



# 2019 MFS<sup>®</sup> Sustainable Investing Annual Report



# Table of Contents

- 1** A Message From Our President
- 2** What Does Sustainable Investing Mean at MFS?
- 3** Strategy and Governance
- 4** Leadership
- 10** Fundamental and Thematic Research
- 14** 2019 Year in Review: Equity Integration
- 17** 2019 Year in Review: Fixed Income Integration
- 19** ESG Data
- 20** Risk Management
- 21** Engagement
- 28** Proxy Voting: A Global Analysis for 2019
- 35** Principles for Responsible Investment (PRI)
- 38** Appendix



# A Message From Our President

---

During the past year, MFS has enriched our nearly 100-year history by explicitly answering the question, "Why do we exist as an organization?" Whether it's a sign of the times or in response to the sustainability or ESG movement, many companies are trying to do the same — assessing their corporate purpose. A challenging task at best, this process demands considerable self-reflection. MFS has spent the past year putting time and discipline into this process and reflecting on our purpose amid so much change.

At MFS, we exist to create long-term value by allocating capital responsibly for clients. Said differently, we put our clients' money to work responsibly. It's what inspired us to launch the first mutual fund in 1924, opening the door to the markets for millions of everyday investors. It's also what continues to drive our long-term, client-focused approach today.

We believe our purpose is synonymous with sustainable investing. Allocating capital responsibly isn't simply about ESG integration, engagement and proxy voting, however. Although these things are very important, responsible capital allocation also relies on a differentiated investment process and culture. At MFS, our process and culture are built on three distinct pillars:

**Collective Expertise** — We believe that teams of diverse thinkers, contributing different perspectives and actively debating them within a shared value system, are more likely to understand and incorporate all financially material factors, enabling better investment outcomes.

**Long-Term Discipline** — We have conviction in our ideas over long time horizons, and our performance incentives are matched with that long-term view, which ensures alignment with client outcomes.

**Risk Management** — We actively monitor material risks and opportunities in managing long-term performance.

At a time when our industry is facing greater pressure and complexity than ever before, the investment managers who survive will be the ones who truly understand and organize their activities around their corporate purpose. By allocating capital responsibly, we're aligned with our clients' long-term needs. This philosophy fuels our beliefs as an active manager and guides our actions as an organization. And it's why we've been actively working to formalize our ESG integration, engagement and proxy voting processes for well over a decade.

We hope this report, in conjunction with other resources available at [www.mfs.com/sustainability](http://www.mfs.com/sustainability), will help you to better understand how our culture, investment process and approach to ESG integration, engagement and proxy voting all work together to improve outcomes for our clients.

Sincerely,



Carol Geremia  
President  
MFS Investment Management

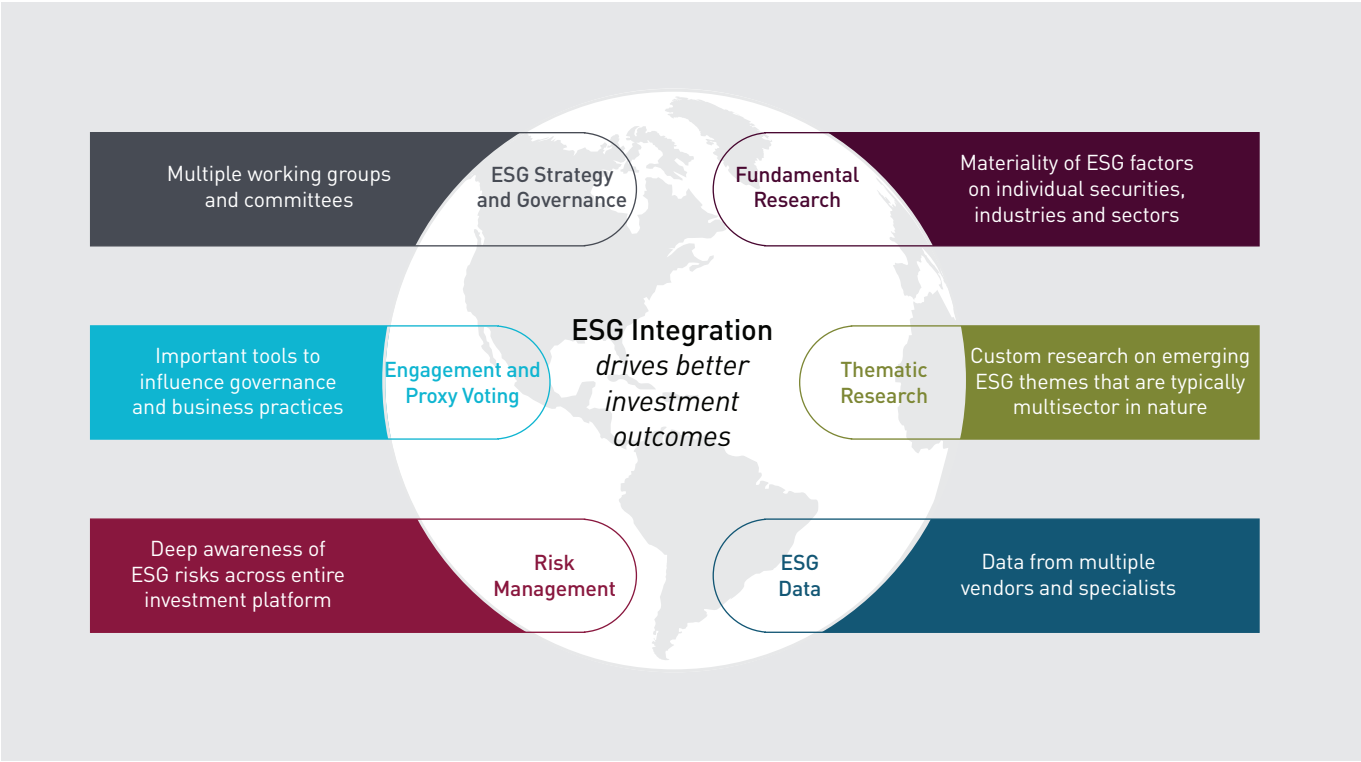




# What Does Sustainable Investing Mean at MFS?

At MFS, sustainable investing encompasses the integration of ESG factors into our investment process as well as active ownership through proxy voting and engagement. Our investment team relies on fundamental research and a long-term perspective to select companies that can produce sustainable returns throughout an economic cycle. This approach requires that all material factors — including ESG topics — are considered as part of the investment decision-making process.

A variety of activities, processes, data sets and governance structures support our ability to make sound, long-term investment decisions on behalf of our clients. The following graphic highlights the principal areas where we focus our time and attention. The remainder of this report will provide insights into our activities in each of these areas.



## Strategy and Governance

Our 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 our equity and fixed income investment processes were benefiting from the systematic integration of financially material ESG topics. Since the formation of that committee over a decade ago, we have developed a strong governance structure around our ESG activities and taken many other actions to accelerate the implementation of sustainable investing practices across the firm.

Three distinct bodies govern our ESG investment, engagement and proxy voting activities:

### MFS Sustainability Group

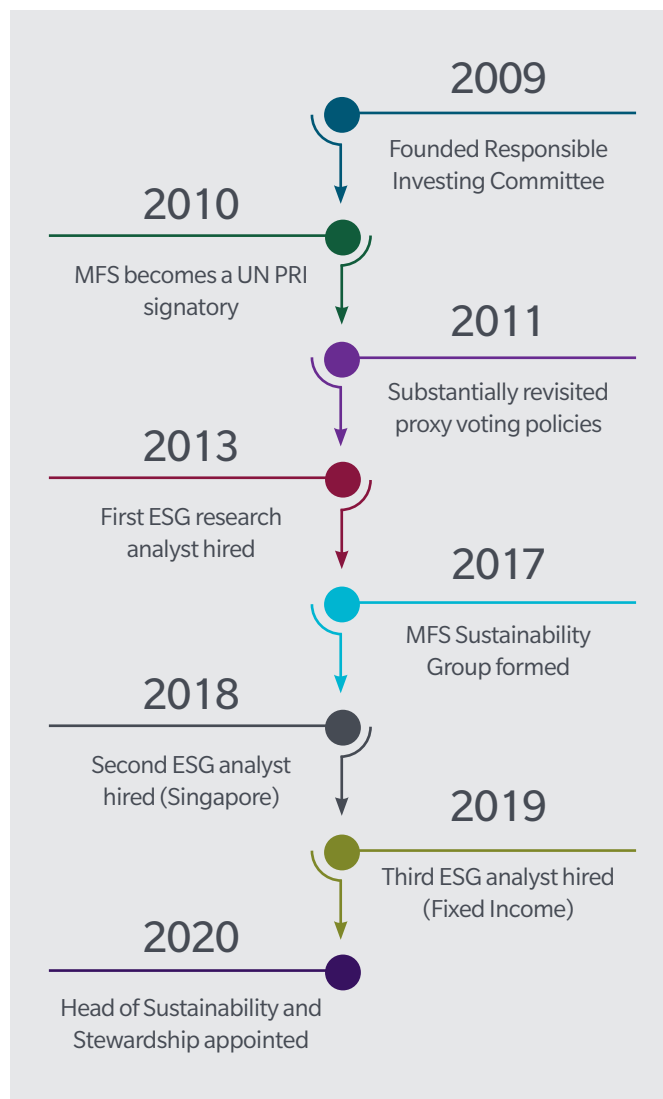
Comprising MFS' most senior leaders, this group meets monthly to evaluate ESG integration progress, assess ESG initiatives and allocate resources.

### MFS Responsible Investing Committee

Drawing on talent across departments and regions, this committee maintains the MFS Policy on Responsible Investing and Engagement, monitors adherence to codes and commitments and evaluates changes to the regulatory landscape that warrant our attention.

### MFS Proxy Voting Committee

Comprising senior leaders across the firm and co-chaired by our chief investment officer, this committee oversees the administration of the MFS Proxy Voting Policies and Procedures and establishes proxy voting engagement goals and priorities.



# Leadership

---

At MFS, it is our firm belief that a successful approach to sustainable investing requires the participation of our entire firm. Sustainable investing describes our fundamental investment process; it is not a separate discipline with different inputs or outcomes. As such, our sustainable investment process requires that all of our investment professionals are actively engaged in, and responsible for, its success.

In order to facilitate the adoption, implementation and enhancement of sustainable investing practices across the firm, we employ a number of individuals who are dedicated to sustainable investing and who provide strategic leadership across teams and disciplines on sustainability topics.

## Investments

In the first quarter of 2020, MFS appointed Portfolio Manager Barnaby Wiener Head of Sustainability and Stewardship. One of our most successful and seasoned investors, Barnaby has always been a powerful proponent of long-term thinking. As a leader and culture carrier within the investment division who has long been a champion of sustainability, Barnaby will serve as a catalyst for deepening the integration of sustainability across our investment platform. Working closely with our three ESG analysts, he will engage with investment leadership, portfolio managers and analysts to ensure that all of our investors truly understand and have ownership of sustainability in their research and portfolio management duties. He will also take on a strategic role with regard to issuer engagement on sustainability topics.



