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Sustainable Investing at MFS

MFS has been actively managing our clients’ money since we created the first US open-end mutual fund in 1924. Deep fundamental research and a long-term perspective constitute the foundation of our investment approach. We seek to achieve our clients’ long-term economic objectives by responsibly allocating their capital.

As an active manager, we have always sought to identify investments that can add long-term value for our clients. In 2009, we formed the MFS Responsible Investing Committee and issued the MFS Policy on Responsible Investing and Engagement to ensure that the systematic consideration of financially material environmental, social and governance (ESG) issues is part of our investment process. In light of the rapidly evolving client and regulatory landscape and the need for us to be agile in response, we conducted a thorough review of our governance. As a result of this review, we are evolving our governance structure effective 1 January. The new structure will reflect the three core pillars of our strategic response — investment, client and corporate.

Over the past decade, we have made significant progress toward achieving our ESG integration goals. We have added resources dedicated to integrating sustainable investing into every aspect of our investment process, and we have developed a comprehensive sustainable investing framework. Also, we have enhanced our efforts relating to stewardship, which we define as our fiduciary duty to allocate capital responsibly, engage productively with companies and other industry participants and exercise our voting rights thoughtfully and deliberately.

This report provides a quarterly update of our ESG integration and stewardship activity. We hope it offers our clients insights into our sustainable investing approach and how we allocate their capital responsibly.

For a more comprehensive overview of sustainable investing at MFS, please visit mfs.com/sustainability, where you will find our Sustainable Investing Annual Report, our responsible investing and proxy voting policies (which govern our stewardship activities) and a wide variety of sustainable investing research and thought leadership.

We recognize that sustainable investing is an important topic for our clients, and we welcome any opportunity to discuss it further with you.
At MFS, it is our firm belief that a successful approach to sustainable investing requires the participation of our entire firm. Sustainable investing is not a separate discipline to us, but part of our fundamental investment process, and our investment professionals are actively engaged in, and responsible for, its success.

To facilitate the adoption, implementation and enhancement of sustainable investing practices across the firm, a number of individuals provide strategic leadership on sustainable investing and support the effective integration of sustainability topics across teams and disciplines.

### Investment Team
- Barnaby Wiener
- Rob Wilson
- Pooja Daftary
- Mahesh Jayakumar
- Gabrielle Johnson

### Stewardship
- Margaret Therrien
- Herald Nikollara
- Franziska Jahn-Madell
- Andrew Jones

### Client-Facing
- Vishal Hindocha
- Tessa Fitzgerald
- Dan Popielarski
- George Beesley

### Legal & Compliance
- Justin McGuffee
- Nick Pirotta
- Brad Wilson
- Sue Pereira
Investments

Barnaby Wiener, one of our most seasoned portfolio managers, serves as head of sustainability and stewardship. A leader and culture carrier who has long been a champion of sustainability, Barnaby works closely with our three ESG-dedicated research analysts to engage with investment leadership, portfolio managers and analysts in order to ensure that all our investors truly understand and own sustainability in their research and portfolio management duties. He also plays a strategic role in engaging issuers on sustainability topics.

Our investment team includes two equity research analysts, one fixed income research analyst and one fixed income research associate who are dedicated solely to ESG research and who have done much to advance our investment team’s thinking on ESG topics. Our analysts play a critical role in facilitating our sustainable investing efforts. However, they are not intended to be the source of all ESG research. Their role is to support and improve the ongoing research into ESG topics performed by our managers and analysts.

Stewardship

MFS has added two new members to our stewardship team, which will now sit within the investment team and comprises four individuals. Fran Jahn-Madell, joined us in London as our new director of global stewardship. Fran was previously the director of responsible investment at UK-based active investment manager Ruffer. We also welcomed Andrew Jones, a stewardship analyst in our London office. Andrew was previously the European stewardship team lead at Federated Hermes EOS and has over a decade of experience in sustainability. Margaret Therrien and Herald Nikollara will work with Fran and Andrew as part of the stewardship team.

Client sustainability strategy

We have four individuals dedicated to engaging with our clients and the investment industry on ESG issues as well as developing thought leadership around sustainability topics. This team plays an important role given the level of interest on the part of participants in understanding how asset managers such as MFS approach sustainable investing.

We have added Tessa Fitzgerald to the Sustainability Strategy Team, who joins us as a sustainability content writer, having developed her ESG understanding at MFS on our RFP team. Another member of the Sustainability Strategy Team moved on to pursue new interests.

Legal and Compliance

Three individuals in our Legal Department are dedicated to assessing and monitoring the ESG-related regulatory landscape to ensure MFS is aware of all the relevant regulations in jurisdictions where we do business and complies with them appropriately. Justin McGuffee has taken on a new role in the compliance team, specializing in ESG-related compliance issues.
ESG Integration Update
Fourth quarter 2021

Sustainability strategy
During the fourth quarter of 2021, there were no substantial changes to our overarching ESG integration strategy or engagement practices. Our proxy voting policies, outlined below, have been updated.

During the quarter we had meetings with the U.S. Securities and Exchange Commission (SEC) on the subjects of tax and climate change. We joined the FACT Coalition and the SEC in talks on tax transparency, public country-by-country reporting and sector-specific tax transparency. During recent discussions, we focused on encouraging the SEC to require disclosure on both transition and physical risks.

Rob Wilson, one of our ESG-dedicated research analysts, has accepted a role on the PRI’s (Principles for Responsible Investment) new Human Rights Advisory Committee, and as part of that effort MFS is working to release our own human rights policy in the near future.

