2018 MFS® Sustainable Investing Annual Report

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A message from MFS' Fixed Income CIO

The past year has been an exciting one for MFS' sustainable investing initiatives. Among other important developments, MFS was proud to be the lead sponsor of the annual conference held by the Principles for Responsible Investment (PRI). This conference — known as the PRI in Person — is the preeminent global investor forum for the discussion and advancement of the most pressing environmental, social and governance (ESG) topics.

During 2018, MFS made substantial additional progress in integrating ESG factors into our fixed income investment decisions and engagement activity. Like many investors, MFS began its formal ESG integration journey within our equity team; however, over the past two years, we have accelerated the integration of ESG factors into our fixed income research processes. As is true for our equity team, our fixed income analysts and portfolio managers have always sought to identify all of the factors that could materially impact the debt securities we own. Nonetheless, our formal fixed income ESG integration process has enabled us to apply greater focus and analytical rigor to the evaluation of sustainability topics.

MFS has been managing fixed income assets since 1970. Our first purely fixed income offering, MFS® Corporate Bond Fund, was introduced in 1974. Since that time, we have developed deep investment expertise across investment-grade and high-yield corporate debt, municipal bonds, sovereign debt and structured finance products; and we continue to expand our fixed income capabilities. Over the past five years, we have enhanced our global investment platform by adding 11 non-US fixed income investors in our London office. The team now includes more than 90 fixed income professionals globally.

At MFS, collaboration is part of our DNA. We believe that a diverse group of collaborative individuals are able to make better investment decisions than any single individual on his or her own. That's why our investment teams are deliberately integrated across asset classes and investment disciplines. Our fixed income investors work side by side with their equity, quantitative and ESG counterparts to develop their investment recommendations. Along with our long-term mindset and deep fundamental research, this collaborative culture is the engine of our sustainability-focused investment process.

We hope this report, in conjunction with other resources available at www.mfs.com/sustainability, will help you to better understand how we actively approach sustainability to improve outcomes for our clients.

Sincerely,

William J. Adams, CFA
Chief Investment Officer – Global Fixed Income

An introduction to MFS' ESG investment integration and proxy voting activities

At MFS, the term *sustainable investing* encompasses our ESG integration processes, proxy voting activity and issuer engagements. In this report, we provide an overview of our approach to these three areas, followed by a review of our calendar year 2018 sustainable investing activity.

ESG Investment integration overview

Our equity and fixed income investment teams rely on deep fundamental research and a long-term perspective to select securities that can produce sustainable returns throughout an economic cycle. Although our overall approach to investing has always been well aligned with a sustainability-oriented mindset, in 2009 we formed the MFS Responsible Investing Committee to ensure that financially material ESG topics were being systematically integrated into our equity and fixed income investment processes. Since the formation of that committee, MFS has

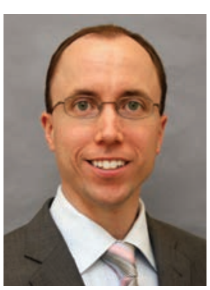
- formalized a responsible investing and engagement policy
- become a signatory to the Principles for Responsible Investment (February 2010)
- hired two research analysts who are focused exclusively on working with the investment team to integrate ESG topics
- developed a multifaceted ESG integration strategy to drive consistent integration across our entire investment platform
- established the MFS Sustainability Group, comprised of MFS' president, chief investment officer, asset class CIOs, chief risk officer and other senior leaders, to accelerate the strategic implementation of sustainable investing practices across the firm

Critically, the goal of ESG integration cannot be accomplished by building a separate ESG team. At MFS, we believe collaboration results in better insights, which is why our investment team has always been integrated across asset classes. As a result of that long-held belief, our ESG analysts are expected to drive collaboration on sustainability-related topics, not create an internal ESG outsourcing group. For us, integration means each of our analysts and portfolio managers are considering these topics throughout the entire investment decision-making process.

ESG-dedicated investment professionals

Pooja Daftary – Research Analyst

Pooja joined MFS in 2009 as an investment research associate. In 2012, she left the firm to complete her Master of Business Administration degree before returning in 2014 as a "traditional" equity research analyst. She served in that role until 2018, when she assumed her current position. Pooja earned a BA from Mount Holyoke College and an MBA from Harvard Business School.



Rob Wilson – Research Analyst

Before joining MFS as the firm's first ESG-dedicated research analyst in April 2013, Rob worked as a "traditional" equity analyst at a large, US-based investment management firm. He earned a BS in business administration from Boston University and an MBA from the University of Chicago.

Exclusion vs. integration and engagement

We would like to share our views regarding exclusion, integration and engagement.

Exclusion

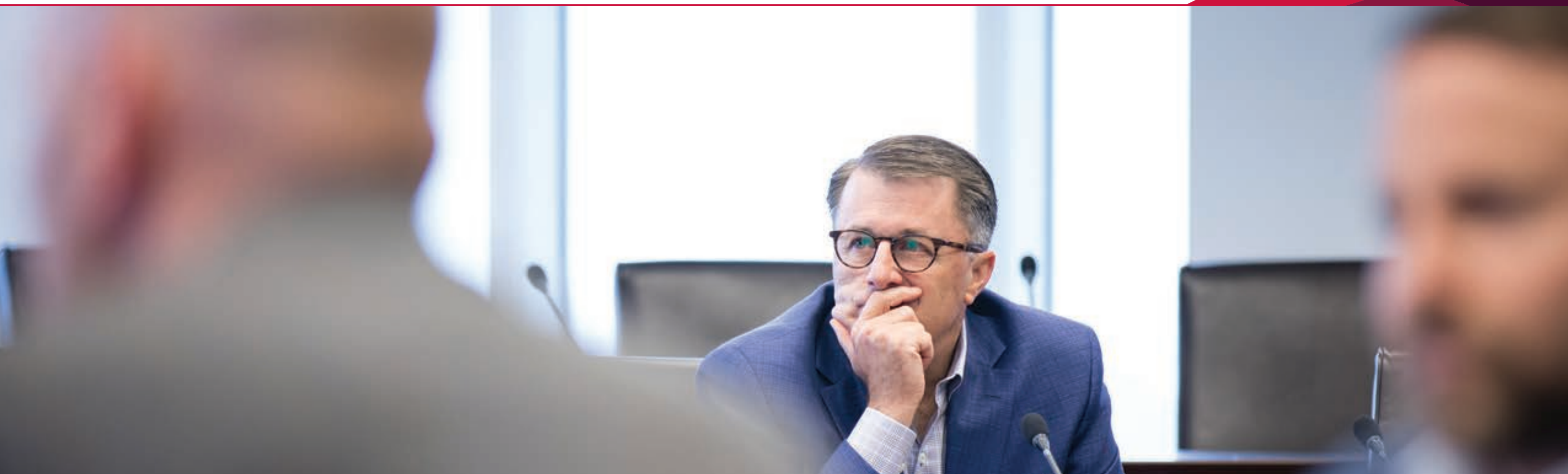
At MFS, we manage assets on behalf of a diverse group of clients domiciled in more than 30 countries around the world. Each of our clients is unique, and each has a unique set of values that they may wish their investment portfolio to reflect. As such, we do not exclude any company or industry from potential ownership, unless we are required to do so by law. However, we regularly collaborate with our institutional separate account clients to develop investment solutions designed to meet both their financial and ethical objectives. In many cases, those solutions involve exclusions. We have been applying such exclusions since the 1980s and have the ability to implement a wide variety of customized guidelines.

Integration

Despite the fact that we do not apply any universal exclusions, ESG factors often lead us to avoid certain securities, in some cases for very long or indefinite periods of time. To illustrate this, we have avoided a European-based packaging company because of concerns regarding the sustainability of the firm's business model in light of society's increasing focus on the harmful effects of plastic on the environment. Although we have never excluded this company from ownership, its ESG characteristics have weighed heavily in our assessment that its equity has not represented an attractive value.

Engagement

We believe that owning and engaging with companies to improve their ESG performance can sometimes be a more effective path to positive outcomes for all stakeholders than exclusion and divestment. Particularly in relation to fossil fuels, we have seen how engagement has prompted companies to take action to reduce greenhouse gas emissions and their overall environmental impact.



Our view on internal and external ESG ratings

Our approach to ESG integration has always been built upon a foundation of in-depth, bottom-up research on individual equity and fixed income securities. We believe this approach, rather than one that bases investment decisions on internal or external ESG ratings, leads to a better understanding of the material ESG topics facing specific issuers.

The benefit of this approach is clearly displayed in our decision to avoid both the equity and fixed income securities of a US-based automobile manufacturer in 2017 and 2018. Although we viewed the company's commitment to electric vehicles positively, we were concerned about a series of troubling social issues it had experienced (including accusations of union-busting activity, employee discrimination and above-average worker injury rates) and a history of poor governance. These factors contributed to our view that the company's securities were not appropriately discounting the seemingly high probability of operational and other challenges that were likely to accompany an expected increase in vehicle production.

Notably, the social and governance risks we viewed as most financially material for this company were not reflected in the very good ESG ratings it received from third-party research providers. We believe this illustrates how challenging it is to effectively capture the complexity of the various ESG risks and opportunities facing an issuer with a single rating. This complexity is why we do not rely on external ESG ratings or seek to assign similar ratings internally. Instead, our process focuses on identifying the key risks and opportunities facing each issuer based on our knowledge of their industry, business model, countries of operation and other factors. Once we identify the relevant ESG topics, we research those risks and opportunities using information from various sources (*e.g.*, company filings, our own engagements, NGO reports, third-party research, etc.) and ultimately seek to model and value those issues we deem to be financially material.

Our ESG integration strategy comprises both analytic and systematic elements, as outlined in the graphic below, and is designed to enable our global investment team to effectively identify and analyze the material ESG issues impacting their investment decisions.

Analytic

- Industry initiations
- Ad hoc research requests
- Sector/Thematic research
- "*ESG in Depth*" research series
- ESG security and portfolio dashboards
- ESG sector maps

Systematic

- Semiannual risk reviews led by quantitative team
- Systematic distribution of external ESG rating changes
- ESG tab in research notes for companies/issuers
- Automated distribution of low-rated securities reports

Analytic: In relation to ESG topics, most of our investment team's time is spent on the analytic projects below. This part of the process is where we identify risks and opportunities and determine how to price them.

- MFS research analysts and portfolio managers collaborate directly with our ESG analysts on both an ad-hoc basis and in advance of industry initiations to assess the materiality of ESG factors for specific securities or groups of securities.
- Our investment team regularly develops ESG research with thematic, sectoral and regional implications.
- Our ESG analysts produce an internal research series called *ESG in Depth* that explores ESG topics that are currently impacting securities we own.
- ESG dashboards organize ESG risks and opportunities for MFS managed portfolios in aggregate as well as for each individual company.
- We have developed proprietary"sector maps" that highlight the primary ESG risks and opportunities for each industry.

Systematic: The systematic processes outlined below are designed to operate in the background, alerting the team to situations that may require them to move back to the analytic side of our ESG integration strategy to evaluate a risk or opportunity.

