the Company is responsible for the methods used for risk management and controlling. It is carried out by means of the processes implemented in the company for this purpose.

## **Regulatory framework and guidelines for conflicts of interest**

The (Group-wide) internal guidelines and procedures for dealing with conflicts of interest ensure that the conduct is in compliance with all applicable legal and regulatory requirements. Deka is regulated by the German Federal Financial Supervisory Authority.

## **Conflicts of interest in stewardship activities**

Several conflicts of interest may arise in connection with Deka Investment's stewardship activities. Examples of these potential conflicts of interest are:

- the entity to which our engagement activities relate is an investor in an investment fund managed by Deka,
- the company at whose Annual General Meeting we vote is an investor in an investment fund managed by Deka,
- the employee of Deka who makes the voting decision is a member of the Board of Management, a significant shareholder or holds an influential position in the company at whose AGM we are voting,
- there is a conflict of interest between two investors,

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■ a member of the Board of Management of a company at whose Annual General Meeting a vote is being taken is also a member of the management of Deka.

The strict separation of processes and management within Deka helps to ensure that investors or persons with business relations to the company cannot exert any undue influence on our voting decisions. Proxy voting rests entirely with the core ESG team. Deka has robust internal policies and procedures in place to ensure that voting decisions of our core ESG team cannot be improperly influenced or that individuals working in customer service, sales and marketing, or other functions, do not influence the voting process.

Potential conflicts of interest in voting decisions are addressed through the application of Deka's voting policy principles at general meetings. There may be cases where a portfolio manager or research analyst recommends a different voting policy in deviation from the voting policy. In such cases, the ESG core team checks that the recommendation is based on sound reasoning and that there is no conflict of interest.

Finally, Deka has internal guidelines (code of ethics, institutional information, work instruction "Principles for dealing with conflicts of interest"), which ensure that employees always put the interests of investors first. These internal guidelines require employees to avoid all potential conflicts in the first instance, to disclose them if it is not possible to avoid them, and, if necessary, reject voting decisions in which there is a potential conflict or even a potentially perceived conflict of interest. These guidelines are embedded in the Group-wide rules on dealing with conflicts of interest.

In order to manage such potential conflicts in engagement activities, the Risk Management unit has developed a clear and transparent internal escalation guideline. The guideline distinguishes between non-public and public engagement activities and assigns decision-making authority for planned engagements with customers, major suppliers, non-governmental organizations, political decision-makers, media and other parties.

In these cases, Deka Investment will conduct its coordination activities and engagement activities as usual in the interests of its customers. In the event that a business relationship could jeopardize stewardship activities, DekaBank's central Compliance department will be consulted immediately.

9. Asset managers shall annually outline how they comply with their stewardship obligations and explain and justify any non-compliance with the guidelines.

Deka publishes an annual engagement report that includes detailed information on stewardship activities. The report also provides information on engagement in industry initiatives and cooperative engagements. This report is available on the Deka Investment website.



**Deka Vermögensmanage-  
ment GmbH**

Mainzer Landstraße 16  
60325 Frankfurt  
Postfach 11 05 23  
60040 Frankfurt

Telefon: (0 69) 7147 - 0  
Telefax: (0 69) 7147 - 1376  
[www.deka.de](http://www.deka.de)

 **Finanzgruppe**