



## **MFS 2020 Proxy Season Preview:**

Proxy Policy Updates & Engagement Priorities

### **Overview**

MFS believes that robust ownership practices help protect and enhance long-term shareholder value. Such ownership practices include the thoughtful and diligent exercise of our voting rights, as well as engaging with our portfolio companies on a variety of proxy voting issues. MFS also recognizes that environmental, social and governance ("ESG") issues may impact the value of an investment, and therefore ESG factors should inform our proxy voting practices. The 2020 Proxy Season Preview provides a summary of the major revisions to the MFS Proxy Voting Policies and Procedures ("Proxy Policy"), a review of the leading proxy voting issues as we approach the upcoming proxy season and details on our engagement priorities.

### **2020 Proxy Policy Amendments (effective February 1, 2020)**

Our Proxy Policy affirms our commitment to casting all proxy votes in what we believe to be the best long-term economic interest of our clients. It outlines our general view on many proxy voting issues, including those relating to director elections, stock plans, executive compensation ("Say on Pay"), and shareholder proposals relating to ESG matters. It also describes how we manage potential, material conflicts of interest in regard to our proxy voting, our use of proxy voting advisory services, and our oversight activities to ensure all votes are cast in an accurate, complete and timely manner.

Our Proxy Policy is reviewed at least annually and is typically updated in the first quarter of the calendar year. Our annual Proxy Policy review includes: i) an analysis of relevant regulatory developments, ii) a review of MFS' voting statistics for the most recent 12-month period ending June 30<sup>th</sup>; iii) a review of the disclosed proxy policies of many of our peers; iv) a peer analysis by ISS and Glass Lewis; v) industry summaries of growing trends in proxy voting; vi) input from MFS' investment team; and vii) participation in various industry roundtables and webinars. The 2020 amendments to our Proxy Policy became effective February 1, 2020.

### *Director Elections: Raising Diversity Standards in the European and Canadian Markets*

MFS believes that a strong corporate governance structure is essential to the preservation and enhancement of long-term shareholder value. We believe that a well-balanced and qualified board, specifically the notion of effective independent board leadership, is a critical component of a strong corporate governance structure. We also believe that a well-balanced and qualified board is comprised of individuals with varied skill sets and knowledge. An effective mix of skills, experiences and background can provide the board with valuable perspectives that in turn promote a well-functioning board of directors.

Gender diversity is one of many ways a board can enhance the diversity of views and skill sets. We believe this to be an important factor to consider when evaluating board composition at MFS' portfolio companies. For the 2018 proxy season, we began voting against the chair of the nominating and governance committee at any U.S. company whose board was not comprised of at least 10% female directors. For the 2019 proxy season, we began voting against the chair of the nominating and governance committee at any U.S. company whose board was not comprised of at least 15% female directors. This has resulted in approximately 120 votes against directors between February 1, 2019 (policy implementation) and September 30, 2019, as well as a number of meaningful engagement discussions with issuers.

Ultimately, we believe diversity of thought, not solely diversity of gender, is the main objective when thinking about board diversity. We note that, while our proxy voting policy contemplates the most readily available and reportable data point that allows us to make systematic voting decisions, we believe this policy position is an impetus to a broader discussion with our portfolio companies with respect to diversity of thought. We continue to have important conversations with our portfolio companies regarding their efforts to enhance diversity of thought, on the board level as well as throughout the organization, as a supplement to our voting policy. As market practice continues to evolve, we believe it is appropriate to increase our level of expected gender diversity in most markets. Effective February 1, 2020, MFS will vote against the chair of the nominating and/or governance committee or equivalent position at U.S., Canadian and European public companies that do not have at least 15% female representation on the board of directors. While this guideline currently pertains to U.S., Canadian and European companies, we generally believe greater female representation on boards is needed globally. As a result, we may increase the minimum percentage of gender diverse directors on company boards and/or expand our policy to other markets to reinforce this expectation.

### *Direction Election: Tenure of Lead Independent Directors in the U.S.*

We believe that good governance should be based on a board with at least a simple majority of directors who are "independent" of management and with key committees, such as compensation, nominating and audit committees, consisting entirely of "independent" directors. As such, we will not support a nominee to a board

of a U.S. company (or a company listed on a U.S. exchange) if, as a result of such nominee being elected to the board, the board would consist of a simple majority of members who are not “independent” or, alternatively, the compensation, nominating or audit committees would include members who are not “independent.”