- Semiannual risk reviews of MFS-managed portfolios monitor ESG trends.
- Changes to third-party ESG ratings are automatically disseminated on an ongoing, systematic basis by our internal systems.
- ESG-related research notes for each issuer are housed in our global research system in a tab dedicated to ESG information.
- Low-rated securities are communicated to covering analysts via semiannual reports.

Global perspectives on sustainable investment: Japan

YASUYUKI HIRATA

TAKEHIKO SHIKATA

KAZUHISA HIRAMATSU

In the Japanese Institutional market, the largest pension sponsor — Government Pension Investment Fund (GPIF) — has taken a leadership role in advancing sustainable thinking and ESG integration. GPIF promotes ESG investment for the purpose of improving the long-term return of its portfolio by reducing negative externalities affecting the environment and society. MFS is one of GPIF's discussion partners, and active management is recognized by GPIF as an effective approach to help fulfill its sustainability objectives.

Furthermore, the Japanese Stewardship Code encourages asset managers to integrate ESG into their investment process and proactively engage with portfolio companies on critical ESG issues. MFS has engaged with Japanese clients to align for mutual goal-setting; however, the level of clients' commitment to sustainability varies. ESG trends have also been accelerated by the Japanese Governance Code, which focuses on listed companies and, as a part of Prime Minister Shinzo Abe's Abenomics policies, is ultimately expected to help revitalize the Japanese equity market.

Fixed income investors have also been supportive of ESG. For example, it is becoming more common for Japanese life insurance companies to invest in green and other ESG-aware bonds.

Socially responsible Investing (SRI) funds have a long history in the Japanese retail market. Unfortunately, the poor performance of some of these funds has led investors to be skeptical about the underlying investment processes of such offerings. As a result, retail investor awareness of ESG topics is high, but flows have not yet materialized.

Proxy voting overview

MFS believes that robust, active ownership practices can help protect and enhance long-term shareholder value. Active ownership is about being thoughtful and diligent in exercising our voting rights and engaging with the companies in our portfolios.

How proxies are voted

MFS maintains its own publicly available proxy voting policies and procedures (the MFS Proxy Policies), which include procedures regarding how we address potentially material conflicts of interest and which guide, and provide a framework for, all of our proxy voting decisions at approximately 2,000 meetings in over 50 different markets each year. The administration of the MFS Proxy Policies is overseen by the MFS Proxy Voting Committee (the MFS Proxy Committee). This committee consists of senior members of our Investment, Legal and Global Investment Support departments. In order to mitigate the potential for material conflicts of interest, the MFS Proxy Committee does not include individuals whose primary duties relate to client relationship management, marketing or sales.

The MFS Proxy Committee is co-chaired by Ted Maloney, MFS' chief investment officer, and Susan Pereira, vice president and assistant general counsel. We believe that having a diverse range of perspectives on the committee leads to a thoughtful and collaborative process that guides MFS' voting decisions and policy development.

Many votes require a case-by-case analysis by MFS' team of dedicated proxy voting professionals. As an active manager, we are able to combine the collective expertise of our proxy voting team with the unique perspectives and experience of our global team of investment professionals. This process enables us to formulate viewpoints with multiple inputs, which we believe leads to well-informed voting decisions. As a result, when considering certain types of votes for which the MFS Proxy Policies do not provide explicit guidance, the proxy voting team and the investment team typically collaborate in assessing the voting matter.

Use of proxy advisory firms

MFS uses a proxy advisory firm to perform various proxy voting-related administrative services, such as vote processing and recordkeeping. While we also receive research reports and vote recommendations from proxy advisory firms, MFS analyzes all proxy voting issues within the context of the MFS Proxy Policies, which are developed internally and independent of third-party proxy advisory firms. MFS' voting decisions are not defined by any proxy advisory firm benchmark policy recommendations. Proxy advisory firm research reports are one input in our comprehensive analysis, which includes other essential sources of information (*e.g.*, proxy materials, engagement, other third-party information, etc.) that help us determine the votes that we believe are in the best long-term economic interest of our clients. MFS has due diligence procedures in place to help ensure that the research we receive from our proxy advisory firms is accurate and to reasonably address any potentially material conflicts of interest of such proxy advisory firms.

Global perspectives on sustainable investment: Nordics and Benelux

ERIKA SALAZAR

Nordic and Benelux countries have long been at the forefront of the ESG movement. Although there is a high degree of homogeneity among investors in these countries regarding ESG topics, there are also important differences in the implementation of ESG strategies by investors in the region.

The Netherlands' largest pension plan (ABP) has mapped its investments to the United Nations Sustainable Development Goals, which has led to substantial increases in investments related to infrastructure development, renewable energy and green bonds. Other Dutch plans have followed suit, making use of both active and passive strategies, with an increased focus on impact investing.

Danish pension plans are using their influence to implement sustainable investing via direct methods. In 2018, six of Denmark's largest pension funds invested 4.1 billion Danish kroner in a new fund set up by the Danish government, which will put money to work in developing countries around the globe.

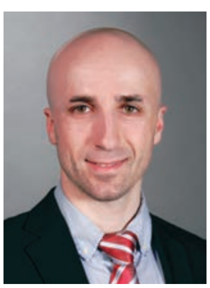
Sweden's national pension buffer (AP) funds are legally obliged to consider ethical and environmental issues while also achieving strong financial returns. The AP funds have focused on actively integrating sustainability into their investment decisions, while some of the biggest Swedish insurance companies have committed additional capital to green bond investments.

In Norway, we observed divestment from companies supporting the Dakota pipeline. In addition, Norway's US$1 trillion sovereign wealth fund, the world's third-largest investor, continues to debate diversifying away from oil and gas investments altogether.

Proxy voting professionals

Lindsey Apple – Corporate Governance and Proxy Voting Manager

Lindsey manages MFS' proxy voting team and is a member of the MFS Proxy Committee. Her responsibilities include overseeing day-to-day proxy voting, as well as engaging with issuers on compensation, governance, environmental and social matters. Prior to joining the firm in 2012, Lindsey was an associate at a Boston-based law firm. She received a BS from the University of New Hampshire and a JD from Suffolk University Law School.



Herald Nikollara – Proxy Voting Analyst

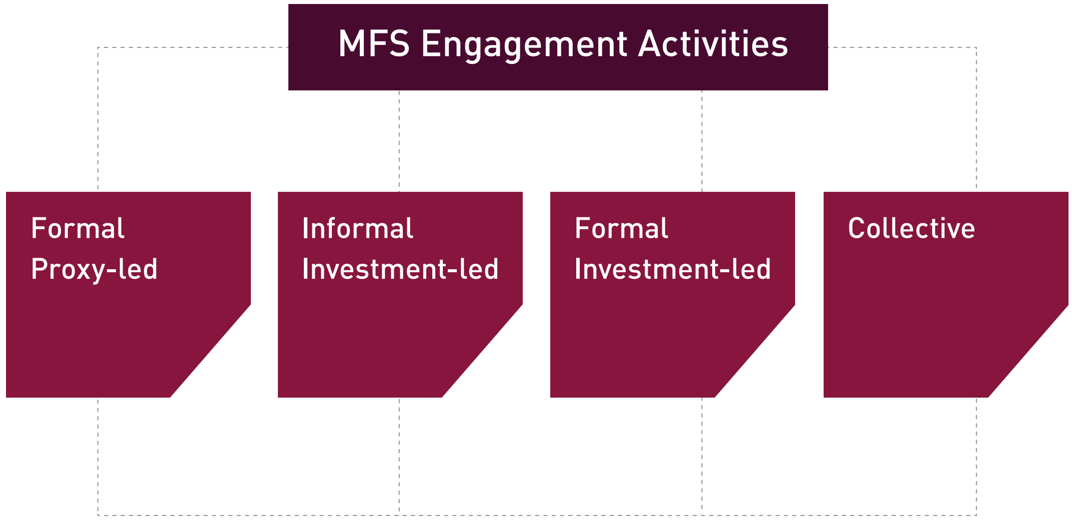
Herald is an analyst on MFS' proxy voting team. He is responsible for proxy voting and corporate governance-related research and analysis and day-to-day voting operations, as well as assisting with reporting and engagement activities. Prior to joining MFS in May 2018, Herald worked as a paralegal at a Boston-based law firm. He earned a BS in criminal justice from the University of Massachusetts Boston.

Margaret Therrien – Proxy Voting Analyst II

Margaret is an analyst on MFS' proxy voting team. She is responsible for analyzing case-by-case voting issues and engaging with MFS' portfolio companies on issues relating to compensation, ESG and board oversight. Prior to joining MFS in January 2016, Margaret worked as a credit risk analyst at a biotechnology company. She has also worked in academia, researching corporate governance trends. Margaret earned a BS in business administration from Boston University.

Issuer engagement overview

MFS engages with portfolio companies in four primary ways, which are outlined in the graphic below.



We believe open communication with companies is vital to ensuring ESG risks and opportunities receive the proper level of attention from company management teams and other issuers. As a result, we engage with companies in many ways.

Our proxy voting team will lead an engagement when the primary issue at hand relates to one or more items on the proxy ballot or when discussing thematic topics of particular focus for our proxy voting committee, such as corporate culture, diversity and other ESG issues. Members of our investment team typically participate in these engagements. Through this collaboration, the unique perspectives of the investment team and proxy voting team can help inform both investment and proxy decision-making.

When engaging with companies, the proxy voting team aims to: (i) explain the rationale behind our proxy votes; (ii) exchange views on relevant ESG issues; and (iii) potentially effect positive change with respect to such issues. We believe our long-term approach to investing is critical to the success of our proxy engagement program, as we typically develop very strong relationships with our portfolio companies over many years. In many cases, this has led to more open and insightful dialogues with our portfolio companies.