### **Barnaby Wiener – Head of Sustainability and Stewardship**

Barnaby joined MFS in 1998 as a research analyst. He became a portfolio manager in 2003 and currently manages the firm's Prudent Wealth, Prudent Capital and Prudent Investor strategies. He previously held the role of director of European Research and was co-portfolio manager of MFS International Value and Global Value equity strategies. Prior to joining MFS, he was an equity research analyst for both Merrill Lynch and Credit Lyonnais. He also served as a captain in the British Army. Barnaby is a graduate of Oxford University and the Royal Military Academy, Sandhurst. He is based in London.

As noted, our investment team includes three analysts dedicated solely to ESG research who have done much to advance our investment team's thinking on ESG topics. MFS hired Rob Wilson as its first fully dedicated ESG analyst in 2013. Our second ESG analyst, Pooja Daftary, is based in Singapore and was both a research associate and an equity research analyst at MFS before shifting her focus exclusively to ESG research in 2018. Our first ESG-dedicated fixed income analyst, Mahesh Jayakumar, joined MFS in our Boston office in early 2019.

Our ESG analysts fulfill a critical role in facilitating our sustainable investing efforts. However, they are not, and are not expected to be, the source of all ESG research. Instead, their job is to support and enhance our portfolio managers and analysts' ability to identify and evaluate ESG issues in their research, diligently working to ensure the integrity of our integrated approach.

# Leadership

---

## 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. She is based in Singapore.



### **Mahesh Jayakumar, CFA, FRM** – Research Analyst

Mahesh joined MFS in 2019 as a fixed income analyst following a year as a senior portfolio manager in Beta Solutions at Oppenheimer Funds. He previously worked for State Street Global Advisors for ten years, serving as a senior portfolio manager for the first nine, before transitioning to a senior ESG investment strategist role for his final year with the firm. Mahesh began his career in the financial services industry in 2008. He earned a BS in Information Systems from Purdue University, an MS in Computer Science from Boston University and an MBA from the MIT Sloan School of Management. He is based in Boston.



### **Rob Wilson** – Research Analyst

Before joining MFS as the firm's first ESG-dedicated research analyst in April 2013, Rob spent six years as a "traditional" equity analyst at American Century Investments. Prior to that, he spent five years at Bain & Company, working as a manager in the Financial Planning & Analysis group. Rob earned a BS in business administration from Boston University and an MBA from the University of Chicago. He is based in Boston.





## Leadership

---

### The Benefits of Broad Ownership of ESG Analysis

Our clients are often surprised when we tell them that MFS' ESG research analysts are not actually responsible for ESG integration. Instead, each of our equity and fixed income analysts and portfolio managers are responsible for integrating ESG factors into their conversations with management teams, financial modeling, valuation and security selection decisions. The importance of this fact cannot be overstated. This broad ownership of ESG analysis leads to many benefits.

**FIRST: It is *efficient*.** It spreads the substantial work required to properly analyze these topics over a greater number of individuals. Isolated ESG teams, no matter how large, cannot match the power of our more than 200 analysts and portfolio managers working daily around the globe to understand the companies in which we invest.

**SECOND: It is *effective*.** It places the responsibility for integrating ESG topics in the hands of the individuals best positioned to understand industry dynamics and the unique characteristics of individual portfolios.

**THIRD: It produces *better research*.** Broad ownership leads to more, and more diverse, views being shared on financially material ESG topics.

The importance of this broad ownership of ESG issues is exemplified by our work on climate issues during 2019. In June, CV Rao, a technology specialist in our Boston office, shared a presentation with our global investment team on developments related to battery and electric vehicle technologies. Following this presentation, our Canadian research team decided to develop a framework to improve their analysis of specific climate impacts that are affecting Canadian issuers. They collaborated with our ESG analysts, who shared insights on recent innovations related to climate scenario analysis and stress testing and helped develop the framework for presentation to the global investment team. This collaborative approach to ESG integration is foundational to sustainable investing at MFS.



# Leadership

---

## Proxy Voting

The administration of the MFS Proxy Policies is overseen by the MFS Proxy Voting Committee. This committee consists of senior members of our Investment, Legal and Global Investment Support departments and is co-chaired by Ted Maloney, MFS' chief investment officer, and Susan Pereira, vice president and assistant general counsel.

Our day-to-day proxy voting and engagement activity is managed by our team of three dedicated proxy analysts. The proxy voting team employs a collaborative approach in its decision-making, considering the perspectives of our global team of investment professionals along with information gathered directly from our portfolio companies via public disclosures and engagement discussions, as well as from a variety of third-party research tools. This process allows the proxy team to formulate well-rounded viewpoints on key issues, which we believe leads to well-informed voting decisions that are in the best long-term economic interests of our clients.



### **Lindsey Apple – Corporate Governance and Proxy Voting Manager**

Lindsey manages MFS' proxy voting team and is a member of the MFS Proxy Voting 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. She is based in Boston.



### **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. He is based in 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. She is based in Boston.

# Leadership

---

## Client Engagement and Thought Leadership

We have personnel dedicated to developing thought leadership and engaging with our clients and the investment industry on ESG issues. These individuals play an important role — given the high level of interest from investors, consultants, collaborative organizations such as the PRI and other industry participants — in understanding how asset managers such as MFS approach sustainable investing.

Michael Cantara, who leads our global client group, plays an important role in the advancement of sustainable investing within the firm and how we communicate our approach externally. Mike is co-chair of the MFS Sustainability Group and the MFS Responsible Investing Committee and is also a member of the Sustainable Investing Regulatory Working Group, which reports to the Responsible Investing Committee and is focused on assessing and responding to the evolving regulatory landscape around ESG issues.



### **Michael T. Cantara, CFA – Senior Managing Director, Global Client Group**

Mike is a senior managing director of the Global Client Group. In this role, he leads and has management oversight of MFS' Global Relationship Management team. He is a member of the MFS President's Council and the Global Distribution Management Committee, and he previously served as a member of the MFS Equity Management Committee. Mike joined MFS in 2000 and was named to his current position in 2013. His prior roles at MFS include institutional equity portfolio manager for global and international equity portfolios and product manager. Prior to joining the firm, he spent 10 years at Fidelity Management Trust Company as an international portfolio analyst, a director of stable value investments and a product manager. Mike earned his bachelor's degree from Colby College and his master's degree from the Fletcher School of Law and Diplomacy at Tufts University. He is a member of the CFA Institute and the Boston Security Analysts Society. He is based in Boston.

## Leadership

---

The MFS Investment Solutions Group, which leads the development of thought leadership, client research and special projects for MFS, includes three individuals fully dedicated to sustainable investing. This team develops ESG thought leadership and market research as well as interacting with clients in the capacity of investment strategists.



### **Vishal Hindocha, CFA – Director, Investment Solutions Group**

Vishal is a director in the Investment Solutions Group. In this role, he works with clients to develop solutions and provides insights on global investment trends and best practices. His responsibilities include conducting proprietary research and helping to represent the firm's investment insights to clients around the world. Vishal joined MFS in 2016 as a director on the Client Relations and Consultant Relations teams. He previously served as a senior investment consultant and team leader at Willis Towers Watson. Vishal earned a Bachelor of Science degree in economics from University College London. He holds the Chartered Financial Analyst (CFA) designation. He is based in London.



### **Mason Gregory – Senior Analyst, Investment Solutions Group**

Mason is a senior analyst in the Investment Solutions Group. He is responsible for client initiatives, thought leadership, market research and investment communications related to ESG and sustainable investing. Mason joined MFS in 2009 and previously held the role of RFP manager for North America. Prior to joining MFS, Mason was a product specialist covering public and private real estate equity strategies as well as ESG product development for The Tuckerman Group. Prior to that, he was a product analyst at State Street Global Advisors. Mason earned a BA in English literature and communications arts from St. Lawrence University. He is based in Boston.



### **Daniel Popielarski – Associate Analyst, Investment Solutions Group**

Dan is an associate analyst in our Investment Solutions Group. He is responsible for client initiatives, thought leadership, market research and special projects related to ESG and sustainable investing. Dan joined MFS in 2012; his previous positions at MFS include client service representative and institutional relationship management coordinator. He earned a BS in business administration from the University of Vermont. He is based in Boston.



# Fundamental and Thematic Research

---

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. This approach requires the incorporation of information from a variety of sources and an awareness of multiple viewpoints. We believe that the integration of ESG factors into our research is essential, as these issues often impact the long-term, sustainable value of businesses. In our view, ESG information is fundamental data that must be considered along with all other material information.

Our ESG research framework for equities and corporate bonds comprises both analytic and systematic elements, which have been designed to ensure our global investment team can efficiently and effectively identify and analyze the material ESG issues impacting their investment decisions.

## Analytic

---

- Direct collaboration as part of industry initiations
- Direct collaboration on situational ESG issues
- Thematic, sector & regional research
- **ESG in Depth** series
- 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

**Analytic:** Our investment team's primary focus is on the analytic activities below. This 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 currently impacting securities we hold.
- We have developed proprietary ESG sector maps that highlight ESG risks and opportunities within each sector.

**Systematic:** A variety of systematic processes, designed to operate in the background, alert the team to situations that may require a return to the analysis phase to further evaluate a risk or opportunity.

- Semiannual risk reviews of MFS-managed portfolios monitor ESG trends.
- Ongoing, automated dissemination of third-party ESG ratings changes
- Research notes for each issuer within our global research system include a section dedicated to proprietary and third-party ESG research.

# MFS' View on Climate Change

Climate change will be a defining investment topic for the decade ahead, creating risks and opportunities for all businesses. As long-term investors seeking to allocate capital responsibly, MFS is carefully analyzing the impact that climate change has on all companies held in our clients' portfolios, as well as on those companies being considered for future investment.

Climate change and regulations associated with climate change are materially impacting many businesses' revenue growth, margins and returns, cash flows, capital expenditures and valuation. These impacts are arising due to regional and country commitments (e.g., carbon prices and taxes), changing consumer expectations and preferences for lower-impact products and services, physical disruptions caused by a warming climate and increased divestment/investment based on certain companies' preparedness for climate change. As long-term investors seeking to understand the duration and stability of financial returns, we assess and manage this important issue at both the issuer (company, sovereign or subsovereign) and portfolio level. MFS also regularly engages with companies to encourage better disclosure and management of climate risks.

