



May 2022

MFS' ultimate objective is to create long-term value by allocating capital responsibly. The way we do that is by actively identifying companies we believe will generate strong investment performance over time and exercising the power of engagement and active ownership with the goal of further influencing their durability.

In our view, future investment returns are likely to be impacted by climate change and the policies designed to combat it. The purpose of this letter is to update you on some of the steps we are taking to address this.

Net Zero Asset Managers initiative

In July of 2021, MFS joined the Net Zero Asset Managers initiative (NZAM), a voluntary collective of 236 international investment managers with USD 57.5 trillion in assets under management. Signatories are committed to supporting the goal of achieving net zero carbon emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°Celsius.

As an NZAM signatory, MFS is required to:

- a) Disclose the scope of our commitment (the proportion of our assets that are aligned to net zero principles); and
- b) Establish and disclose interim targets (to 2030) aligned with this goal.

What is MFS' response?

In considering the scope of our commitment, we reflect on the fact that we operate as a global research platform, which allows us to include all of our listed equity and corporate bond investments. This is approximately 92% of our global AUM today. We fully intend to phase in remaining assets when there are robust methods to do so.

Our approach to achieving net zero alignment is predicated on the belief that engaging investee companies across all industry sectors to transition in line with the decarbonization of the global economy will reduce the overall climate-related financial risks within our clients' investment portfolios. While we believe this approach will help to influence positive change, moreover, we are convinced that it is in the best interest of clients and aligned with our purpose of creating long-term value responsibly. Our interim target is to align 90% of in-scope assets with these goals by 2030.

Impact through engagement

It has come to our attention that terms such as "exclusion" and "divestment" are often used interchangeably. While this is understandable, we believe there is a subtle – but important – distinction that is worth making, especially in articulating our net zero commitment. While investors may ignore entire sectors or industries before conducting any research (exclusion) or pass on specific companies based on specific analysis (avoidance), those employing an engagement or divestment strategy, on the other hand, do so after an investment has been made (from the position of ownership).

As active managers charged with being good stewards of our clients' capital, we avoid, engage with and divest from companies every day for a wide range of reasons (including ESG considerations), which may break or fulfill an investment thesis. We do this to accrete long-term value but we believe an exclusion-based approach hinders our ability to uncover what we believe are the best investments for client portfolios.

We appreciate that some investors seek to align their values with their investment decision-making process and may view exclusion as a tool to sway public opinion over time. However, given our investment principles, purpose-driven culture and fiduciary duty, we believe long-term engagement is likely to yield better real-world outcomes than excluding sectors and industries from a client's portfolio. As such, we apply a "portfolio coverage approach," whereby a percentage-based target of in-scope assets under management are covered by our active stewardship efforts. This includes engagement with investee companies and issuers, proxy voting and policy advocacy.

Our significant NZAM commitment supports our view that climate risk is investment risk and when better understood through deep investment research and constructive engagement, real long-term value can be created.

As we aim to deliver value responsibly for our clients, we look forward to partnering with the industry as we all go on this exciting and collective journey towards net zero by 2050.

Sincerely,

Ted Maloney
Chief Investment Officer

Franziska Jahn-Madell
Director of Global Stewardship