Engaging for change over the long term

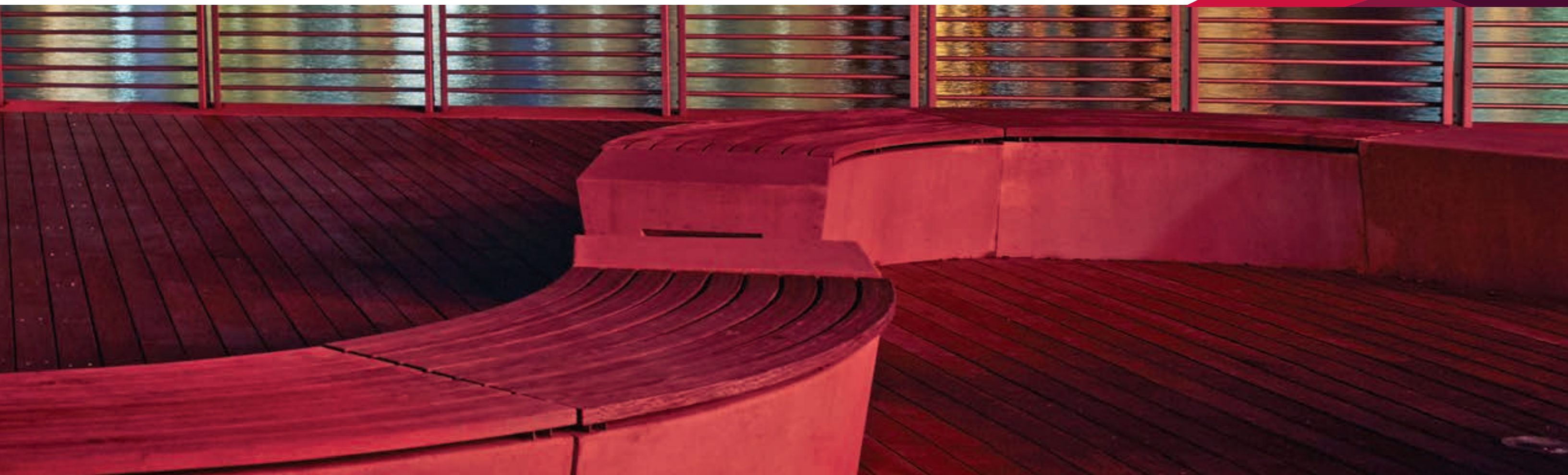
Over an eight-year period (2011 to 2018), members of the proxy voting team have engaged with a US multinational conglomerate company on 22 occasions. Over the course of these engagement discussions, the company has

- improved its board refreshment process by including an annual procedure to evaluate incumbent and new board nominees
- enhanced the role of the lead independent director
- reduced the size of the board
- made meaningful changes to the compensation plan, such as improving the visibility of the metrics that underpin the short-term incentive plan and extending the performance period of the long-term incentive plan

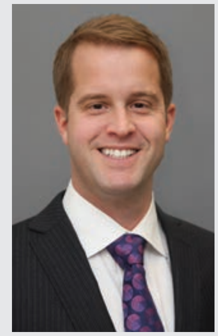
Our investment team also engages with companies on a consistent basis, sharing ideas and asking ESG-related questions of management teams during in-house meetings and on-site visits and at investment conferences. Since MFS is often a large shareholder, we find that management teams take these "informal" engagements very seriously, which often results in follow-up dialogues on the ESG topics we believe are most material.

Additionally, our investment team pursues "formal" ESG engagements. While more limited in number than our informal engagements, these dialogues are held with C-suite executives or board members and typically involve a conference call, meeting or letter requesting that specific changes be implemented.

Finally, MFS believes that collective engagement can generate positive impacts for both company management teams and our clients. As a result, we pursue many forms of collective engagement and participate in various industry working groups and industry organizations that seek to understand and develop thought leadership on ESG integration and proxy voting issues.



Global perspectives on sustainable investment: Canada



DARREN PATRICK

The codification of investment policy by Canadian institutional investors around divestment and ESG issues has not followed a uniform trajectory. Post-secondary institutions, particularly Canadian university endowments and pension plans, have pursued the integration of ESG issues into their investment policy statements (SIP&P) more aggressively than corporate plans.

In particular, the issue of divestment from fossil fuels has been an important consideration for post-secondary educational institutions. The Sustainability and Education Policy Network (SEPN) estimates that approximately CAD$3.4 trillion has been divested globally by educational institutions, governments and faith-based organizations.

We published a report in 2018 on the prevalence and key themes of ESG integration and fossil fuel divestment by Canadian universities. Our research found that more than 60% of universities surveyed across Canada — including Ontario (whose provincial regulations established mandatory guidelines for policy ESG disclosure in early 2016) now include language addressing their approach to ESG within their pension or endowment investment policies. Nearly half of those institutions delegated the implementation of ESG within their investment portfolios to external managers, rather than setting exclusionary screens. Conversely, less than 5% carved out a small percentage of their assets to allow for screened investments (which increased to about 20% when assets delegated to external managers with screening were included).

The divestment debate continues on the campuses of Canadian universities, with a particular focus on advancing an agenda of complete divestment from fossil fuel–producing companies. We discovered that the majority of Canadian universities have resisted fossil fuel divestment, citing fiduciary concerns (only one university from our research had adopted a "blanket" divestment policy); however, most also state that ESG risks related to climate change should be considered as part of the investment process.

Investment integration: The year in review

Fixed income integration update

Over the past year, integration activity within our fixed income team has been heavily focused on thematic research. Rob Wilson, one of our ESG research analysts, gave three thematic presentations to our investment-grade and high-yield corporate debt teams. The first was aimed at helping the group to more efficiently identify and analyze environmental and social risks and opportunities. This presentation included a substantial focus on MFS' sector maps, which outline what we believe are the most material environmental and social risks and opportunities for each industry within every sector. Each map includes color-coded materiality assessments and specific details on how we believe companies should be managing each risk or opportunity.

The second presentation was focused on educating the corporate debt team regarding a wide array of research-supported governance data points and the value each has in assessing a board's culture and risk tolerance. These data points were selected based on their relevance to fixed income analysis. Important differences exist between the governance-related needs and expectations of equity and fixed income investors. For example, while some measures of board entrenchment (*e.g.*, a classified board or longer average board tenure) are often considered a red flag from a shareholder perspective, research suggests these same measures can be positive signals for a bondholder, who may be more likely to value the stability in leverage targets that are likely to accompany a modest level of entrenchment.

The third presentation specifically benefited our corporate bond portfolio managers by outlining the tools available to facilitate interaction with the analyst team on ESG topics. In conjunction with this presentation, we added an ESG section to the semiannual risk review process for our corporate debt portfolios. Every six months, portfolio managers at MFS meet with MFS' chief risk officer and the CIO of their asset class to review their portfolios for unintended risks. The ESG portion of these risk reviews outlines the portfolio's third-party ESG rating versus its benchmark, while also providing other data, such as issuer ESG rating changes. As we have noted, third-party ESG ratings are not an overly important part of our fundamental research process; however, we do use them in our risk reviews for efficiency and to provide a check on our internal research processes.

Although thematic research took center stage for our fixed income team in 2018, our ESG research analysts also pursued security-specific research with individual analysts and portfolio managers throughout the year. Rob and Pooja worked with the team to assess ESG risks and opportunities for dozens of fixed income securities in industries ranging from global industrials to Australian banks to US utilities. As noted above, given our long-term, fundamental investment process, the broader fixed income team performs a great deal of ESG research independently of our ESG analysts. This research, an example of which is provided below, covers all industries and a wide variety of topics.

ESG integration in corporate debt analysis

Following a period under private equity ownership, a Nordic telecom company was publicly listed in 2010, regaining an investment-grade rating. The original owners exited in 2013; however, by 2016 there was persistent media speculation about renewed private equity interest. The company screened well as a potential target given its stable earnings profile, strong cash generation and relatively low leverage. The ESG analysis conducted by MFS' telecom analyst focused on governance issues — factors such as clauses in the bond documents (*e.g.*, coupon step-up following credit rating downgrades and change of control put options) — and management remuneration metrics. The assessment was made that management and the board were more focused on shareholder remuneration and less on balance sheet strength and bondholders' interests. The likelihood of another leveraged buyout during the life of the bonds was judged to be high, and the effect material. Ultimately, the company was bought by a private equity consortium in February 2018. Yields widened to reflect the more highly leveraged balance sheet, and the company's credit rating was cut multiple notches by three credit rating agencies.

Fixed income analyst research requirements

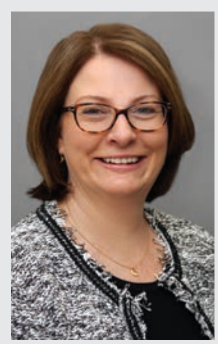
Our fixed income team recognizes the importance of ESG issues. Each analyst and PM is responsible for understanding the key ESG risks and opportunities facing the securities they individually cover or own. At a minimum, our fixed income analysts are required to include commentary on ESG factors in all industry initiation reports and to write annually on ESG topics for each issuer designated as having high ESG risk. However, we encourage them to do more: Analysts are expected to look at the ESG factors affecting all of the issuers in their coverage and specifically highlight those that play a material role in the credit's sustainability. Most important, they are expected to go beyond the ESG ratings assigned by external parties in order to form their own opinion as part of the credit rating determination process.

As noted at the beginning of this section, most of our fixed income integration activity in 2018 was focused on our high-yield and investment-grade corporate debt teams; however, we have started the process of creating specific ESG integration strategies for our municipal bond, sovereign debt and structured finance teams. This does not mean that analysts on these teams were not previously considering ESG in their analysis. It only reflects the earlier stage of our formal integration activity in these areas. Below are two examples of ESG integration in our sovereign debt research.

Social: Our analyst expressed concerns during a visit to a Southeast Asian country about a set of affirmative action policies that give preference to certain groups over others in regards to education and employment. While well-intentioned, the policies appeared to us to have resulted in a workforce that is not sufficiently prepared for high-skill work, which has led to businesses being unable to fill certain skilled labor positions. In our view, these policies have the potential to lower growth and lead to capital flight.

Governance: After meeting with a government official from an Eastern European country, one of our analysts expressed concern about the lack of progress in passing anti-corruption legislation. The official favored the implementation of anti-corruption policies that we felt were insufficient and not in line with the preferences of various important international bodies. At the same meeting, our analyst pressed the government regarding its domestic energy pricing regime, which we viewed as having the potential to lead to corruption in the country's energy market. Although this government has moved slowly on this initiative, it has recently passed anti-corruption legislation.

Global perspectives on sustainable investment: United Kingdom



ELAINE ALSTON

UK institutional investors have been increasingly focused on ESG, driven by a combination of financial materiality, sustainability concerns and regulatory requirements. It is now widely recognized in the United Kingdom that ESG can have a meaningful impact on risk-adjusted returns. In addition to climate change and other environmental considerations, focus themes in the UK include board diversity, gender pay gap, executive board compensation, corporate tax avoidance and worker conditions.

Following an industry consultation in September 2018, the UK government's Department for Work and Pensions laid out new requirements. From 1 October 2019, pension schemes will be required to state in their Statement of Investment Principles (SIP) how they incorporate financially material ESG factors and the extent to which non-financial matters are taken into account (if at all) when selecting, retaining or realizing their investments.

Within DC, some of the largest schemes have worked directly with managers and investment consultants to create ESG strategies for their default funds. Research commissioned by the Defined Contribution Investment Forum (DCIF), of which MFS is a member, showed that DC members have an expectation that their employer and DC provider are investing responsibly on their behalf.

For Local Government Pension Scheme (LGPS), ESG duties have also become more prevalent. In July 2017, the Department for Communities and Local Government issued its "Guidance on Preparing and Maintaining an Investment Strategy." Now, LGPS are required to publish a report of voting activity as part of their annual pension fund report.

Equity integration update

Our ESG analysts' primary focus is on individual collaborations with our industry analysts and portfolio managers to model and value ESG risks. This one-on-one, bottom-up research process has always been the foundation of MFS' ESG integration strategy. This approach resulted in dozens of such collaborations in 2018.