## Company and Industry Analysis

As with all risks and opportunities, our assessment of environmental issues like climate change begins with in-depth, fundamental company and industry analysis. Our investment team has conducted a substantial amount of climate research, which has been shared in sector team discussions, regional investment meetings, thematic presentations and one-on-one interactions. This research has covered a wide range of industries spanning the highly affected energy, utility, and industrial sectors alongside other industries that are increasingly being impacted by climate change (e.g., real estate, insurance, consumer staples). Our work has focused on understanding risk in the four areas shown in the graphic below.



# MFS' View on Climate Change

---

Our investment staff utilizes both proprietary and third-party tools to monitor data on ESG factors relevant to each security. These tools include engagements with management teams, ESG and carbon data from third-party providers and proprietary ESG sector maps that highlight ESG risks and opportunities relevant to each industry and sector, along with company examples and engagement guidance. Our Investment team has also developed a proprietary stranded assets model. This model assesses the risk of stranding for each energy type and some industrial assets. It has been used to enrich the research collaborations between our ESG analysts and the broader investment team regarding the risks posed by stranding and related issues such as the ongoing fossil fuel divestment movement.

Recently, our investment team has started to evaluate how various climate scenarios could impact individual companies. When done properly, these analyses are highly complex, requiring forecasts of commodity prices, mix shifts in various types of energy, market share changes at the industry and company level and costs related to carbon taxes and regulations, among many other factors. Given this complexity, we plan to continue to evaluate how to efficiently and effectively create scenarios at the company level before moving to portfolio-level climate scenario analysis.

## Portfolio Analysis

In addition to the company-specific research outlined above, MFS has used carbon intensity analysis to evaluate the climate risk of various portfolios relative to their benchmarks. Many of our equity portfolios have typically exhibited a lower carbon footprint than their benchmarks, and we have invested, across many portfolios, in companies that are helping to drive the transition to a lower- carbon world. Because of this and the depth of our fundamental company analysis, we believe most of our portfolios would respond favorably in scenarios where global temperature increases are severely limited by increased regulation and physical impacts.

## Sovereign Analysis

Climate change can pose material risks to sovereign debt due to its impact on national expenditures associated with disaster recovery from extreme weather events or preparedness through climate change mitigation and adaptation projects. Emerging market countries are particularly vulnerable since they often lack capital or have higher funding costs, which exacerbates the myriad risks that they already face. For example, many of these countries are vulnerable to food insecurity from both the impact of climate change on their own agricultural production and higher prices for imports. Our investment team members are increasingly focused on deepening their understanding of environmental risk in sovereigns and its complex links to fiscal and monetary conditions, which in turn affect bond yields and credit ratings.





# MFS' View on Climate Change

---

## Green and Thematic Bonds

We are seeing more issuers such as companies, countries and subsovereigns come to the market with green bonds. The proceeds of green bonds are specifically earmarked for environmental projects to combat climate change across various categories such as alternative energy, green buildings and infrastructure, water and waste management and environmental remediation. We purchase green bonds along with traditional bonds from various issuers in our fixed income portfolios and continue to account for the benefits of holding these instruments.

## Engagement

MFS supports alignment with the Paris Accord and the goal of limiting temperature increases to well below 2° Celsius. We regularly engage with our portfolio companies, from both an investment and proxy perspective, in order to inform our understanding of the materiality of ESG risks and opportunities arising from climate change and to advocate for improvements in corporate behavior and disclosure. Over the past several years, we have seen a significant increase in shareholder resolutions seeking increased disclosure around the financial impact of climate change and the long-term implications of a transition to a low-carbon economy in line with the 2° Celsius limit. MFS has supported a substantial majority of these resolutions. We have also engaged collectively on climate issues through our participation in the PRI's methane engagement and a variety of other initiatives.

## Firmwide Actions and Support of Climate Disclosures

At the corporate level, MFS is a proponent of robust disclosure regarding all topics that could materially impact the viability of businesses. In 2019, MFS became a user-signatory of the TCFD as we support their mission to increase and normalize climate-related disclosure by companies. MFS has been a signatory of the CDP (formerly the Carbon Disclosure Project) since 2011, and when engaging with portfolio companies exhibiting poor disclosure practices, we have requested that they begin using the CDP's reporting framework. We use CDP research and carbon data from other sources in a variety of stock-, industry- and portfolio-level analyses. We have also started discussions with other asset managers regarding the development of ESG integration guidelines for US municipal bonds through our participation in a PRI sponsored work stream.



## 2019 Year in Review: Equity Integration

---

As noted above, our ESG research analysts spend the majority of their time collaborating with our industry analysts and portfolio managers to analyze, model and value ESG risks and opportunities. This one-on-one, bottom-up research process has always been the foundation of MFS' ESG integration strategy, and there were a large number of these collaborations during 2019.

In one example, ESG Research Analyst Rob Wilson collaborated with Nick Demko, our health care services analyst based in Boston, to evaluate a company providing housekeeping, laundry and food services for health care facilities. Nick's research identified a series of business and accounting concerns while Rob's work uncovered serious questions regarding employee satisfaction, along with significant governance risks. Combined, this research led Nick to place a sell rating on the security, which supported a short position. Subsequently, the stock substantially underperformed.

---

**Our ESG research analysts spend the majority of their time collaborating with our industry analysts and portfolio managers to analyze, model and value ESG risks and opportunities.**

---

In another instance, ESG Research Analyst Pooja Daftary worked with Nick Baker, a senior research associate based in the United Kingdom, to assess the safety issues and bribery risks faced by European construction companies. Nick also uncovered a number of governance concerns among these companies, including excessive board tenure and a high degree of family control. Pooja's analysis of social issues helped him link the companies' governance structures to their performance on safety and bribery. This framework was a key part of Nick's discussion with management and, consequently, his ranking of the stocks within the industry.

### Returning to the Benefits of Broad Ownership of ESG Analysis

As noted above, each of our investment professionals, comprising a global team of more than 200 analysts and portfolio managers, are responsible for continually evaluating financially material ESG topics affecting their coverage. The benefits of this approach played out many times during 2019, as shown in these examples:

- A portfolio manager on our value team took a fresh look at a technology company that was benefiting from strong tailwinds related to business and individual spending on cyber security software. Using governance research previously developed by our ESG analysts, the covering industry analyst and the portfolio manager evaluated the company's board and identified a variety of concerns. Engagement with the company reinforced the portfolio manager's concerns over the poor oversight of the executive management team and its strategic direction. Despite an otherwise favorable meeting and fundamental backdrop, our detailed analysis of the company's board structure and leadership led us to pass on the security. The company subsequently reported poor results and the CEO resigned, sending the share price down more than 15%.
- We have long avoided a European plastics company due to its focus on commodity plastic packaging and, as societal concern regarding single-use plastic surged in 2018, the stock performed poorly. When, in 2019, a US competitor held in some of our portfolios acquired the company, the covering analyst downgraded the acquiring US competitor and we trimmed our position due to its increased exposure to the plastics issue.

In both of these cases — and many others — our ESG analysts were not directly involved in either the analysis or the engagements. Rather, the research was conceived and conducted by the covering analysts and portfolio managers. This depth of ESG research occurs frequently across the MFS investment platform and reinforces the scalability that is only possible through broad ownership of sustainable investing.

## 2019 Year in Review: Equity Integration

---

During 2019, our investment team also developed a variety of thematic, regional, and sector-based work on ESG topics. The most notable projects in this area include the following:

- **Electric vehicles and battery technologies:** In June, Technology Specialist CV Rao shared a detailed presentation with our global investment team regarding battery and electric vehicle technology. The discussion included a review of associated supply chain companies and considerations.
- **ESG sector map enhancements:** In 2019, our ESG research analysts presented updated versions of MFS' proprietary health care and capital goods sector maps to our sector teams and portfolio managers. These two presentations outlined the financially material environmental and social risks and opportunities for the industries within each sector and included case studies contributed by MFS' industry analysts.
- **Social impacts of the gig economy:** ESG Analyst Pooja Daftary evaluated the regulatory risk associated with labor costs for platform/gig economy companies in the mobility and food delivery space. Pooja developed a framework to differentiate platform companies based on labor management and identify companies with unsustainable labor practices and costs as well as the countries most likely to see regulatory changes.
- **Japanese corporate governance reform:** Our ESG research analysts delivered three presentations on Japanese corporate governance to MFS' Asia-based investors and global portfolio managers during 2019. This research helped the team identify Japanese companies at which substantial governance structure changes were occurring along with positive capital allocation improvements, with the goal of identifying companies that were most likely to see sustainable improvements in corporate governance over the coming years. The research also informed comprehensive engagements with a number of Japanese corporates.

### Looking Back on Previous ESG Research

In addition to developing new research, our investment team continues to improve upon past thematic projects. In 2018, Rob and Pooja developed a framework for evaluating ethics within technology companies, and the analyst team continues to evaluate this risk. In 2019, Tim Dittmer, one of MFS' US technology analysts, was evaluating tech ethics-related risks at a global Internet company. He chose to model 200 basis points of margin pressure in 2020 to account for privacy regulation pressures, even though many sell side analysts were modeling margin increases for the same period. In spite of specifically modeling this privacy-related margin pressure, Tim continues to believe the company's stock is attractive.

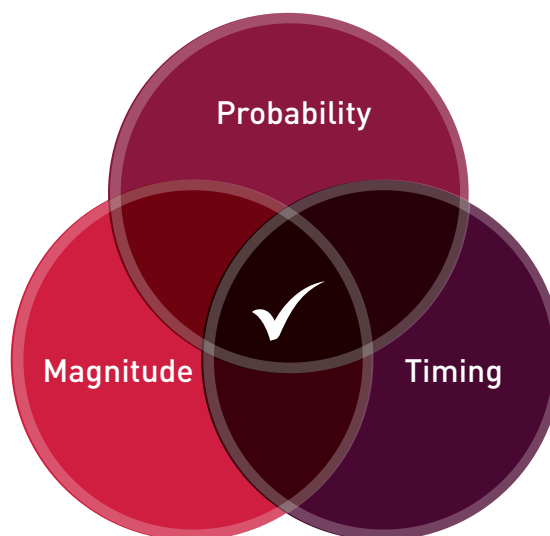




## 2019 Year in Review: Equity Integration

### Evaluating Investment Materiality

We are often asked how we assess the materiality of ESG issues. In general, we consider three factors when determining materiality: *probability*, *magnitude*, and *timing*. For any risk or opportunity, ESG or otherwise, we need to understand the probability that certain events or outcomes will occur. We also need to determine the potential magnitude of the impact that event or outcome would have on a company's business models, and consequently finances, if it were to occur. Finally, we need to determine the likely timing of the event or outcome within the context of our expected holding period. When these factors converge, such that we expect an event or outcome to significantly impact a particular security's valuation over the course of our expected holding period, we consider it material to our investment decision.



# 2019 Year in Review: Fixed Income Integration

---

## ESG Integration in Fixed Income Investing

Integrating ESG factors in fixed income investment decisions differs from other asset classes, such as equities, in several important ways.