While some view the length of a nominee's tenure as impactful as to whether such nominee is independent, we generally do not consider tenure as determinative of whether a nominee is or is not "independent." However, we believe that the criticality of the lead independent director role requires a greater level of scrutiny. In the case of a combined Chairman and CEO, we expect the lead independent director to be a strong and effective counterbalance. Effective February 1, 2020, we will evaluate nominees for a board of a U.S. company with a lead independent director whose overall tenure on the board exceeds 20 years on a case-by-case basis. We believe this approach is a prudent means of reviewing the effectiveness of the director charged with the responsibility of a strong, independent view to the board. While we will consider long tenure in our evaluation of lead independent directors, we are not changing our approach to how we evaluate the independence of director nominees in general.

### **2020 Proxy Season Preview**

Shareholder proposals will again be in sharp focus in the U.S in 2020. We anticipate issues such as climate change, gender pay equity and diversity to be leading topics, as well as proposals regarding shareholder rights such as the right to call a special meeting or act by written consent. We also expect that proposals requesting disclosure around political and lobbying disclosure will continue to be submitted. We anticipate that the number of proxy access proposals will continue to decrease, as general consensus between investors and corporate issuers has led to the broad adoption of the access provision thus reducing the need for shareholders to put forth resolutions.

We also expect to see attention on technology companies given shareholder concerns with multi-class share structures, board independence and typically elevated compensation. The impact of shareholder sentiment may be evidenced through an uptick of votes against compensation or against certain members of the board where responsiveness to shareholder concerns has been lackluster. Additionally, concerns around data privacy, cybersecurity and the social impact of technology platforms may translate into investors' analysis of a company's governance structure.

### **MFS' Global Engagement Program & 2020 Engagement Priorities**

MFS believes that open communication with portfolio companies on proxy voting issues is an important aspect of our ownership responsibilities. Our goal when engaging with portfolio companies is to exchange views on topics ranging from executive compensation to environmental issues, and to potentially effect positive change

with respect to such issues. We typically engage with senior members of the portfolio company's management team and believe such engagements have proven to be an efficient and effective mechanism to accomplish our engagement goals. However, we may request to speak directly to the company's board of directors if we believe a particular matter of concern requires escalation. Most of our engagements are held via conference calls to provide efficiency; however, some engagements may take place in-person or via a letter writing exchange.

In concert with our Proxy Policy updates that reiterate our focus on the importance of board composition, we plan to cover the following topics when engaging with MFS portfolio companies going forward: board diversity (specifically diversity of thought as well as diversity throughout the executive level and workforce) and corporate culture (including requesting transparency with respect to certain information about a company's workforce, such as employee turnover). We seek to understand the company's position on these issues and the actions taken to improve where the company may be short of market best practice. With respect to executive compensation, in addition to monitoring for a pay-for-performance alignment, engagement discussions may also include inquiries regarding overall quantum, potentially excessive perquisites and incentive structure including, but not limited to, performance period length and vesting requirements.

To engage with MFS on a corporate governance or proxy voting matter, please contact Lindsey Apple, Proxy Voting and Corporate Governance Manager, via email ([lapple@mfs.com](mailto:lapple@mfs.com)).

### **Additional Resources**

For more information about our proxy voting activities, including a complete copy of the MFS Proxy Voting Policies and Procedures, please visit the proxy voting section of [www.mfs.com](http://www.mfs.com).

For a summary and review of MFS' sustainable investing activities, please see the MFS' most recently available Sustainable Investing Annual Report, found in the sustainable investing section of [www.mfs.com](http://www.mfs.com).

For information on how the MFS Funds and MFS Meridian Funds voted their shares at shareholder meetings during the most recent 12-month period ending June 30<sup>th</sup>, please visit the appropriate section of [www.mfs.com](http://www.mfs.com). Quarterly voting reports for certain MFS-sponsored pooled vehicles are also available on the relevant [www.mfs.com](http://www.mfs.com) webpage.

### **Contact Information**

We would be happy to receive feedback from our clients on this report. Please contact Lindsey Apple, Proxy Voting and Corporate Governance Manager ([lapple@mfs.com](mailto:lapple@mfs.com)) or your client service representative.

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