In one example, our ESG analysts worked with Raj Nair, an equity analyst in Singapore, to assess how income inequality trends could impact growth in wage-related costs for a group of Indian IT outsourcing companies. Earnings in our base case investment scenario were impacted by this analysis and we also reviewed more substantial potential impacts in a downside scenario analysis. This example of integration was recently included in a case study document issued jointly by the CFA Institute and the PRI entitled Guidance and Case Studies for ESG Integration: Equities and Fixed Income.[1]

Looking back on previous ESG research

In last year's Sustainable Investing Annual Report, we shared an example regarding an Australian mining firm with which we had engaged to better understand bribery and corruption risks related to a recent frontier market acquisition.

Our large ownership stake in the firm facilitated a discussion with both senior management and several board members. This discussion failed to alleviate our concerns regarding the poor due diligence of the target company prior to the acquisition. Ultimately, uncertainty about the potential magnitude of the risks we identified led us to sell the security.

Four months after our engagement, news sources suggested that the acquired company may have been involved in bribery- and corruption-related issues and that the mining company had initiated an internal investigation; however, the company's share price did not react materially to this news. In 2018, operations within the acquired company missed expectations, and the original capital expenditure profile for the acquired mine increased substantially. We believe these operational issues were at least partially a result of the insufficient due diligence conducted by the board.

ESG risks and opportunities may not always impact securities prices in the short term, but long-term investors must recognize the impact they can have over longer time horizons. Given that many of our equity funds have five- to eight-year average holding periods, we believe it is critical to consider the long-term materiality of ESG factors.

In another example of our detailed, bottom-up ESG research, our US-based ESG analyst, Rob Wilson, collaborated with Guillermo Martin Espallargas — an emerging markets analyst based in London — to analyze the ESG risks and opportunities facing a pair of Russian Internet companies. Their research focused on both the individual companies and the data privacy regulatory environment in Russia. This work resulted in Guillermo assigning a pass rating to one of the Russian internet companies, and it was later leveraged to produce similar research on a group of Chinese companies for Jeanine Thomson — an analyst in Singapore.

Our ESG data sources

We often hear comments in the marketplace regarding a perceived lack of ESG data availability. While we agree there are improvements that could be made to ensure investors are receiving high-quality, comparable data, we believe there are many rich sources of accurate and detailed information on ESG topics available to investors today. From company filings and non-governmental organization (NGO) reports to sell side research and paid ESG research providers, we believe investors have more than enough information to confidently make investment decisions based on ESG factors.

In particular, we find the information provided by third-party organizations, such as NGOs, to be highly valuable in our research. In the Russian and Chinese Internet example highlighted above, we partially relied on research from two outside organizations: Ranking Digital Rights and Freedom House's Freedom on the Net index. Both of these organizations provide thoughtful, detailed analysis of privacy-related issues. These organizations and others like them are increasingly adding value to our investment process.

To build upon this strong foundation of security-specific ESG research, our team produces a variety of regional, sector and thematic research on ESG topics each year. This thematic research has helped us to improve our upside and downside scenario modeling, adjust our base case assumptions and implement ESG-specific valuation adjustments. It has also led to a variety of changes in portfolio positioning.

In 2018, our investment team produced a series of thematic ESG presentations. Some of these research projects are outlined below.

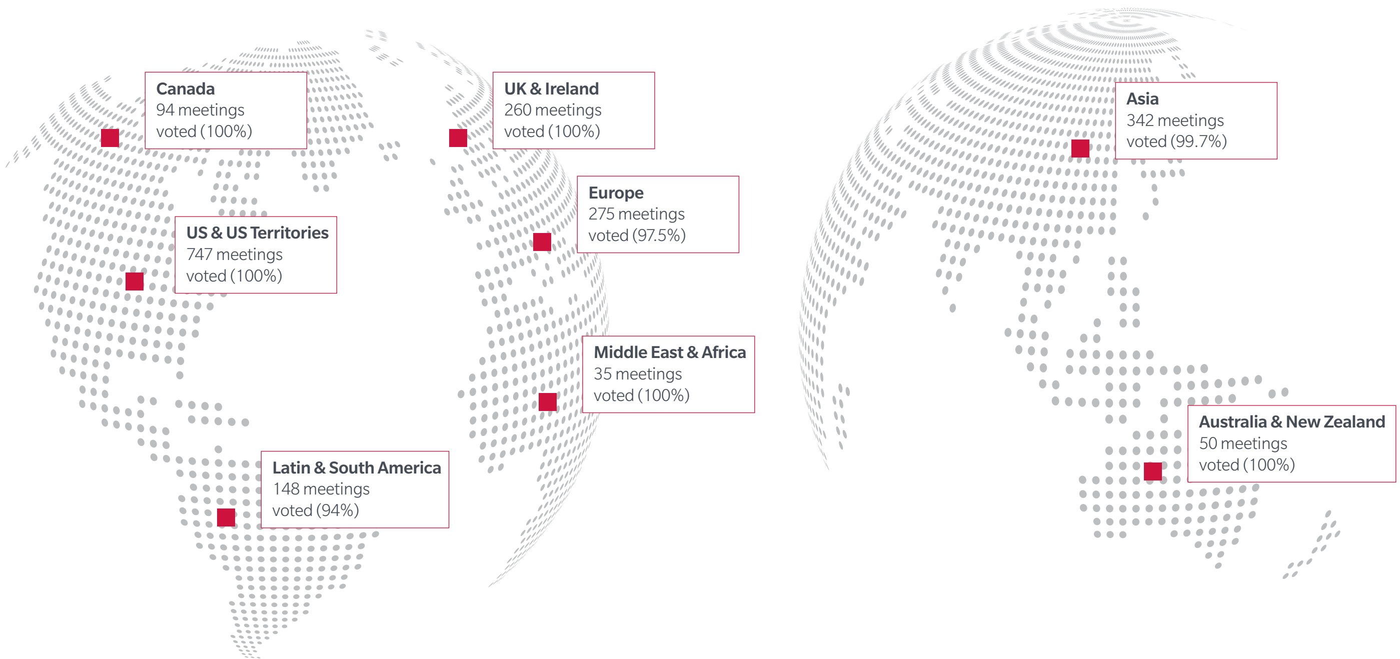
- In early 2018, ESG analyst Rob Wilson met with each regional equity team to share the recently broadened collection of ESG tools available to our investment team. These tools include our security dashboard (an automated tool that displays the ESG key risks and opportunities for over 2,000 companies using research produced by MFS and various third parties) and our sector maps (MFS' proprietary view of the primary environmental and social risks by sector and industry).
- In June, James Neale — one of MFS' European energy analysts — produced a report contrasting the disruptive potential of renewables with their shortcomings. It included his views on the potential for volatility in future fossil fuel pricing, which companies are better managing the energy transition, and his rationale for further underweighting the energy sector in our analyst-managed portfolios.
- Over the summer, the broader investment team, including our ESG analysts, produced several research projects regarding technology ethics and its impact on a variety of US, Russian, and Chinese Internet companies. The insights from these projects were collected by our ESG analysts and form our initial framework for evaluating ethical risk within the technology sector.
- In September, ESG analyst Pooja Daftary shared her research on Chinese state-owned enterprises (SOEs). Although research suggests SOEs materially underperform non-SOEs, their prominence in China means that we cannot entirely avoid this form of governance. Pooja's research suggested that local SOEs in industries that the government does not classify as strategic are more likely to be aligned with shareholder value creation.
- Throughout the year our investment team considered the impact of corporate culture on our investment decision-making process. As part of this process, our equity, fixed income and quantitative teams held small group discussions to evaluate the impact of culture on specific investment decisions. These discussions prompted us to initiate a formal engagement process on culture, led by our proxy voting team. This initiative is augmented by a significant number of investment team engagements on the topic.

Equity analyst research requirements

MFS has recently implemented an "ESG Commentary" section within our investment research database. While we have had a dedicated area for ESG information in all research reports for several years, this new addition will provide each equity analyst with an opportunity to outline the two to four most material ESG risks or opportunities facing each company and the rationale behind his or her assessment. The commentary is also expected to include information on serious controversies the company has faced recently and a discussion of how ESG issues have impacted the analyst's modeling or valuation.

Proxy voting: A global analysis for 2018

During the 2018 proxy period (1 July 2017 to 30 June 2018), MFS was eligible to vote on over 22,000 ballot items at nearly 2,000 shareholder meetings across 58 markets. MFS voted shares at approximately 99% of these meetings, with the remaining meetings not voted due to share-blocking concerns (seven meetings), market-specific voting impediments (nine meetings) or government sanctions that legally precluded us from voting (one meeting). The map below illustrates the number of meetings at which we voted throughout the world during the 2018 proxy period, along with the overall percentage of meetings at which we voted shares within each region.



Our investment process places significant value on identifying companies with strong management that is focused on the sustainability of their businesses over the long term. As a result, we tend to have a high degree confidence in the management teams of most of the companies we hold. There are instances, however, in which we may disagree with management's view on a particular ballot item and vote against its recommendation.

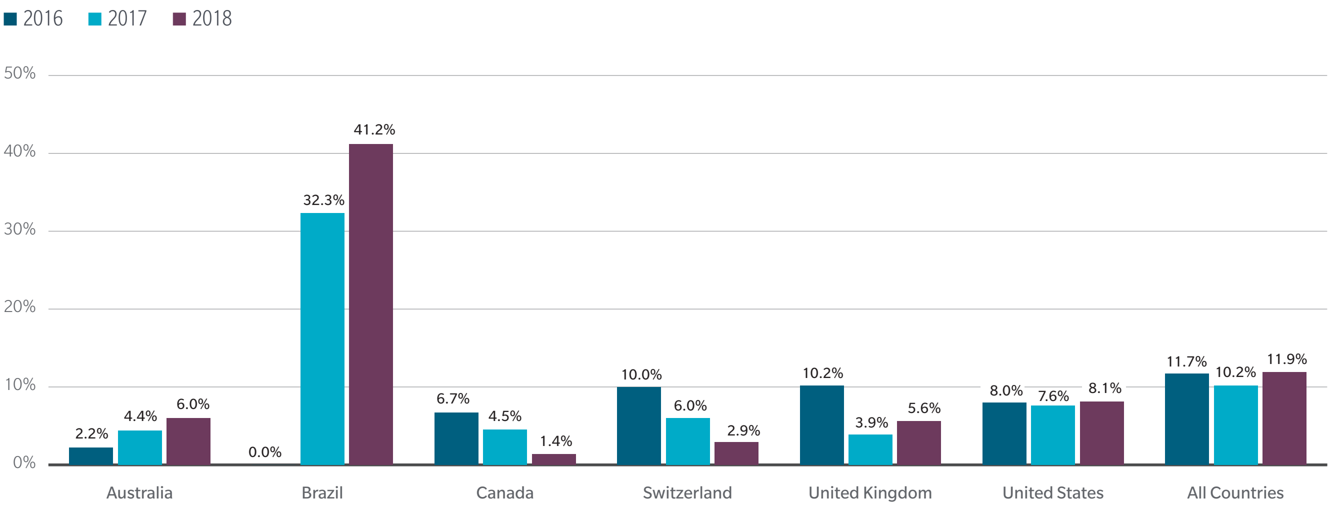
In the 2018 proxy period, MFS voted against management recommendations on approximately 7% of all ballot items globally and cast a vote against management recommendations on at least one ballot item at approximately 39% of all shareholder meetings.