- Although time horizon is an important consideration for all investors, fixed income analysts must consider ESG issues within the context of each specific bond's time to maturity. Certain longer-term ESG issues may not materially affect bonds with short or intermediate maturities.
- The more protected status of debt within the capital structure often means that fixed income investors need to have a higher threshold before defining a particular ESG issue as material.
- Unlike with equity, engaging with bond issuers does not involve formal mechanisms such as proxy voting or the ability to raise shareholder resolutions.
- Traditional financial factors such as interest rates and inflation typically have an outsized influence on bond prices, which can make it more difficult to discern the effects of ESG factors.

As is true for much of the investment industry, our ESG integration strategy is most advanced within equities and corporate bonds. Drawing upon his decade of work in ESG research and traditional fixed income analysis and portfolio management, Analyst Mahesh Jayukamar is building upon the research conducted by our corporate IG and HY, sovereign, municipal and structured analysts to craft specific ESG integration strategies for each of the fixed income subasset classes. These newly enhanced integration strategies will be tailored to each team's previous ESG research efforts and will reflect the needs of investors in those areas.

For example, our emerging market sovereign bond team has a well-established risk model that explicitly incorporates country-level governance and social factors into our in-house country ratings. We are currently in the research and development phase of a project to further adapt this risk model by similarly incorporating environmental factors such as climate risk, water risk, food security, energy policy and many others.

---

Our emerging market sovereign bond team has a well-established risk model that explicitly incorporates country-level governance and social factors into our in-house country ratings.

---

## 2019 Year in Review: Fixed Income Integration

---

During 2019, our fixed income team produced a substantial amount of ESG-related research on a variety of issuer-specific, industry-related and macroeconomic topics.

- Fixed Income ESG Research Analyst Mahesh Jayakumar worked with his equity counterparts to embed a fixed income viewpoint in the team's update of MFS' proprietary ESG sector maps for the capital goods and health care sectors. The collaboration between our equity and fixed income ESG analysts is already producing substantial value for MFS, similar to the value created when our broader equity and fixed income teams collaborate.
- MFS invests in a manufacturer and distributor of products for use in various segments including consumer health, animal health, pharmaceuticals and crop sciences. Over time, controversies related to product safety and quality have increased regulatory risk for the company. Based on these social and environmental risks, our fixed income team has chosen to own the company's shorter maturity bonds, having sold longer maturities on their concerns.
- In collaboration with the credit analysts covering the metals and mining sector, Mahesh developed a detailed integration playbook with the goal of enhancing our engagement topics, and accompanying questions, for companies where environmental risks are among the highest across all sectors. Some of the largest companies in this sector are domiciled in developed countries with good governance practices but operate in emerging markets where they have a high degree of impact on local communities due to land use, high water consumption, waste and pollution.
- Another project Mahesh and our fixed income team undertook in 2019 was aimed at better understanding the statistical relationship between third-party ESG ratings for emerging market sovereigns and our in-house emerging market country ratings. As previously discussed, MFS has a robust risk model that incorporates various governance metrics encompassing the strength of governing institutions, political stability, the rule of law, corruption and other factors, along with traditional fiscal and macroeconomic indicators. Our model also incorporates social factors such as demographics and education levels to determine the impact of human capital on future development. With the increased awareness of climate risk and its disproportionate impact on emerging market sovereigns, we continue to enhance this model to explicitly incorporate climate change exposure and energy transition risks, as well as other environmental risks such as water scarcity and food insecurity.





## ESG Data

---

Most of our ESG-related insights originate from our own original research into company and borrower financials, management teams and industry trends. This research is enriched by numerous sources of information including multiple third-party ESG data providers such as MSCI ESG Research, Trucost, RepRisk, ISS, Bloomberg and a diverse group of nongovernmental and other organizations like Transparency International, Ranking Digital Rights, FAIRR and WRI Aqueduct. These organizations provide ESG-related data, company and issuer analysis and ratings, and sector and country analysis. MFS also receives research support from a large and growing number of sell-side ESG investment analysts.

We often hear comments in the marketplace regarding the perceived lack of ESG data availability. In our opinion, this is due not only to the lack of coverage across some asset classes (e.g., private companies, securitized fixed income and municipal bond issuers) but also to the lack of adequate and timely disclosures. We agree that improvements are needed to ensure investors are receiving timely, relevant and comparable high-quality data from as many different types of issuers as possible. However, we feel, in the case of public equities and investment-grade corporate bonds, that there are currently many sources of accurate and detailed information on ESG topics available to investors. Skilled investors have substantial information to help them make investment decisions with confidence, whether it comes from company filings and nongovernmental organization reports or from sell-side research and paid ESG research providers.

As a result of improving ESG data availability and analysis, MFS recently began an initiative to redesign how ESG information is housed and handled within our global investment research system. The new design has already been partially implemented and provides all members of the investment team seamless access to both internal and third-party ESG data and research. Looking forward, we will add additional third-party providers to this platform as and when they enhance their data delivery methods.

Where applicable, we are also evaluating specialist ESG data vendors to augment coverage on subasset classes and segments not covered by our current providers. This project is ongoing and, to keep pace with rapid changes in the ESG data marketplace, will continue throughout 2020 and beyond.





# Risk Management

---

Our strong focus and cultural emphasis on risk management are incorporated into all facets of our investment process. At MFS, the goal is not to minimize risk but rather to understand its sources and effectively manage it. The risk management process strives to ensure that each strategy takes an appropriate level of risk that is disciplined and consistent with the investment philosophies of its mandate while also meeting long-term investment objectives.

Our global research team is responsible for bottom-up fundamental securities research. The team is situated in local markets around the world and organized by sector to facilitate collaboration globally and across asset classes. Through detailed analysis of issuer-specific attributes such as operational, financial, ESG and valuation risks and opportunities, each team member identifies potential investments with attractive risk/reward relationships.

Our portfolio managers are experienced investors who work closely with our global research team to choose the most attractive and appropriate investment ideas for their mandate.

---

At MFS, the goal is not to minimize risk but rather  
to understand its sources and effectively manage it.

---

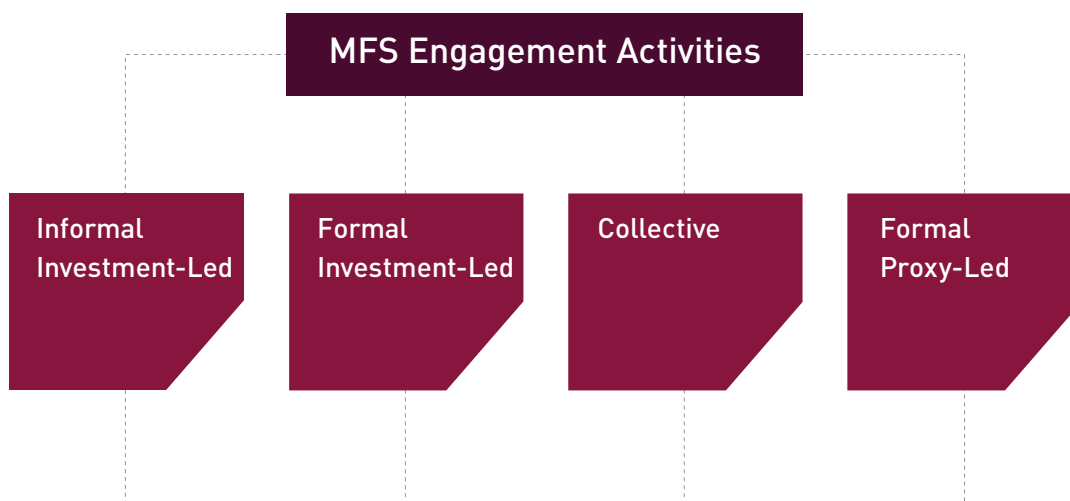
Portfolio managers are responsible for bottom-up security selection and portfolio construction, which includes sizing positions appropriately within the context of a portfolio and ensuring this process results in a portfolio that adheres to its stated investment philosophy and goals.

We consider both risks and opportunities when evaluating ESG factors and trends, but we have implemented systematic processes designed to help our investment team manage ESG-related risks at the security and portfolio levels. The most important of these processes is the semiannual risk review of all portfolios. These reviews cover a wide variety of topics, including ESG ratings, and are conducted by MFS' chief risk officer and asset class chief investment officers. During these semiannual reviews, portfolio managers are presented with the lowest-rated securities held, from an ESG perspective, the trend of their portfolio's ESG score versus its benchmark, ESG rating changes since the last review and other ESG-related data points. In many cases, these reviews prompt additional research and collaboration between the investment team and our ESG analysts. In addition to the semiannual review process, automated reports highlighting changes to third-party ESG ratings are disseminated on an ongoing basis by our internal systems.

# Engagement

---

We believe open communication with issuers is vital to ensuring ESG risks and opportunities receive adequate attention from management teams and other stakeholders. As a result, we engage with issuers in several ways.



## Informal Investment-Led Engagement

Our investment team engages with companies on a continual basis, sharing ideas and asking ESG-related questions of management teams during in-house meetings, on-site visits and investment conferences. Given MFS' substantial ownership position in many companies, we find that management teams take these engagements very seriously, which often results in follow-up dialogues on these ESG topics.

An example of the strength of such informal investment-led engagement can be seen in our work with an Indian infrastructure company. Over the years, we have been concerned about this family-controlled company's management of ESG issues. The company has experienced numerous worker safety issues, been accused of causing environmental damage and faced criticism over governance issues such as related party loans between the companies under family control.

Despite the company's strong fundamental underpinnings and attractive valuation, these concerning ESG issues caused us to limit our exposure to it in certain portfolios. We remain a shareholder, however, which has allowed us several opportunities to engage with the family and the management team regarding our concerns. The company's executive team, including the chairman and CEO, visited our Boston office in mid-2019. They began the meeting by addressing the ESG concerns that we had raised during prior engagements. They detailed their plan to block future related party loans and promised to establish a clear set of environmental and social policies within a year. Although evidence of actual change will be needed before we can consider this a successful engagement, we are pleased by the company's response thus far. This example highlights how consistent ongoing informal engagement frequently produces positive outcomes.



# Engagement

---

## Fixed Income

Although the incorporation of ESG factors in fixed income analysis is less mature than it is in equities, it plays an important role in mitigating downside risks. Since the number and variety of issuers in the marketplace is far greater for fixed income than equities, it is essential to understand the ESG risks that an issuer might face along a given dimension. Investors can influence debt issuers in a variety of ways:

### Engagement

Open communication with issuers is an important aspect of bond ownership. Investors can engage with issuers to exchange views on environmental, social and governance topics that represent material downside risks or upside opportunities. Long-term-oriented asset managers who engage companies on ESG topics can positively influence governance and business practices by encouraging executive teams to recognize that these issues are relevant to an increasingly broad investor base and require further consideration.

### Due diligence of green and other sustainability-themed bonds

Responsibilities associated with green bond issuance include the issuer's ability to demonstrate a robust process for the vetting and selection of appropriate sustainability projects to be funded, along with evidence of ring fencing to ensure that bond proceeds are not repurposed (*i.e.*, "greenwashed"). Post-issuance, issuer duties include providing periodic reports to investors on the status of projects. Fixed income investors owning green or other sustainability-themed bonds can play an important role in influencing the types of projects being supported and their impact.

### Participation in collective forms of influence

In addition to engaging individually with portfolio companies, investors can participate in various industry working groups and organizations that seek to develop thought leadership on emerging issues. Investors can also send letters to various regulatory agencies to encourage corporate governance reform when they feel it is warranted.

# Engagement

---

## Formal Investment-Led Engagement

Additionally, our investment team pursues what we regard as "formal" ESG engagements. More limited in number than informal engagements, formal engagements occur when other avenues have failed to produce a desired outcome. Formal engagements are held with C-suite executives or board members and typically involve a conference call, meeting or letter requesting that specific changes be implemented.

Our ESG analysts collaborated with our Japanese equity analyst team to write formal engagement letters to companies whose practices we found particularly concerning. Examples include the following:

- We held a formal meeting with the chairman of a Japanese security services company to discuss certain amendments to our proxy voting policies and explain the corporate governance changes we would like to see the company make. As we found management's response unsatisfactory, we followed up with a formal letter requesting that the board of directors implement specific targets for returns on equity and invested capital and that these targets be linked to management compensation. Following a discussion of these issues with the proxy voting team, MFS also voted against the entire board of directors to underscore our corporate governance concerns.
- Our chemicals analyst and ESG Analyst Rob Wilson wrote a letter to a Japanese chemical company stating our view that the company's planned acquisition of a competitor's business would be value-destructive for shareholders. The letter included a detailed rationale for our position. Subsequently, the company announced that they would not pursue the acquisition.

## Collective and Other Forms of Engagement

MFS believes that collective (or collaborative) engagement can generate positive impacts for industries, individual companies and a wide range of stakeholders, including shareholders. As a result, we have pursued many forms of collective engagement and we actively participate in a number of industry initiatives, organizations and working groups that seek to improve, and provide guidance on, corporate and investor best practices, ESG integration and proxy voting issues.

In 2019, Rob continued his work on the **Global Reporting Initiative (GRI)** technical committee on corporate taxation that began in January 2018. The GRI's independent standard-setting body, the Global Sustainability Standards Board (GSSB), gathered a group of eight global tax experts to develop a new taxation disclosure standard for corporations that report their sustainability activity using the GRI framework. The new standard, known as GRI 207: Tax 2019, was launched in December 2019. For more information, visit [www.globalreporting.org](http://www.globalreporting.org).

In early 2019, MFS joined the **Asian Corporate Governance Association (ACGA)**. ACGA is an organization dedicated to working with companies, regulators and investors to foster effective corporate governance practices throughout Asia. During the year, ESG Analyst Pooja Daftary joined a delegation led by the ACGA that met with various Japanese regulatory agencies to discuss progress and challenges related to the Japanese Stewardship Code. Following the delegation's trip, MFS helped ACGA draft a letter to various Japanese ministries strongly discouraging the government's proposed amendment to its Foreign Exchange and Foreign Trade Act (FEFTA), which we believed could undermine ongoing governance reforms in the country. The Japanese Diet passed a bill to amend FEFTA in November 2019. For more information about ACGA, please visit: [www.acga-asia.org](http://www.acga-asia.org).

In 2019, MFS became a user signatory of the **Task Force on Climate-related Financial Disclosures (TCFD)**. The TCFD has developed a framework of climate change–relevant financial risk disclosures for companies to report on. Its goal is to enhance the ability of financial markets to respond to climate change by encouraging broad and consistent information sharing across industries.

MFS is also a founding signatory of 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 have collaborated to establish a set of best practices for asset stewardship and corporate governance.



# Engagement

---

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](http://www.isgframework.org).

MFS periodically sends letters to regulatory agencies to encourage improved ESG practices and corporate governance reform. In November 2018, MFS sent a formal letter to the SEC to express our firm belief that the shareholder resolution process is working effectively and does not require change. Since this initial action, we have signed on to a PRI-sponsored investor letter to the SEC that expanded on our concerns, and in early 2020 we sent an additional letter to the SEC asserting that no changes should be made to the current shareholder resolution process.

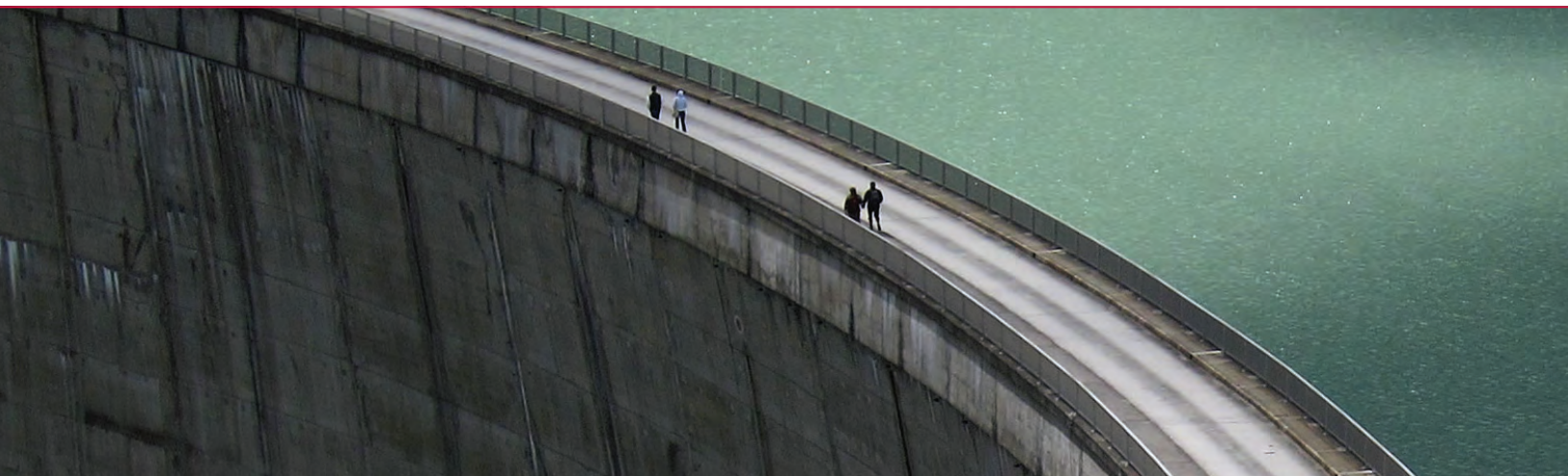
**MFS provides signatory support for a variety of collective engagements and industry initiatives throughout the year. In 2019, MFS was a signatory of the following letters and statements:**

- Investor Mining and Tailings Safety Initiative
- Investor letter on tailings dam disclosure
- Investor statement on deforestation and forest fires in the Amazon
- Investor letter to the SEC on shareholder rights and proxy voting advisors
- ACGA Letter to the Japanese Ministry of Finance on the FEFTA Amendment Bill
- Investor Expectations on Corporate Lobbying on Climate Change

## Formal Proxy Voting-led Engagement

MFS believes that open communication with issuers on proxy voting and corporate governance matters is an important aspect of our ownership responsibilities. In the interest of making well-informed voting decisions on behalf of our clients and encouraging robust ESG practices, our proxy voting team engages in thoughtful dialogues with management teams, board members and other senior representatives of MFS' portfolio companies through in-person meetings, conference calls and formal letter writing campaigns.

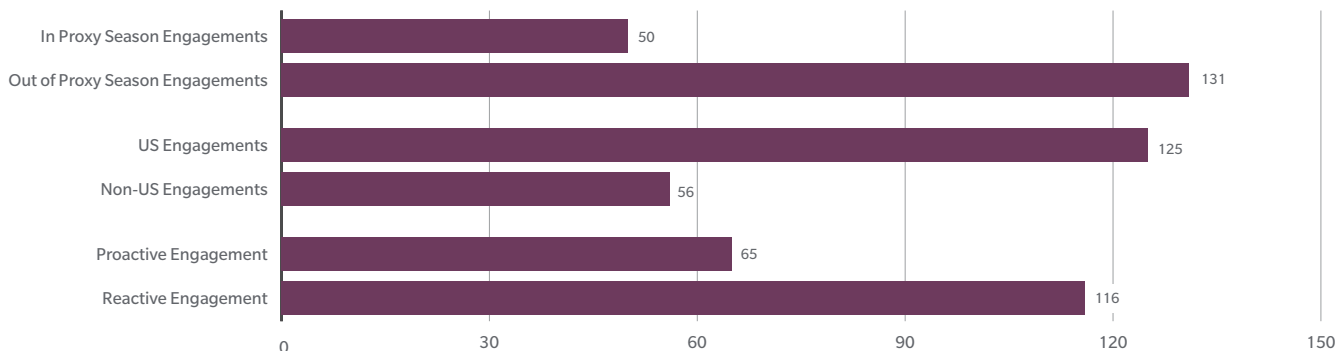
While a number of our engagement discussions occur in close proximity to company annual shareholder meetings ("in proxy season"), typically focusing on particular ballot items submitted for a shareholder vote, the majority of proxy-led discussions occur outside of a company's proxy solicitation period ("out of proxy season") and tend to focus more on thematic or long-term objectives.



# Engagement

During the 2019 proxy period (1 July 2018 to 30 June 2019), the proxy team led 181 engagements with 145 distinct portfolio companies across 10 different markets (please refer to the Appendix on page 38 for a list of these companies). These engagements were prompted by MFS approximately 36% of the time (proactive engagement) and by our portfolio companies 64% of the time (reactive engagement).

## 2019 Engagement Statistics



MFS' long-term approach to investing inspires a long-term approach to engagement. Our multiyear engagement horizon typically allows us to develop very strong relationships with our portfolio companies. As a result, we are able to have more candid and insightful discussions as we foster these long-term dialogues. When engaging with companies from a proxy perspective, MFS aims to do the following:

### **Communicate our voting policies and discuss the rationale behind our vote decisions**

We aim to be proactive and transparent around our policies and approach to proxy voting, as well as around our expectations of portfolio companies following low support on a shareholder vote.

For example, MFS introduced a heightened standard of board independence for Japanese issuers in our February 2019 proxy voting policy amendments. Following this amendment, we initiated a letter-writing campaign to communicate our view on the value of board independence to our impacted portfolio companies in Japan. Members of our proxy team, in collaboration with several of our equity analysts, emphasized our collective willingness to engage on the policy change and the evolving corporate governance landscape.