These statistics are similar to the 2017 proxy period (1 July 2016 to 30 June 2017), during which MFS voted against management recommendations on approximately 6% of all ballot items and cast a vote against management recommendations on at least one ballot item at 32% of all shareholder meetings.

Executive pay

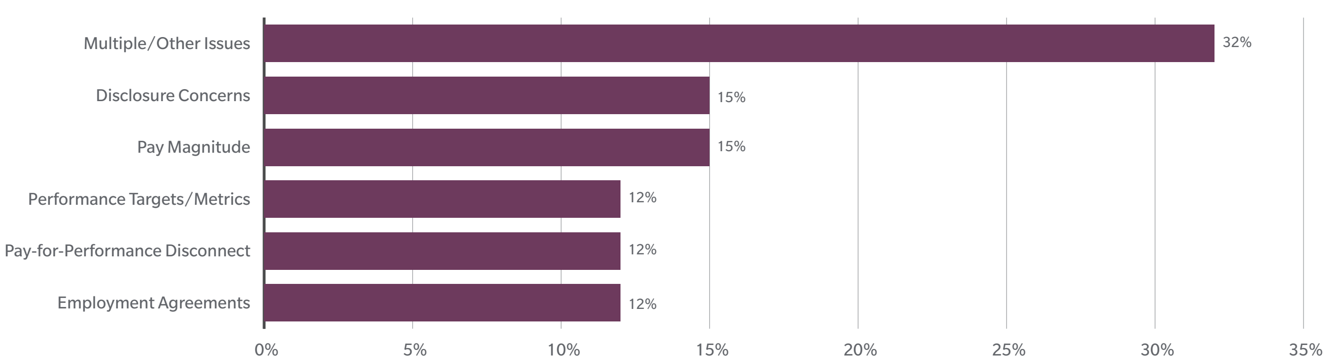
Many markets in which MFS invests (including those identified in the table below) require or recommend an advisory or binding vote on company executive pay programs ("Say on Pay"). Moreover, in recent years, more markets have adopted binding pay votes (*e.g.*, the United Kingdom, France and Switzerland). MFS believes Say on Pay votes can be an effective mechanism to express our view on a company's executive pay practices and can help ensure that they are aligned with shareholder interests and do not incentivize excessive risk taking. Competitive pay packages are necessary to attract, motivate and retain executives; however, excessive or short-term-oriented compensation schemes are unlikely to be in the best, long-term interest of shareholders.

2018 global compensation scorecard: How often MFS voted against executive pay



During the 2018 proxy period, MFS voted on the approval of approximately 1,400 executive compensation proposals globally, voting against or abstaining on such proposals approximately 15% of the time. This compares with 10.5% during the 2017 proxy period. As illustrated in the graph below, our reasons for voting against executive compensation practices ranged from disconnects between company performance and executive pay to concerns relating to poor disclosure of pay.

Primary reason for deeming pay excessive



According to Institutional Shareholder Services' "2018 US Proxy Season Review," median shareholder support for Say on Pay votes registered at 95.7%. However, the Say on Pay failure rate nearly doubled year over year, with 2.5% of companies receiving less than majority support from 1 January through 30 June 2018 versus 1.3% during the same period in 2017.

MFS voted on nearly 650 US Say on Pay votes during the 2018 proxy period, voting against management approximately 8% of the time (similar to 2017). Reasons included problematic provisions in new employment agreements, inappropriate perquisites and disconnects between company performance and executive pay practices. For some US companies, MFS may also vote against certain board nominees if we determine that particularly egregious or excessive executive compensation practices have occurred. Among the 8% of US companies at which we deemed compensation to be excessive, we also voted against at least one director approximately 12% of the time (seven instances) for approving particularly egregious or excessive executive pay. Because we believe it is important to have the ability to review and vote on compensation plans, we typically vote in favor of an annual (as opposed to a biennial or triennial) Say on Pay vote.

On a global scale, we have noted heightened concerns with remuneration practices in other markets as well. MFS voted against remuneration-related proposals at 6% of our Australian portfolio companies during the 2018 proxy season as compared to 4.4% and 2.2% in the 2017 and 2016 proxy seasons, respectively. This increase is primarily due to a growing number of issuers amending executive remuneration structures to contain problematic performance metrics or targets, compounded by concerns with the corresponding disclosure. We have also strengthened our disclosure standards in the Brazilian market, which led us to vote against remuneration-related proposals at 41.2% of our portfolio companies during the 2018 proxy season. In Japan, we have seen a positive shift toward performance-based pay structures and an increasing number of companies are now seeking shareholder approval for equity compensation plans. While we support the alignment of executive compensation with shareholder interest, there remains room for improvement with respect to the accompanying disclosure in certain instances.

Director elections

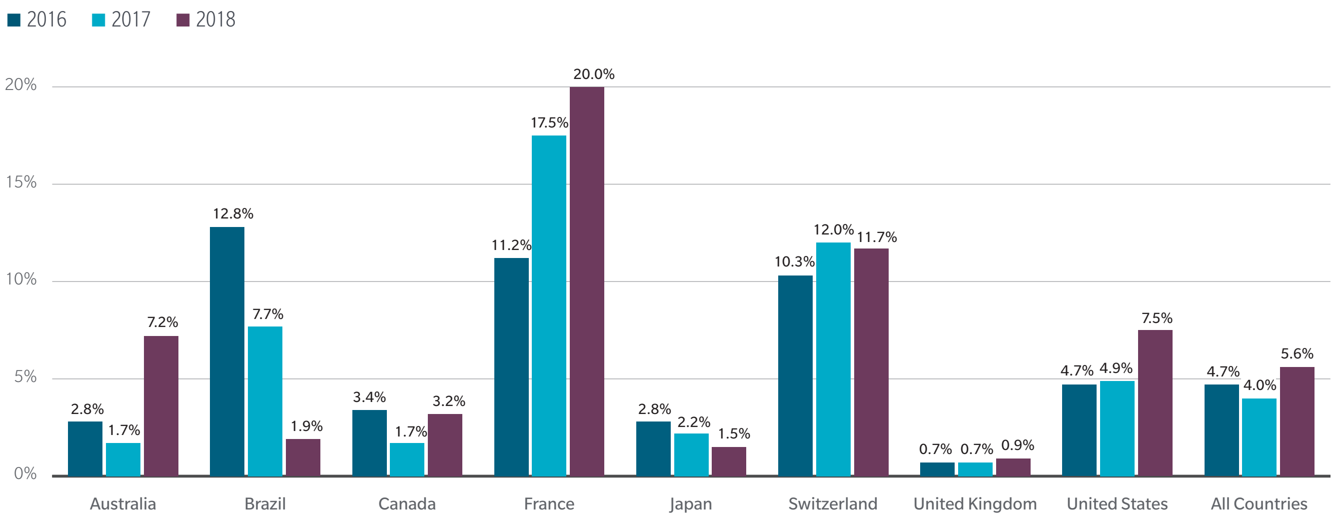
MFS believes that good corporate governance begins with a board committed to accountability to its shareholders. While we generally support director nominees in uncontested elections, we will not support a nominee in certain circumstances (*e.g.*, low board independence and poor attendance). We believe that a well-balanced board with diverse perspectives is a foundation for sound corporate governance and that gender diversity is one of the many ways corporate boards can enhance the diversity of their views, skill sets and collective experience. We therefore amended the MFS Proxy Policies in 2018 to require votes against management recommendations for nominating and governance committee chairs at US public companies where the board does not comprise at least 10% female directors. While we acknowledge that engagement is often a productive manner in which to voice our support for this issue, we believe that voting is a powerful tool to effect change where we do not see meaningful progress. During the 2018 proxy period, we voted against nearly forty companies due to this guideline.

We also believe that the amount of time required of US public-company directors has grown significantly in recent years, and we are mindful about the impact of excessive service on outside boards. Maintaining a board that is actively engaged and able to devote the ample time that is required to be present and adequately prepared is a critical component to a well-functioning board. We therefore amended the MFS Proxy Policy in 2017 to vote against director nominees at US public companies that sit on more than five public company boards and CEO director nominees at US public companies that sit on more than three public company boards. We amended our policy further in 2018 with respect to director service on outside boards in order to strengthen our stance on potentially over-extended directors. We now vote against non-CEO directors who serve on more than four public company boards and against CEO directors that serve on more than two public company boards. During the 2018 proxy period, we voted against director nominees at 125 US companies due to excessive outside service.

MFS may also vote against director nominees if the board has not taken responsive action on an issue of concern to shareholders. For example, if a shareholder proposal received majority approval at a prior shareholder meeting and the board has not acted on the resolution, MFS will typically vote against the entire board's reelection at future annual shareholder meetings. Similarly, if a significant number of shareholders has expressed dissatisfaction with a company's executive pay program and the board has not addressed it, MFS may vote against the compensation committee or full board. In the 2018 proxy period, MFS voted against board members at six companies for failing to adequately respond to shareholder concerns (the same as in 2017). MFS also maintains a list of directors that we believe do not warrant support at any company based on their poor corporate governance track records.

For the 2018 proxy period, MFS voted against approximately 5.6% of director nominees globally (compared with 4.4% in 2017).

2018 global director scorecard: How often MFS voted against directors



Global perspectives on sustainable investment: United States

SEAN KENNEY

ESG is a growing part of the global defined contribution (DC) conversation and increasingly coming into focus for US DC plan sponsors as they consider its role in improving retirement outcomes for their participants. DC plan investment committees have historically been cautious about considering ESG factors as they make their investment decisions. However, as the number and influence of millennials in the workforce increases, sustainability is making its way onto DC investment committee agendas with greater frequency.

In April 2018, the US Department of Labor (DOL) issued a field assistance bulletin that warned plan sponsors not to place too much emphasis on public policy objectives when selecting investments for their plans. They advised that plan fiduciaries "must not too readily treat ESG factors as economically relevant to the particular investment choices at issue when making a decision. "Rather, ERISA fiduciaries" must always put first the economic interests of the plan in providing retirement benefits."

With this new guidance, many US DC plan fiduciaries have narrowed the scope through which they incorporate ESG to emphasize approaches focused on integrating financially material ESG factors that could impact participant outcomes over the long term. This approach is consistent with MFS' sustainable investing practices as we strive to responsibly allocate our clients' capital to meet their long-term goals.