MFS also maintains a letter-writing initiative that focuses on encouraging our portfolio companies to respond to particular areas of concern for shareholders. In the 2019 proxy period, MFS sent letters to the boards of twelve companies that 1) had at least one director receive less than majority support from shareholders; 2) encountered significant dissent on executive compensation practices; or 3) had at least one shareholder proposal receive majority support from shareholders. These letters encourage issuers to respond to concerns demonstrated by shareholders in an appropriate and meaningful way.



# Engagement

---

## **Exchange Views on Relevant ESG Issues and Advocate for Meaningful Progress**

Given our long-term view, our engagements are often focused on encouraging sustainable progress over multiple years. However, in many instances, our portfolio companies have been very responsive to immediate and actionable feedback from shareholders.

For example, members of our proxy team spoke with representatives of a global media company, in advance of their annual shareholder meeting, to discuss our concerns regarding the overall magnitude of CEO pay. We reviewed changes to the executive compensation plan the company was proposing in response to shareholder feedback. They included the elimination of both the base salary increase and the annual target bonus increase, as well as the reduction of the target long-term bonus incentive award opportunity. Following further engagement with shareholders, the company announced it would reduce the CEO's total pay by \$13.5 million.

Over the course of the 2019 proxy period, our proxy team had multiple discussions with senior representatives of a global manufacturing company. These engagements addressed gender diversity on the board of directors, as well as greenhouse gas emissions (GHGe) reduction targets and disclosure pursuant to a shareholder proposal. While the company had disclosed GHGe data in the past, they sought to incorporate more consistently calculated, third-party-verified information into stronger GHGe reduction targets. We communicated our support of their ongoing response to shareholder concern, and encouraged them to share developments with shareholders in order to provide additional clarity around the issue going forward.

## **Discuss Certain Thematic and Long-Term Engagement Priorities**

In advance of the 2019 proxy season, we published the MFS 2019 Proxy Season Preview, which 1) summarized certain recent amendments to our proxy voting policies; 2) shared MFS' outlook and expectations for the upcoming proxy season; and 3) discussed the long-term engagement priorities and thematic topics of interest to our proxy voting committee.

Our 2019 engagement priorities were focused on corporate culture, board gender diversity and board composition issues. While we recognize that many of our long-term priorities may effect change gradually over a number of years, we have also observed more rapid changes in line with our voting activity and engagement discussions, such as increasing board diversity at many of our portfolio companies.

More broadly, we have observed a number of positive developments on a variety of ESG issues in recent years. We have seen the widespread adoption of majority voting and proxy access, and we continue to see the enhancement of disclosures involving executive pay, sustainability and political contributions.

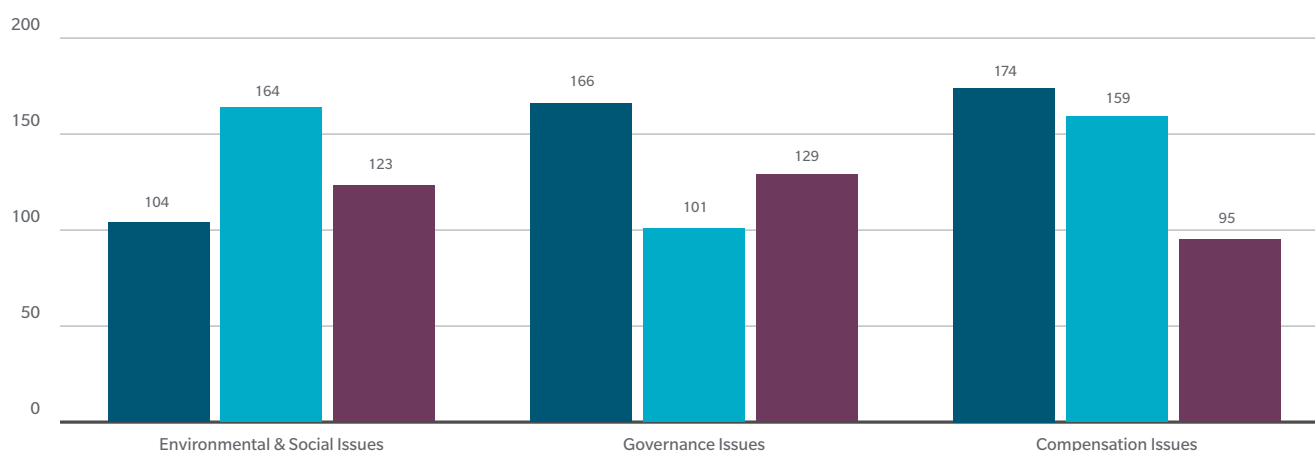


# Engagement

Individual engagements often cover multiple topics. As illustrated below, each major category of discussion was addressed in at least 50% of all engagements during the 2019 proxy period. Due to a strong focus on communication with companies that do not meet our standards for board composition, including board independence, the frequency of governance-related discussions during engagements increased to 71% in the current period from 50% in the 2018 proxy period. Moreover, a significant number of engagements (123) related to environmental and social issues. Board diversity, climate change–related reporting and political contribution disclosure are examples of these topics. US companies represented 69% of our engagements, while non-US companies represented 31%.

## 2019 Engagement Topics

■ 2017 ■ 2018 ■ 2019



## Measuring Our Impact

Over time, we have found that robust engagement combined with thoughtful proxy voting can have a strong positive effect on ESG practices. As we view engagement as an ongoing discussion aimed at producing outcomes over the long term, we continue to focus on identifying what swift and measurable changes our portfolio companies can make in direct response to shareholder feedback. Some examples of positive impacts of our engagement activity are outlined below.

- Through the collaboration with, and the open communication between, our proxy and investment teams, we are able to leverage a collective expertise that we believe leads to positive engagement outcomes and well-informed voting decisions. Members of these teams continued our dialogue with senior representatives of a US-based telecommunications company during the 2019 proxy period, expanding on previous discussions around board refreshment and executive compensation. In response to shareholder feedback, such as what we have provided, the company has increased performance hurdles and extended the vesting period for incentive awards within its executive compensation program.
- Members of our proxy team have conducted 19 engagements over a nine-year period with a multinational food product corporation based in France. Over the course of our engagement discussions, the company has made various changes, such as expanding the role of the lead independent director to include increased involvement in the director recruitment process and other responsibilities, lowering average director tenure and incorporating an ESG metric into its long-term incentive program.



# Proxy Voting: A Global Analysis for 2019

---

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, 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. Many votes require a case-by-case analysis by MFS' team of three 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.

The MFS Proxy Voting Committee oversees the administration of the MFS Proxy Policies. We believe that having a diverse range of perspectives leads to a thoughtful and collaborative process that guides MFS' voting decisions and policy development. Ted Maloney, MFS' chief investment officer, and Susan Pereira, vice president and assistant general counsel, co-chair the Committee, which consists of senior members of our Investment, Legal and Global Investment Support departments. In order to mitigate the potential for material conflicts of interest, individuals whose primary duties relate to client relationship management, marketing or sales are prohibited from inclusion in the committee.



TED MALONEY



SUSAN PEREIRA

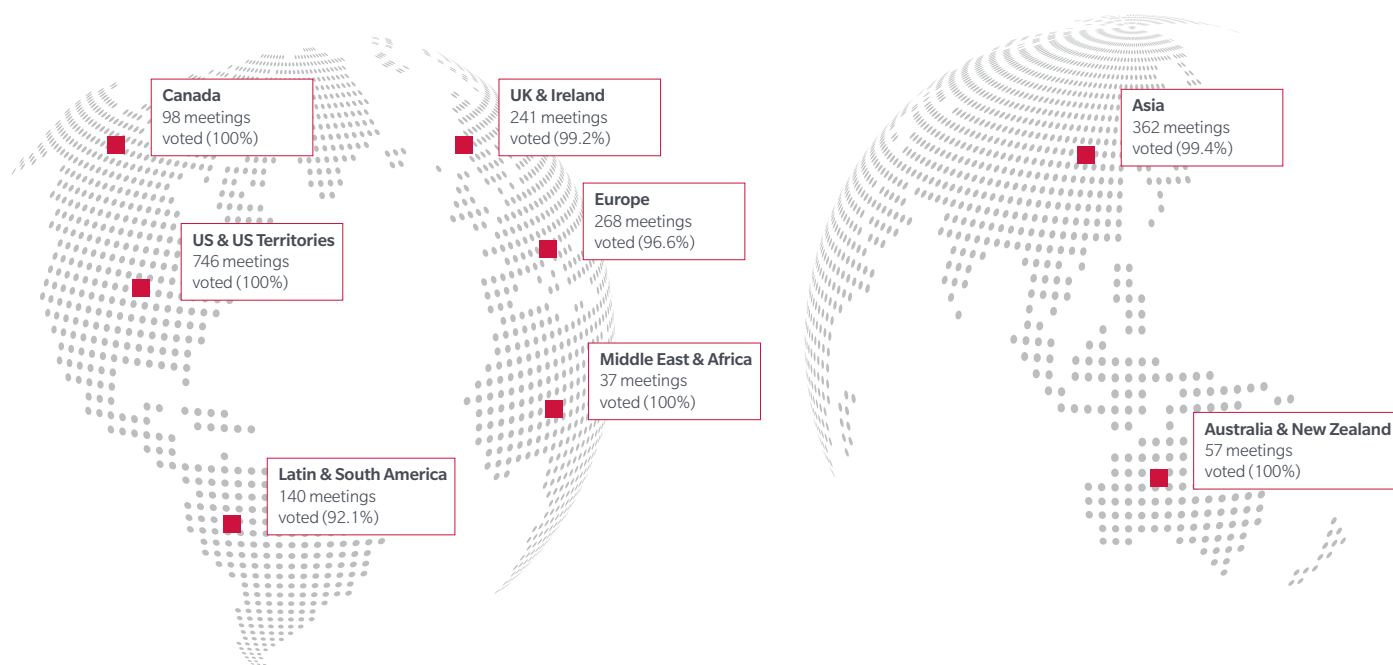
## Use of Proxy Advisory Firms

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 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 multiple proxy advisory firms, such reports are just one input in our comprehensive analysis, which includes other more important sources of information (e.g., proxy materials, engagement, other third-party information, etc.), to 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.

# Proxy Voting: A Global Analysis for 2019

During the 2019 proxy period (1 July 2018 to 30 June 2019), MFS was eligible to vote on 21,973 ballot items at 1,957 shareholder meetings across 61 markets. MFS voted shares at approximately 99% of these meetings, with the remaining meetings not voted due to share-blocking concerns (five meetings) or market-specific voting impediments (nineteen meetings). The map below shows the number of meetings around the world at which we voted during the 2019 proxy period, along with the overall percentage of meetings at which we voted shares within each region.

## 2019 Proxy Voting Statistics by Region



Our investment process places significant value on identifying companies with strong management focused on the sustainability of their businesses over the long term. As a result, we tend to have a high degree of 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 2019 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 42% of all shareholder meetings.