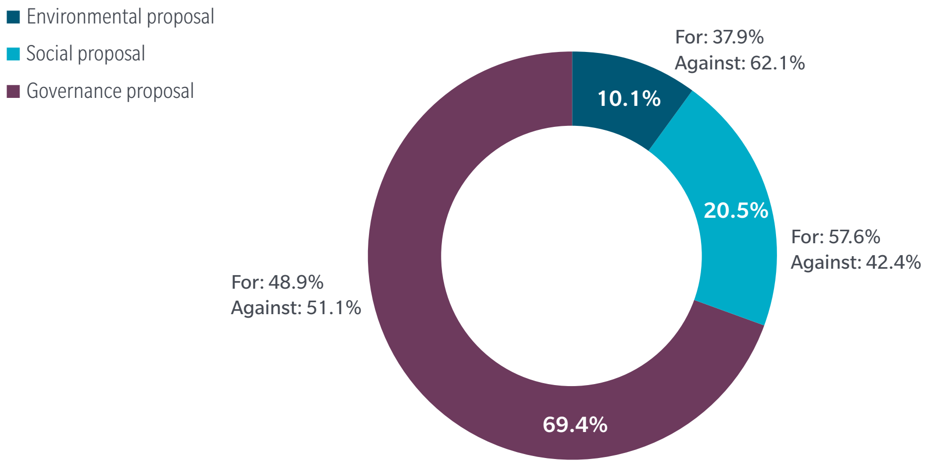
Shareholder proposals

Shareholder proposals are a tool often used to seek positive change on ESG issues. During the 2018 proxy period, more than 750 proposals were submitted to companies by shareholders seeking a vote on a wide variety of ESG issues. The topics of climate change, drug pricing, shareholder rights — such as the right to call a special meeting — and gender pay gaps were among the highlights in 2018.

Environmental issues

During the 2018 proxy period, shareholder proposals relating to environmental issues typically either centered on increased disclosure relating to the impact of climate change (*e.g.*, sustainability reports) or specific reductions in greenhouse gas emissions. MFS generally supports proposals that request more disclosure regarding the impact of environmental issues on a company's operations unless we believe they are unduly restrictive or that the company has already provided sufficient information on the topic. We believe such disclosure can help investors analyze the potential risks associated with climate change issues. MFS voted for 53% of climate change–related proposals that we were eligible to vote on. Overall, MFS supported approximately 38% of more than 50 proposals relating to environmental issues during the 2018 proxy period (compared with 47% of similar proposals in 2017).

2018 global shareholder proposal scorecard: How MFS voted on shareholder proposals



Social issues

MFS voted on 118 shareholder proposals relating to social issues during the 2018 proxy period, supporting 58% of these proposals (compared with 39% in 2017). Shareholder requests for the increased disclosure of corporate political contributions were at center stage yet again, accounting for over 40% of proposals in this category. These proposals typically focused on increased disclosure of oversight mechanisms related to company political spending. MFS generally supports such shareholder proposals unless we believe that a company already provides publicly available information that is sufficient to enable shareholders to evaluate potential risks associated with political contributions. While still representing the majority of the social issue-related proposals, the overall number of these proposals has decreased, which may be attributable to improved disclosure resulting from shareholder engagement.

Shareholder proposals related to reporting on board diversity efforts and gender pay gaps were also a focus during the 2018 proxy period. MFS supported 60% of proposals requesting the reporting of a company's policies and goals with respect to diversity at both the board and workplace level. We encourage our portfolio companies to continue focusing on this important issue. We also supported a majority of the gender pay gap proposals we were eligible to vote on. MFS supported 77% of all diversity-related proposals that we reviewed during the 2018 proxy period, which included proposals seeking annual disclosure of EEO-1 data.

During the 2018 proxy season, there was an increase in the number of shareholder proposals brought at companies within the pharmaceutical and biotech industries. Most of these proposals requested reports either disclosing the risks stemming from opioid management or the risks related to the role of drug pricing in executive compensation. MFS voted in support of 100% of such proposals as we believe this to be an area of material risk for the companies involved.

Corporate governance issues

Corporate governance is typically the most common topic within the shareholder proposal universe. Overall, MFS voted on more than 400 governance-related shareholder proposals around the globe during the 2018 proxy period, supporting 49% of such proposals (similar to 49% in the 2017 period).

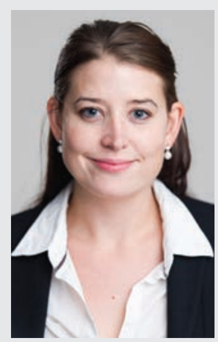
During the 2018 proxy period, proxy access proposals declined sharply as only 12 proposals were put forth for shareholder vote. Proxy access permits shareholders to nominate a certain number of director candidates and mandates that they be included in the company's proxy statement. A general consensus between investors and corporate issuers has resulted in the broad adoption of the access provision, reducing the need for shareholders to file resolutions. Similar to 2017, during the 2018 proxy period MFS supported 100% of proxy access proposals at companies that had not yet adopted proxy access, as we believe such a right can serve as a valuable tool to effect positive change. While we continue to support proposals seeking the adoption of proxy access, we tend not to support proposals seeking to amend a proxy access bylaw if the provision in place conforms reasonably to our policy guidelines.

The number of proposals seeking the right of shareholders to call special meetings, which had fallen in 2016 and 2017, surged in 2018. This number more than doubled year over year, outpacing proxy access proposals, which had previously been more prevalent. MFS voted in support of the 32 out of the 33 shareholder proposals regarding the right to call a special meeting.

During the 2018 proxy season, MFS voted in favor of

- 100% of proposals to declassify the board
- 100% of proposals seeking majority voting in director elections
- 100% of proposals to act by written consent
- 100% of proposals to eliminate supermajority voting rights
- 100% of proposals to provide certain shareholders the ability to nominate a certain number of board nominees (also known as proxy access)

Global perspectives on sustainable investment: Australia



CLARE SA'ADEH

In Australia, the number of asset owners and investment managers signing on to the Principles for Responsible Investment (PRI) continues to rise. With this trend comes an increased preference for investment decisions made with ESG considerations in mind.

The 2018 Super Fund Responsible Investment Benchmark Report, published by the Responsible Investment Association Australasia (RIAA), surveyed 53 of Australia's largest superannuation funds and found that 81% have made a formal commitment to responsible investment. This commitment differs across organizations, and we are seeing varying levels of engagement on ESG topics among our client base.

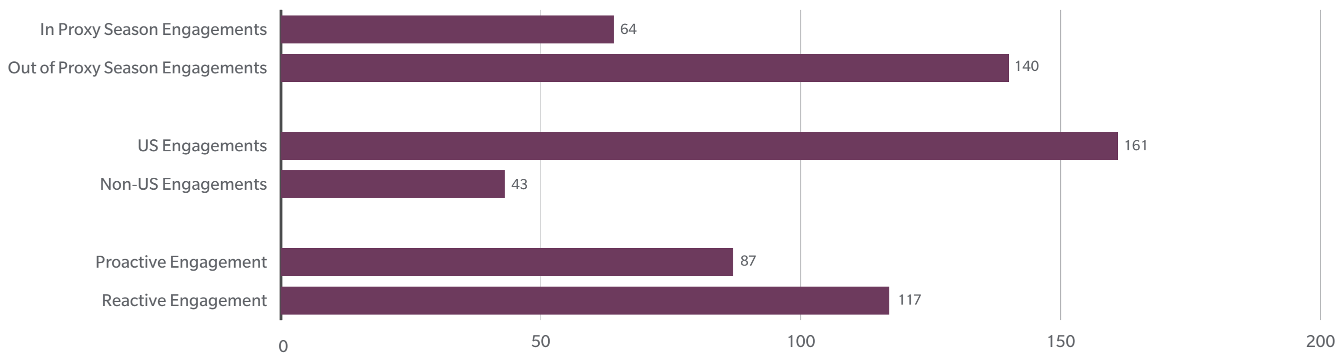
While there are still some who view ESG as merely a box-ticking exercise, we are more frequently finding ourselves engaged in detailed discussions about how we assess the materiality of ESG risks related to the securities held in the portfolios we manage. In the past year we have seen a marked increase in dedicated ESG personnel hires across the industry and the introduction of stewardship codes by industry bodies including the Financial Services Council's Internal Governance and Asset Stewardship Standard and the Australian Council of Superannuation Investors' Australian Asset Owner Stewardship Code. These initiatives and trends reflect the evolving expectations of end-investors, who are demanding that their capital be invested sustainably.

MFS' 2018 engagement priorities

Formal proxy voting engagement

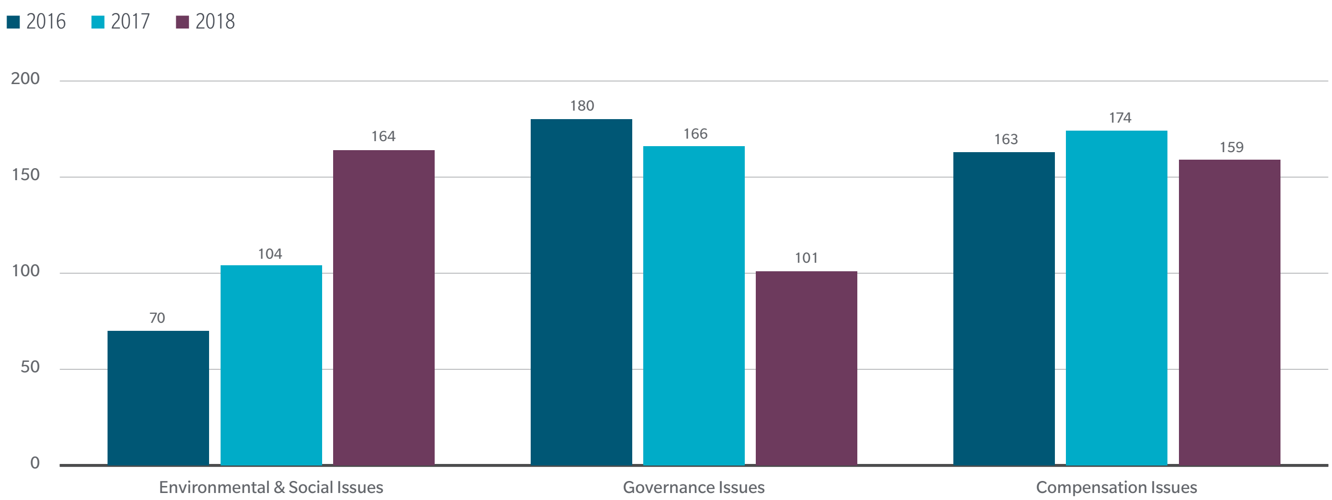
Members of MFS' proxy voting team engaged with senior management or board members from 151 distinct portfolio companies (204 engagements in total) in 11 different markets during the 2018 proxy period (please refer to the Appendix for a list of these companies). During this time period, engagements were prompted by MFS approximately 43% of the time (proactive engagement) and by our portfolio companies 57% of the time (reactive engagement). We are generally open to engaging with companies on proxy issues in order to make more informed voting decisions.

2018 engagement statistics



While each engagement may cover multiple topics, executive pay and other corporate governance issues were addressed as part of the majority of our engagements. Moreover, a significant number of engagements (164) related to environmental and social issues. Board diversity, climate change-related reporting and political contribution disclosure are examples of these topics. US companies represented 79% of our engagements, while non-US companies represented 21%.

2018 engagement topics



The MFS Proxy Committee maintains a letter-writing initiative to address certain important ESG issues. In 2018, we sent letters to the board of directors of 21 portfolio companies that (i) had at least one director receive less than majority support from shareholders; (ii) received significant dissent on executive compensation practices; or (iii) had at least one shareholder proposal receive majority support from shareholders. These letters encourage the boards of our portfolio companies to respond to these voting results in meaningful ways. In concert with our 2018 proxy policy updates, we bolstered our letter-writing campaign by adding gender diversity and outside board commitments as additional priorities. The intent of these letters is to encourage boards to act on the issues around which shareholders have given a clear indication of concern. The letters also establish vote transparency with the boards and indicate our willingness to engage on these important issues moving forward.

We believe that our commitment to driving gender diversity at the board level through the context of our voting policy is a critical aspect of our stewardship responsibilities. Through our voting activity and engagement discussions we have seen increases in board diversity at many of our portfolio companies. We have identified 76 portfolio companies that have increased female representation to exceed 10% over the past year. While the increase of female representation on boards is encouraging, we believe there is still more progress to be made. Effective February 1, 2019, MFS now requires 15% female representation on US public company boards because we believe this is an important area that companies and investors should continue to focus on. Ultimately, MFS believes diversity of thought, not solely diversity of gender, is the principle advantage of diverse boards. We note that, while our proxy voting policy on board diversity is limited to gender diversity, it creates an avenue to a broader discussion with our portfolio companies with respect to diversity of thought — both at the board level and throughout entire organizations.

Formal and informal investment team engagement

In 2018, our investment team led a variety of informal and formal engagements with various companies and other issuers. For example, we wrote a formal letter to the board of an Australian pallet recycling company expressing our concern regarding the board's capital allocation oversight and suggesting changes to board composition.

Over the past year, we also formally engaged with a US telecom company on governance and diversity concerns, a global cosmetics company on chemical management and governance issues and a European chemical company on a variety of environmental and social risks, among others. While the success of most engagements can only be fully measured over the long term, all of these formal engagements help us better understand the risks and opportunities facing the businesses we own on behalf of our clients.

Looking back on previous ESG engagements

In early 2017, we sent a formal engagement letter to a Japanese technology company regarding certain governance concerns. Since that time, various members of MFS' investment and proxy voting teams have met with the company's management team, and elements of the letter have been discussed in each of those meetings. In our view, the company's progress has been mixed.

On one hand, the company has undertaken some restructuring and established some longer-term margin or return targets for its business. Additionally, management is now talking about managing its balance sheet more proactively, which is exemplified by the company's share buyback earlier this year.

On the other hand, we are not entirely convinced that management has a clear strategy for meeting those longer-term margin or return goals, and the company continues to operate certain businesses that, in our opinion, are unlikely to be successful over the long term.

Given these issues, and in light of a low return on equity (ROE) and other governance concerns including board composition, we voted against the sole member of the board up for reelection at the company's 2018 shareholder meeting.

Overall, we continue to believe the odds of structural change are good — in part due to pressure from the Japanese corporate governance code and letters like ours — and we have seen some changes emerge in management's focus and commentary. As a result, we remain holders of the company's stock and will continue to encourage action on the topics outlined in our letter.

Collective and other forms of engagement

Since 2017, MFS has participated in the PRI's global collaborative engagement on methane. The objectives of the engagement are to strengthen investor understanding of the risks associated with fugitive methane emissions and to encourage energy and utility companies to improve the management and mitigation of these emissions as well as their disclosure of progress. As part of the engagement, MFS authored a letter to one of the world's largest energy companies. Subsequently, the company announced a wide-ranging methane emissions reduction program that included many of the mitigation approaches proposed in the letter.

In 2018, ESG analyst Rob Wilson participated in a Global Reporting Initiative (GRI) technical committee on corporate taxation and payments to governments. The GRI gathered a group of eight global tax experts to develop a draft set of standards for the taxation of corporations that report their sustainability activity using the GRI framework. At the time of this report's publication, the draft standard is open for public comment via the organization's website www.globalreporting.org.

MFS is a founding signatory to the US Investor Stewardship Group (ISG). The ISG is a collective of some of the largest US-based institutional investors and global asset managers that worked together for more than two years to establish a set of best practices for asset stewardship and corporate governance. Released in early 2017, this guidance is intended to serve as the foundation for US institutional investor and boardroom conduct and aims to strengthen the dialogue between, and transparency of, companies and their long-term investors in order to advance a shared interest in sustainable growth. For more information about this initiative, please visit www.isgframework.org.

Finally, MFS periodically sends letters to regulatory agencies to encourage improved ESG practices and corporate governance reform. The firm recently sent letters to both the New York Stock Exchange and Nasdaq encouraging them to implement a majority voting standard in uncontested director elections for publicly traded operating companies. MFS also sent a comment letter to the Securities and Exchange Commission ahead of its November 2018 roundtable on proxy voting and shareholder proposal issues.

Measuring impact

Accurately measuring the impact of our engagement activity continues to be a focus of MFS. In the US, we have observed many positive trends on a variety of issues that we have engaged on with companies we own on behalf of our clients — such as the adoption of majority voting and proxy access. Globally, disclosures relating to executive pay, sustainability, board diversity and political contributions have been greatly enhanced over the past several years. These trends serve as evidence that thoughtful proxy voting combined with a robust engagement program can positively impact ESG issues on a broad scale. Other examples of our engagement activity are outlined below.

- In recent years, our engagement activity has contributed to positive changes to the compensation structure at a US-based pharmaceutical company. Collaboration between our proxy voting team and investment team identified concerns that certain metrics underpinning the company's short-term executive incentive plan could potentially result in an excessive pay package. Over the course of multiple engagement calls we communicated our concerns and discussed the specific components of the compensation structure that were potentially problematic. The company has since made meaningful revisions to the compensation structure in response to shareholder feedback.

- Members of MFS' proxy voting team engaged with representatives from a US-based information technology company on four occasions over the course of the 2018 proxy season. Shareholder feedback, such as that which we provided during those engagements, has prompted the company to make comprehensive changes to its compensation program and to launch a firmwide diversity improvement initiative designed to foster inclusion and improve employee retention throughout the organization.
- Over the past two years, members of the proxy voting and investment teams have engaged multiple times with a US-based pharmaceutical distributor to better understand the company's compensation practices and board oversight mechanisms. These engagements, along with our voting activity, have contributed to changes to the company's governance structure that include the separation of the roles of chairman and CEO, board refreshment in the form of a new independent director with extensive related experience, changes to the company's compensation structure, and an enhanced corporate responsibility program that includes the launching of a foundation focused on opioid crisis response efforts.

As a long-term shareholder, we hold engagement discussions with issuers over a number of years. This long-term approach to engagement fosters frank and candid dialogues, which in turn often lead to the evolution of governance practices, as illustrated in the two examples below.

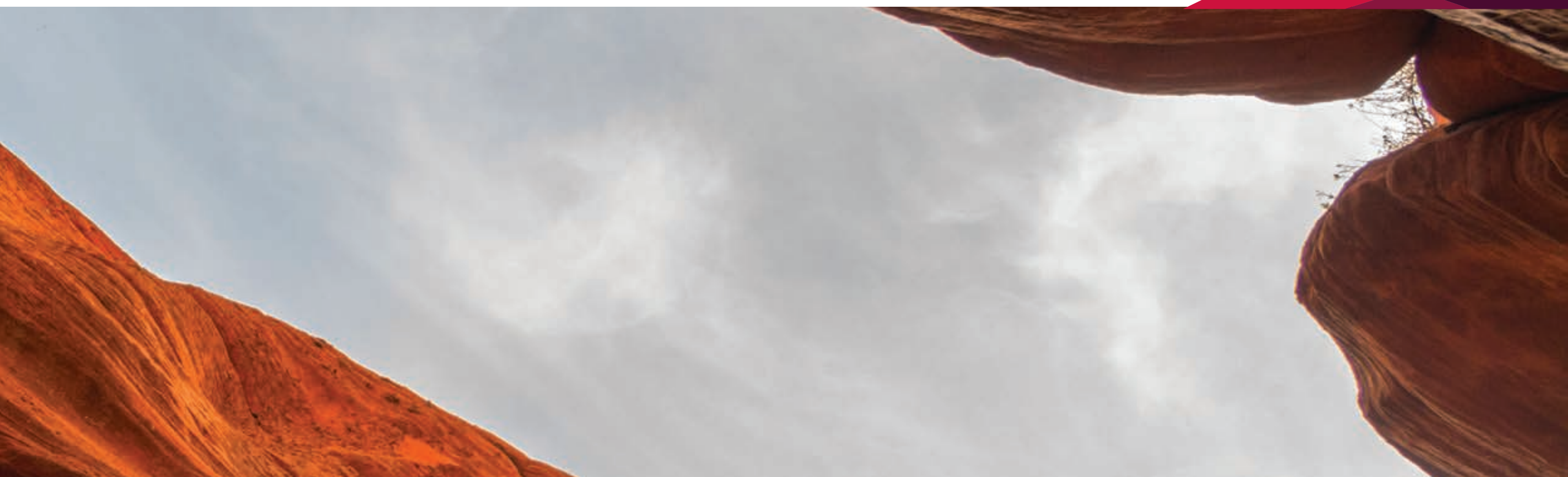
- Members of the proxy voting team have conducted 18 engagements over an eight-year period with a multinational food product corporation based in Paris. Over the course of our engagement discussions, the company has made changes such as expanding the role of the lead independent director to include increased involvement in the recruitment process and other responsibilities, lowering average director tenure and including the consideration of a climate change-related metric in its long-term incentive plan.
- Our eight-year engagement history with a global aerospace and defense company based in the US has contributed to increased board diversity and improved board composition disclosure and led to the adoption of proxy access and a provision giving shareholders the right to amend the corporate bylaws.

Other sustainability-related topics and activity

Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are an important tool for driving coordinated global action on important societal issues. The SDGs are impacting investors in a variety of ways. First, certain companies see societal challenges as opportunities to bolster future revenue growth and improve their reputations as socially-conscious entities. Second, some asset owners are adopting the SDGs as a framework for effective long-term asset allocation. Third, investment managers are utilizing the SDGs to validate areas of long-term investment opportunity and to frame their dialogue with clients. MFS has encouraged its investment team to consider the impact, applicability and materiality of SDGs when engaging with companies and making investment decisions.

For more of our views on the SDGs, please refer to the sustainability section of MFS' public website, where we have a broader document on the SDGs entitled "The UN Sustainable Development Goals (SDGs) Impact on Capital Allocation."



The Task Force on Climate-Related Financial Disclosures

MFS applauds the work of the Task Force on Climate-Related Financial Disclosures (TCFD). Our clear support for the TCFD's mission is best exemplified by our long-term commitment to the CDP (formerly known as the Carbon Disclosure Project). We became a signatory to the CDP, which has long pursued an objective broadly similar to that of the TCFD, in January 2010. Due to our work with the CDP, we have reviewed and reported on the carbon footprint of many of our portfolios for the past several years. Furthermore, ESG analyst Rob Wilson developed a proprietary stranded assets model in 2014. This model assesses the future viability of various energy types and a selection of industrial assets using a consistent set of five factors. More recently, we have started to review climate scenario analyses for individual companies and entire MFS portfolios. Finally, in 2018, we were signatories to the 2018 Global Investor Statement to Governments on Climate Change.