These statistics are similar to those of the 2018 proxy period (1 July 2017 to 30 June 2018), during which MFS voted against management recommendations on approximately 7% of all ballot items and cast a vote against management recommendations on at least one ballot item at 39% of all shareholder meetings.

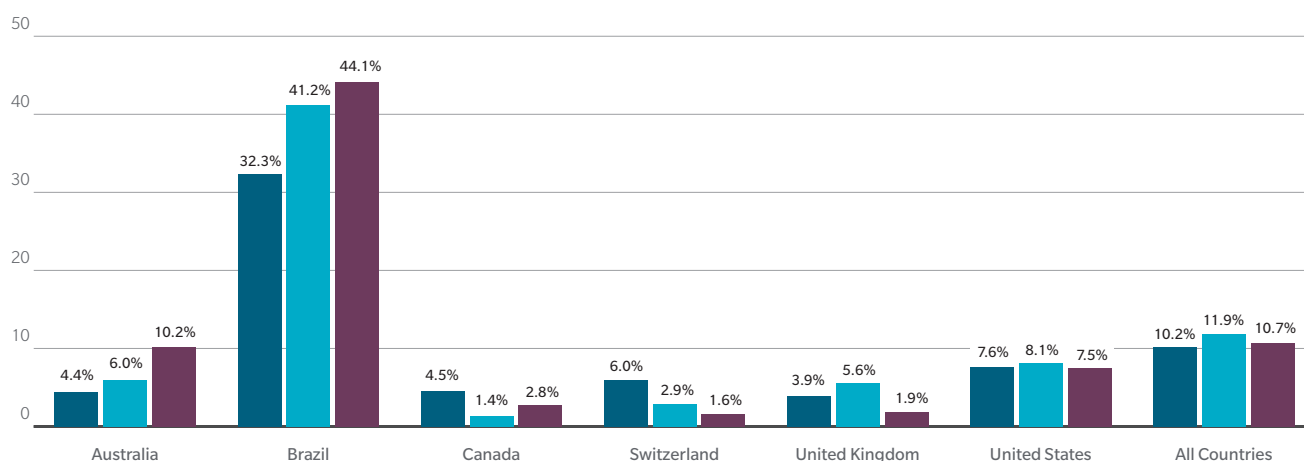
# Proxy Voting: A Global Analysis for 2019

## 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 are an effective mechanism for expressing 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.

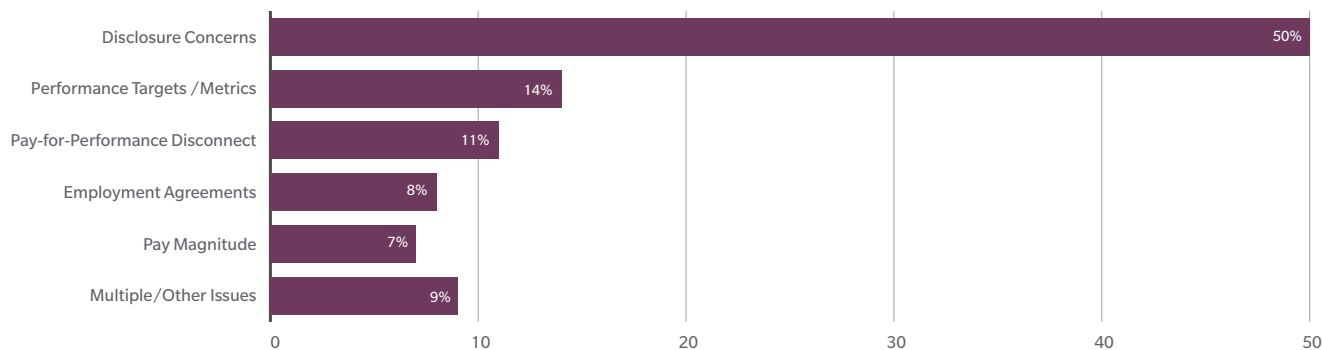
### 2019 Global Compensation Scorecard: How Often MFS Voted Against Executive Pay

■ 2017 ■ 2018 ■ 2019



During the 2019 proxy period, MFS voted on the approval of approximately 1,200 executive compensation proposals globally, voting against or abstaining on such proposals approximately 11% of the time. This compares with 15% during the 2018 proxy period. As illustrated below, our reasons for voting against executive compensation practices ranged from disconnects between company performance and executive pay to concerns relating to the poor disclosure of pay.

### Primary Reason for Deeming Pay Excessive



## Proxy Voting: A Global Analysis for 2019

---

According to Institutional Shareholder Services' "2019 US Compensation Proxy Season Review," median shareholder support for Say on Pay votes registered at 95.7% (similar to 2018). The Say on Pay failure rate, after nearly doubling in 2018, remained flat in 2019, with 2.5% of companies receiving less than majority support.

MFS voted on 644 US Say on Pay votes during the 2019 proxy period, voting against management approximately 7.5% of the time (compared with 7.8% in 2018). 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 7.5% of US companies at which we deemed compensation to be excessive, we voted against at least one director approximately 21% of the time (ten 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.

---

**We believe that a well-balanced board with diverse perspectives  
is the foundation of 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 expertise.**

---

On a global scale, we have noted heightened concerns with remuneration practices in other markets. MFS voted against approximately 10% of remuneration-related proposals at Australian portfolio companies during the 2019 proxy season as compared with 6% and 4% in the 2018 and 2017 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 continued to strengthen our disclosure standards in the Brazilian market, which led us to vote against 44% of remuneration-related proposals at Brazilian portfolio companies during the 2019 proxy season, compared with 41% in 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 will 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 the foundation of 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 expertise. We therefore amended the MFS Proxy Policies in 2019 to require votes against management recommendations for nominating and governance committee chairs at US public companies where female directors do not comprise at least 15% of the board. 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. Although we believe a 15% threshold for gender diversity is far too low of a standard and will look to increase this threshold in the future, we still voted against nearly 40 companies due to this guideline during the 2019 proxy period.



## Proxy Voting: A Global Analysis for 2019

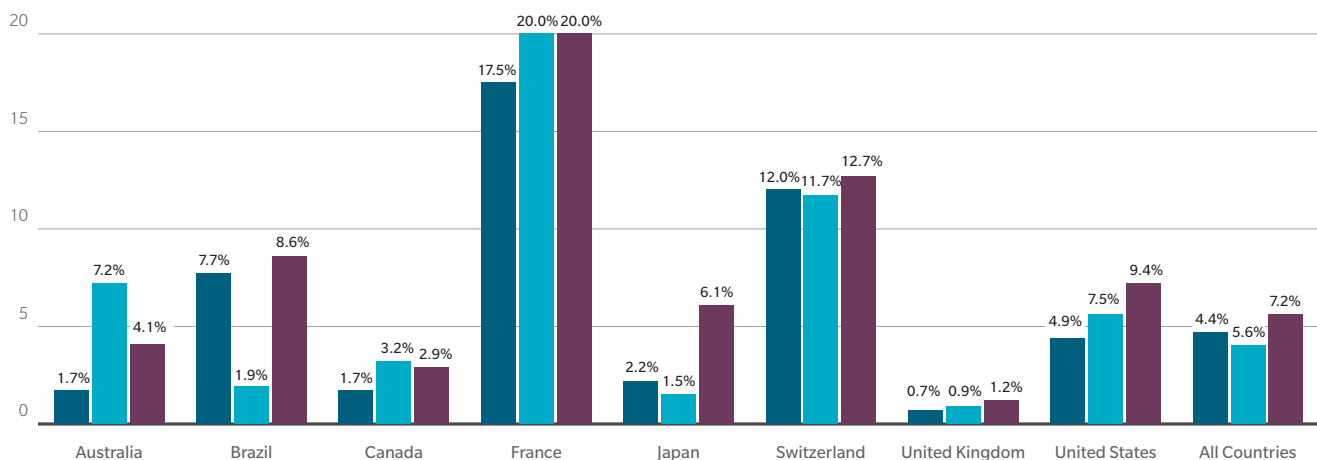
We also believe that the amount of time required of US public-company directors has grown significantly in recent years, and we are mindful about the impact of excessive service on outside boards. Maintaining a board that is actively engaged and able to devote the ample time that is required to be present and adequately prepared is a critical component of 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 overextended 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 2019 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 receives 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 have 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 2019 proxy period, MFS voted against board members at four companies for failing to adequately respond to shareholder concerns (compared with six in 2018). 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 2019 proxy period, MFS voted against approximately 7.2% of director nominees globally (compared with 5.6% in 2018).

### 2019 Global Director Scorecard: How Often MFS Voted Against Directors

■ 2017 ■ 2018 ■ 2019

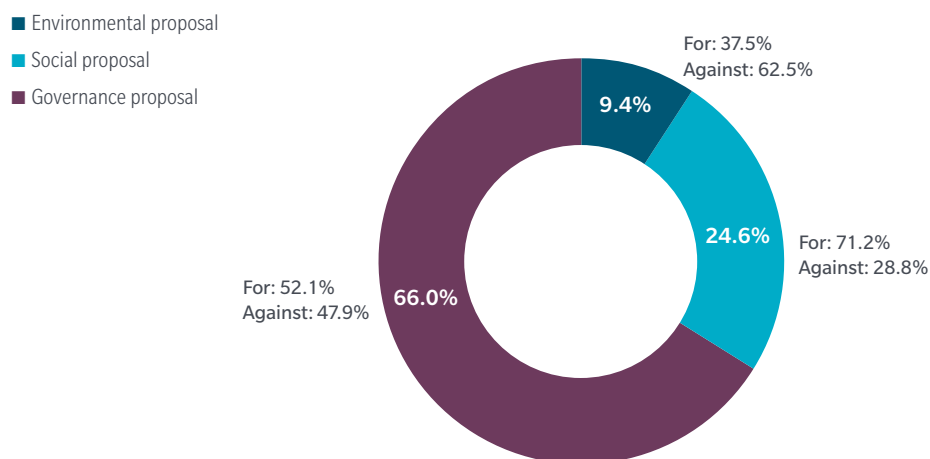


### Shareholder Proposals

A shareholder proposal is a tool often used to try to bring about positive change on ESG issues. During the 2019 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 2019.

# Proxy Voting: A Global Analysis for 2019

## 2019 Global Shareholder Proposal Scorecard: How MFS Voted on Shareholder Proposals



### Environmental Issues

During the 2019 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 additional disclosure regarding the impact of environmental issues on a company's operations unless we believe that a company already provides sufficient information on the topic to allow shareholders to assess the relevant risks. We believe such disclosure can help investors analyze the potential risks associated with climate change issues. MFS supported 40% of the climate change-related proposals that we were eligible to vote on. Overall, MFS supported 38% of 48 proposals relating to environmental issues during the 2019 proxy period (similar to the 38% supported in 2018).