Sustainability- and impact-focused funds

We have been working to formally integrate ESG factors into our investment process for a decade; however, due to our long-term-focused, deep fundamental investment process we have been considering these topics for much longer than that. As a result, we believe all MFS' portfolios are "sustainable." This belief is supported by independent research that has shown MFS to be the most sustainably managed US mutual fund family for the past two years, as measured by Morningstar Sustainability Ratings.

We recognize, however, that many investors are increasingly interested in funds that intentionally select investments that can create specific and substantial environmental or social benefits, as well as result in above-market shareholder returns over time. We also recognize that impact investing is an important tool for improving environmental and social conditions while also generating a financial return. Given our investment expertise and interest in these areas, MFS has recently begun developing two specialized portfolios, which are described below. While neither of these strategies is currently available for client investment, we believe our clients and stakeholders will benefit from an overview of our work in this area.

- In 2017, MFS committed US$5 million of its own capital to an impact investment portfolio focused primarily on non-public investments. Since its inception, we have made a number of investments ranging from a Brazilian education company to a UK-based chocolate manufacturer. Our average deal size in this strategy is expected to be around $200 thousand. While the firm does not intend to offer this strategy for client investment in the foreseeable future, we plan to periodically provide updates on its progress and impact.
- MFS began developing a public equity portfolio in 2018 that will focus on investing in companies that have created a purpose around meeting specific environmental and social needs of society. Each company selected will need to show that its corporate culture is aligned with addressing those issues over the long term. This strategy is in the initial stages of development.

Principles for Responsible Investment (PRI) Assessment Scores

The Principles for Responsible Investment is the largest and most influential collaborative initiative focused on promoting and advancing responsible investing practices. MFS became a signatory to the PRI in February 2010. Since that time, the PRI has been a valuable partner in our ESG integration efforts. MFS has benefited from research and guidance developed by the PRI and other signatory members as well as from the many collaborative opportunities that it affords. We have participated in collaborative initiatives and engagements sponsored by the PRI and contributed to PRI guidance publications and case studies as well as PRI in Person conference panels. MFS ESG research analyst, Rob Wilson, is a member of the PRI investor task force on corporate tax responsibility, which has produced investor guidance for engaging on corporate tax issues, and he has participated in a variety of other PRI initiatives and publications.

Other MFS personnel have contributed as well. MFS is an investor member of the PRI collaborative engagement on methane, which has resulted in meaningful changes to the management of fugitive methane emission across the oil and gas industry. Our firm has also participated in collaborative engagements on topics such as plastic waste in supply chains and mining safety.

MFS was also the PRI's lead partner at the 2018 PRI in Person signatory annual meeting in San Francisco. This afforded both MFS president Carol Geremia and MFS CIO of global fixed income Bill Adams to address the gathered signatory delegates on the importance of the work being done across our industry to advance responsible investing practices.

Below are links to some of the publications and case studies MFS has contributed to most recently, as well as panels and addresses from the 2018 PRI in Person:

- Engagement Guidance on Corporate Tax Responsibility: Why and How to Engage with Your Investee Companies (March 2016)
- A Practical Guide to ESG Integration for Equity Investing (September 2016)
- Case Study: Managing Water Risks to Mitigate Community Concern (September 2016)
- Podcast: Corporate Tax Responsibility – Rob Wilson (March 2017)
- Video: Driving Human Rights Forward Across Asset Classes (September 2017)
- Growing Water Risk Resilience: An Investor Guide on Agricultural Supply Chains (March 2018)
- Evaluating and Engaging on Corporate Tax Transparency: An Investor Guide (May 2018)
- Video: PRI in Person Opening Address by MFS President Carol Geremia (September 2018)
- Video: Charging Ahead: The Macro Factors Influencing Tax Transparency (September 2018)
- Video: Social Responsibility in the Technology Sector: What Is the Role of Investors? (September 2018)
- Guidance and Case Studies for ESG Integration: Equities and Fixed Income (September 2018)
- Technology and Ethics: What Should Investors Consider? (December 2018)

PRI assessment scores

The PRI requires its signatories — firms such as MFS and many others that support its mission of an economically efficient, sustainable global financial system — to report on their responsible investment activity as part of the annual signatory assessment process. To learn more about signatory assessment please visit https://www.unpri.org/signatories.

In 2018, MFS received excellent assessment scores across every reported category, or module. While we have often scored above the median in the past, 2018 is the first year that MFS has achieved scores of A or better and outperformed the median in every applicable module. The table below displays MFS' scores for the past five years, showing steady progress both from an absolute perspective and relative to our peers.

	2014		2015		2016		2017		2018	
Module	MFS	Median	MFS	Median	MFS	Median	MFS	Median	MFS	Median
Strategy and Governance	B	B	B	B	A	B	A+	A	A+	A
Listed Equity - Incorporation	A	B	A	A	A	A	A	A	A+	B
Listed Equity - Active Ownership	A	C	A	B	A	B	A	B	A	B
Fixed Income - SSA					A	C	A	B	A+	B
Fixed Income - Corporate Financial	B	D	B	C	B	C	B	B	A	B
Fixed Income - Corporate Non-Financial					B	C	B	B	A	B
Fixed Income - Securitized					B	E	B	E	A	C

■ Blue shaded scores indicate where MFS scored higher than the median ■ Gray shaded areas represent time periods prior to the inception of a module

Appendix

Members of the MFS Proxy Voting Committee had individual meetings relating to proxy voting matters with senior representatives from the following 151 distinct portfolio companies during the 2018 proxy period:

2U, Inc.
3M Co.
Abbott Laboratories
Activision Blizzard, Inc.
Allison Transmission Holdings, Inc.
Amdocs Ltd.
American Express Co.
ANSYS, Inc.
Aramark Corporation
Aratana Therapeutics, Inc.
Archer-Daniels-Midland Co.
Armstrong World Industries, Inc.
AVEVA Group Plc
Bank of America Corp.
Berry Global Group Inc.
Bonanza Creek Energy, Inc.
Bright Horizons Family Solutions Inc.
Brighthouse Financial, Inc.
Burberry Group Plc
Cadence Design Systems, Inc.
Canadian Pacific Railway Ltd.
Carriage Services, Inc.
Celgene Corp.
CF Industries Holdings, Inc.
Charter Communications, Inc.
Chevron Corp.
Chubb Ltd.
Cigna Corp.
Citi Trends, Inc.
Colfax Corp.
Comcast Corp
Compagnie Financiere Richemont SA
Constellation Brands, Inc.
Covanta Holding Corp.
Crown Holdings, Inc.
CVS Health Corp.
Daiwa Securities Group Inc.
Danaher Corp.
Danone SA
Delphi Technologies Plc
DowDuPont, Inc.
DTE Energy Co.
Duke Energy Corp.
DXC Technology Co.
eBay, Inc.
Eli Lilly and Co.
Elior Group SA
Equifax, Inc.
Essilor International SA
Express, Inc.
Fidelity National Information Services, Inc.
FIDESSA Group Plc
FleetCor Technologies, Inc.
FMC Corp.
Forum Energy Technologies, Inc.
Franklin Resources, Inc.
Frank's International N.V.
Freshpet, Inc.
Games Workshop Group Plc
GEA Group AG
General Mills, Inc.
Gran Tierra Energy Inc.
Harley-Davidson, Inc.
Hiscox Ltd.
HMS Holdings Corp.
Honeywell International Inc.
International Business Machines Corp.
Invesco Ltd.
Jardine Lloyd Thompson Group Plc
Johnson Controls International plc
JP Morgan Chase & Co.
Julius Baer Gruppe AG
Kansas City Southern
Kao Corp.
KBR, Inc.
Knight-Swift Transportation Holdings, Inc.
Legrand SA
Life Storage, Inc.
Lockheed Martin Corp.
MakeMyTrip Ltd.
McKesson Corp
Medical Properties Trust, Inc.
Merck & Co., Inc.
Merit Medical Systems, Inc.
MetLife, Inc.
Monsanto Company
NCR Corp
Nestlé SA
Netflix, Inc.
Nevro Corp.
New York Community Bancorp, Inc.
NICE Ltd.
Novartis AG
NOW, Inc.
NRG Energy, Inc.
NVIDIA Corp.

Occidental Petroleum Corp.
Omnicom Group, Inc.
Oracle Corp.
Orica Ltd.
Owens Corning
Paddy Power Betfair plc
PayPal Holdings, Inc.
Pernod Ricard SA
Pfizer Inc.
Philip Morris International, Inc.
Pinnacle West Capital Corp.
Pioneer Natural Resources Co.
Plexus Corp.
PPG Industries, Inc.
PPL Corp.
Procter & Gamble Co.
ProSiebenSat.1 Media SE
Reckitt Benckiser Group plc
Regal Beloit Corp.
Reliance Worldwide Corp. Ltd.
Sabre Corp.
Salesforce.com, Inc.
Schlumberger NV
SecureWorks Corp.
Sempra Energy
STAG Industrial, Inc.
StealthGas Inc.
STORE Capital Corp.
Swiss Re AG
TAG Immobilien AG
Technip FMC Plc
Texas Instruments Incorporated
The AES Corp.
The Charles Schwab Corp.
The Goldman Sachs Group, Inc.
The TJX Cos., Inc.
The Travelers Cos., Inc.
The Walt Disney Co.
Thermo Fisher Scientific Inc.
Third Point Reinsurance Ltd.
U.S. Bancorp
UBS Group AG
Union Pacific Corp.
United Rentals, Inc.
Univar, Inc.
Verizon Communications, Inc.
vTv Therapeutics, Inc.
Vulcan Materials Co.
W.W. Grainger, Inc.
Waters Corp.
WEC Energy Group, Inc.
Wells Fargo & Co.
WPP plc
XL Group Ltd.
Zimmer Biomet Holdings, Inc.

MASON GREGORY
SENIOR ANALYST WITH
ESG OVERSIGHT -
MFS INVESTMENT
SOLUTIONS GROUP

Additional resources and contact information

For more information about our proxy voting activities, including a complete copy of the MFS Proxy Voting Policies and Procedures, Frequently Asked Questions and previous Proxy Voting and Engagement Reports, please visit the proxy voting section of www.mfs.com.

For information on how certain MFS-sponsored pooled vehicles voted their shares at shareholder meetings, please visit www.mfs.com.

We would be happy to hear your thoughts on this report. To provide feedback, request additional information or to receive copies of MFS' PRI assessment and transparency reports, please contact your client service representative or Mason Gregory, senior analyst with ESG oversight - MFS Investment Solutions Group, at mgregory@mfs.com.

For more than 90 years, MFS has actively managed investments – around the globe, across asset classes and through a myriad of economic and market environments. While the opportunities and challenges have changed, we have kept our long-term perspective and cultivated our robust investment platform.

Founded on integrated research, fortified by collaborative thinking and supported by active risk management, our investment platform drives information flow and effective decision-making. This is how we turn information into an analysis advantage, maintain our conviction and allow enough time for our insights to help create the long-term value that drives better outcomes for clients.

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