### Social Issues

MFS voted on 125 shareholder proposals relating to social issues during the 2019 proxy period, supporting 71% of these proposals (compared with 58% in 2018). 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 the 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 2019 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 2019 proxy period, which included proposals seeking annual disclosure of EEO-1 data.

# Proxy Voting: A Global Analysis for 2019

---

## Corporate Governance Issues

Corporate governance has typically been the most common subject of shareholder proposals. Overall, MFS voted on 336 governance-related shareholder proposals around the globe during the 2019 proxy period, supporting 52% of such proposals (compared with 49% in the 2018 period).

During the 2019 proxy period, the number of proposals proposing the adoption of a proxy access bylaw declined sharply for the second consecutive year. 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 2018, during the 2019 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 those 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 was halved in 2019 after nearly doubling the previous year. The number of proposals MFS was eligible to vote that requested the right to act by written consent, after nearly tripling in 2018, remained relatively flat in 2019 (at approximately 30 proposals). Such proposals received, on average, 39% support in 2019 — a slight decrease from the 42% average support such proposals received in 2018.

### During the 2019 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)



# Principles for Responsible Investment (PRI)

---

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 of the PRI in February 2010. Since that time, the PRI has been a valuable partner in our ESG integration efforts. The firm 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 its guidance publications and case studies, as well as participating in PRI in Person conference panels.

MFS was the PRI's lead partner at the 2018 PRI in Person signatory annual meeting in San Francisco, California. 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, 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)





# Principles for Responsible Investment (PRI)

## PRI Assessment Scores

As a condition of membership, the PRI requires its signatories to report on their responsible investment activities annually.

Since joining the PRI 10 years ago, our focus on ESG topics has deepened and our sustainable investing capabilities have expanded. In 2018, for the first time MFS achieved scores of A or better and scored higher than the median in each of our reported modules. In 2019, MFS again received high marks from the PRI, garnering an A+ in six out of seven scored modules.

While we are proud of this result, and we feel our assessment scores reflect the progress we have made, sustainable investing is not just about "making the grade." It is about understanding what is important — what is most material for investors — and finding the investment opportunities that we believe will add the most long-term value for our clients.

The table below displays MFS' assessment scores for the past five years, showing steady progress both from an absolute perspective and relative to our peers.

Module	2015		2016		2017		2018		2019	
	MFS	Median	MFS	Median	MFS	Median	MFS	Median	MFS	Median
Strategy and Governance*	B	B	A	B	A+	A	A+	A	A+	A
Listed Equity - Incorporation	A	A	A	A	A	A	A+	B	A+	B
Listed Equity - Active Ownership	A	B	A	B	A	B	A	B	A +	B
Fixed Income - SSA			A	C	A	B	A+	B	A+	B
Fixed Income - Corporate Financial**	B	C	B	C	B	B	A	B	A+	B
Fixed Income - Corporate Non-Financial			B	C	B	B	A	B	A+	B
Fixed Income - Securitized			B	E	B	E	A	C	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

\* Prior to 2016, the Strategy and Governance Module was called "Overarching Approach."

\*\*Prior to 2016, "Fixed Income – Corporate" was a single module.



## Appendix

---

Members of MFS' proxy voting team engaged with senior representatives of the following 145 distinct portfolio companies during the 2019 proxy period:

3M Company	Danone SA	JPMorgan Chase & Co.
Abbott Laboratories	Discover Financial Services	Julius Baer Gruppe AG
Accenture Plc	Duke Energy Corporation	Kansai Paint Co. Ltd.
Activision Blizzard, Inc.	DXC Technology Co.	Kansas City Southern
AEON Financial Service Co., Ltd.	Electronic Arts, Inc.	KBC Group NV
Alder Biopharmaceuticals, Inc.	EPAM Systems, Inc.	KBR Inc.
Amadeus FiRe AG	Equifax Inc.	Kobayashi Pharmaceutical Co., Ltd.
American Express Company	Evergy, Inc.	Koito Manufacturing Co. Ltd.
Amphenol Corp.	FleetCor Technologies, Inc.	Kose Corp.
ANSYS, Inc.	FLIR Systems, Inc.	Kubota Corporation
Aon plc	Forum Energy Technologies, Inc.	Kyocera Corporation
Aptiv Plc	Foundation Building Materials, Inc.	LogMeln, Inc.
Aramark	Frank's International N.V.	McKesson Corporation
Armstrong World Industries, Inc.	Fresenius Medical Care AG & Co. KGaA	Mebuki Financial Group Inc.
Bayer AG	GEA Group AG	Medical Properties Trust, Inc.
Blackrock, Inc.	General Mills, Inc.	Merck & Co., Inc.
Boston Properties, Inc.	Global Payments Inc.	Microsoft Corporation
Bright Horizons Family Solutions Inc.	GMS Inc.	NCR Corp.
Cadence Design Systems, Inc.	Gran Tierra Energy Inc.	Nestle SA
Celanese Corporation	Hachijuni Bank Ltd.	Newell Brands, Inc.
CF Industries Holdings, Inc.	Harley-Davidson, Inc.	Nihon Parkerizing Co. Ltd.
Check Point Software Technologies Ltd.	Heian Ceremony Service Co. Ltd.	Nordson Corporation
Chubb Ltd.	Hirose Electric Co. Ltd.	North Pacific Bank Ltd.
Citigroup Inc.	Honeywell International Inc.	NOW Inc.
Clearway Energy, Inc.	Hostess Brands, Inc.	Obic Co Ltd.
Cognizant Technology Solutions Corporation	Illinois Tool Works Inc.	Oil States International, Inc.
Comcast Corporation	IMAX Corporation	Omnicom Group
Compagnie Financiere Richemont	Ingevity Corporation	Paddy Power Betfair
Coty Inc.	Invesco Ltd.	Patterson-UTI Energy, Inc.
Daiseki Co. Ltd.	Ito En Ltd.	PayPal Holdings, Inc.
Danaher Corporation	ITT, Inc.	Pernod Ricard SA
	Johnson Controls International Plc	PPG Industries, Inc.

## Appendix

---

PPL Corporation	SPX Flow, Inc.	United Technologies Corporation
Preferred Bank	SS&C Technologies Holdings, Inc.	USS Co., Ltd.
Presidio, Inc.	STAG Industrial, Inc.	Vonovia SE
Proto Corporation	Stanley Black & Decker, Inc.	Wells Fargo & Company
Prudential Financial, Inc.	STORE Capital Corporation	WESCO International, Inc.
Public Storage	Sundrug Co. Ltd.	WisdomTree Investments, Inc.
Rapid7, Inc.	Swiss Re AG	WPP plc
Rohto Pharmaceutical Co. Ltd.	Taisei Lamick Co. Ltd.	Wynn Resorts Ltd.
RPT Realty	Texas Instruments Incorporated	Zimmer Biomet Holdings, Inc.
Sally Beauty Holdings, Inc.	The Estee Lauder Companies Inc.	Zoe's Kitchen, Inc.
Samsung Electronics Co., Ltd.	The Goldman Sachs Group, Inc.	
Schlumberger NV	The J. M. Smucker Company	
Schneider Electric SE	The Southern Co.	
Secom Co. Ltd.	The Travelers Companies, Inc.	
Signature Bank New York	The Walt Disney Co.	
SiteOne Landscape Supply, Inc.	Thermo Fisher Scientific Inc.	
Six Flags Entertainment Corporation	Toto Ltd.	
Sohgo Security Services Co., Ltd.	Toyo Suisan Kaisha Ltd.	
South Jersey Industries, Inc.	U.S. Bancorp	
Spirax-Sarco Engineering Plc	United Parcel Service, Inc.	









MASON GREGORY  
Senior Analyst with  
ESG Oversight -  
MFS Investment  
Solutions Group

## Additional Resources and Contact Information

For additional information on signatory reporting and assessment, please visit <https://www.unpri.org/signatories>. To receive copies of MFS' PRI Assessment and Transparency reports please contact your relationship manager or Mason Gregory ([mggregory@mfs.com](mailto:mggregory@mfs.com)).

Please recycle this material when finished.



In 1924, MFS launched the first US open-end mutual fund, opening the door to the markets for millions of everyday investors. Today, as a full-service global investment manager serving financial advisors, intermediaries and institutional clients, MFS still serves a single purpose: to create long-term value for clients by allocating capital responsibly. That takes our powerful investment approach combining collective expertise, thoughtful risk management and long-term discipline. Supported by our culture of shared values and collaboration, our teams of diverse thinkers actively debate ideas and assess material risks to uncover what we believe are the best investment opportunities in the market.

Statistics included in this report are calculated based on accounts for which MFS clients have fully delegated proxy voting authority pursuant to the MFS Proxy Voting Policies and Procedures. With the exception of the meetings voted statistics listed on page 29 of this report, all voting statistics exclude instances where MFS did not cast a vote. Statistics also do not include instances where an MFS client may have loaned shares and therefore was not eligible to vote. Statistics are calculated on a meetings-level basis. All engagement statistics listed above include only those managed by the MFS proxy team.

As an active manager, please be advised that the companies named in this report may no longer be held by an MFS client at the time that this report is published.

The views expressed are those of the author(s) and are subject to change at any time. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any security or as a solicitation or investment advice from the Advisor.

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by:

**U.S.** - MFS Investment Management; **Latin America** - MFS International Ltd.; **Canada** - MFS Investment Management Canada Limited. No securities commission or similar regulatory authority in Canada has reviewed this communication.

**Please note that in Europe and Asia Pacific, this document is intended for distribution to investment professionals and institutional clients only.**

**U.K.** - MFS International (U.K.) Limited ("MIL UK"), a private limited company registered in England and Wales with the company number 03062718, and authorized and regulated in the conduct of investment business by the U.K. Financial Conduct Authority. MIL UK, One Carter Lane, London, EC4V 5ER UK provides products and investment services to institutional investors. This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation; **Singapore** - MFS International Singapore Pte. Ltd. (CRN 201228809M); **Australia/New Zealand** - MFS International Australia Pty Ltd ("MFS Australia") holds an Australian financial services licence number 485343. MFS Australia is regulated by the Australian Securities and Investments Commission.;

**Hong Kong** - MFS International (Hong Kong) Limited ("MIL HK"), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the "SFC"). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to "professional investors" as defined in the Securities and Futures Ordinance ("SFO"). **For Professional Investors in China** - MFS Financial Management Consulting (Shanghai) Co., Ltd. 2801-12, 28th Floor, 100 Century Avenue, Shanghai World Financial Center, Shanghai Pilot Free Trade Zone, 200120, China, a Chinese limited liability company regulated to provide financial management consulting services.; **Japan** - MFS Investment Management K.K., is registered as a Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No.312, a member of the Investment Trust Association, Japan and the Japan Investment Advisers Association. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments.