Industry initiatives
During the quarter, we joined the Institutional Investors Group on Climate Change (IIGCC), the European membership body for investor collaboration on climate change. The IIGCC’s mission is to support the investment community in driving significant progress, by 2030, toward net zero emissions, achieved through capital allocation decisions, stewardship and successful engagement with policymakers and fellow investors.

We also joined the Interfaith Centre on Corporate Responsibility (ICCR), an association advocating for corporate social responsibility, and we share their commitment to moving the current business focus away from achieving short-term returns and toward sustainable strategies.

ESG Research
We have made significant updates to our ESG integration IT tool. Our investment and IT teams collaborated to design and launch a proprietary internal engagement functionality that will now be part of our global investment research platform and will enable the team to track our engagements across investments and stewardship. With this functionality we will 1) be able to make better investment decisions by capturing engagements across our platform and better identify trends/insights to share with the team, 2) easily and systematically track ongoing engagements including next steps and outcomes, 3) Allow us to share the entirety of our engagement work with regulators and clients.

In a recent sector meeting, we discussed our views on various ESG topics as they relate to the utilities sector. We believe that opportunities outweigh risks for the sector as we transition to a low-carbon economy. Regulated electric utilities have the ability to de-carbonize their generating fleets over time by adding renewables and retiring coal generation. In fact, most utilities have net zero targets of 2050 or earlier, and each year plans to retire existing coal plants are accelerated. It will take a significant amount of capital to fund the transition of the generating fleet, which provides the opportunity for earnings and cash flow growth going forward. We discussed the primary risks for the sector: stranded asset risk, physical risk and regulatory risk. Our view is that coal generation is highly unpopular, and many utilities are accelerating plans to retire coal plants, so the amount of earnings coming from coal generation continues to decline. Given the amount of capital utilities are investing in the electric grid, constructive regulatory relationships that allow the timely recovery of costs will be important to maintaining strong credit profiles.
We believe that open communication with companies and issuers on ESG integration practices is an important aspect of our ownership responsibilities. Our goal when engaging is to exchange views on ESG topics that in our view represent material financial risks or opportunities for companies or issuers, and to effect positive change on such issues. We believe that large, long-term-oriented asset managers who engage companies and issuers on these topics can positively influence governance and business practices by encouraging executive teams to view ESG issues as relevant to an increasingly broad investor base and worthy of further consideration.

We typically engage with companies and issuers on ESG issues in four ways:

1. **Informal investment team–led engagement** — Our investment team engages with companies on a consistent basis, often sharing ideas and asking ESG-related questions of management teams during meetings in our offices. We view these meetings as informal engagement opportunities as the discussion is often focused on driving corporate change but sometimes on better understanding the risk/return profile of the company’s securities.

2. **Formal investment team–led engagement** — Each year, our investment team requests ESG-focused meetings or writes formal letters with the aim of engaging with companies’ boards on ESG topics.

3. **Collective and other forms of engagement** — We often engage with sponsors of shareholder initiatives or proposals, which helps inform our views on important proxy voting issues, and we participate in various industry working groups and organizations that seek to develop thought leadership on emerging proxy voting issues. MFS may send letters to regulatory agencies to encourage corporate governance reform when we feel it is warranted.

4. **Formal stewardship–led engagement** — Members of our stewardship team engage in a dialogue with a company or other stakeholders when we believe the discussion will enhance our understanding of the company’s proxy statement, or to discuss long-term engagement priorities and thematic topics that are of interest to our proxy voting committee.

For more detailed information, or to view our Sustainable Investing Annual Report and our responsible investing and proxy voting policies, please visit [mfs.com/sustainability](http://mfs.com/sustainability).
As mentioned above, MFS has added two new members to our stewardship team, Fran Jahn-Madell and Andrew Jones. They will work closely with Margaret Therrien and Herald Nikollara on MFS’ ongoing stewardship activities.

Positioning this expanded stewardship team within our investment team will improve the collaboration between our proxy voting professionals and our investment professionals, with the goal of more efficient and impactful engagements and voting decisions across our holdings. With these additions, we have increased the size of the team and added substantial experience from outside the organization, which we believe will enhance our idea-generation capabilities and facilitate more proactive and strategic stewardship activities.

We have revised the MFS Proxy Voting Policies and Procedures ahead of the upcoming proxy season. The updates, effective 1 January 2022, are outlined below.

1. We increased the threshold for the proportion of female board directors at any US, Canadian, European or Australian company from 15% to 20%. MFS will generally vote against the chair of the nominating and governance committees for boards that do not meet this hurdle.

2. Because we believe future investment returns are likely to be impacted by climate change and policies designed to combat it, we expect our companies to develop a climate plan to reduce their emissions in line with the Paris Agreement. As such, we generally support proposals requesting that a company 1) provide climate disclosure that is consistent with the recommendations of a generally accepted global framework (e.g., Task Force on Climate-Related Financial Disclosures), appropriately audited and presented in a way that enables shareholders to assess and analyze the company’s data and 2) develop, disclose and implement an emissions reduction plan aligned with the Paris Agreement.

3. We clarified our policy on proposals related to the right to call a special meeting or written consent threshold. MFS generally supports proposals requesting the right of shareholders who hold at least 10% of the issuer’s outstanding stock to call a special meeting. The firm also usually accepts proposals requesting the right for shareholders to act by written consent.

Our stewardship team continues to work closely with other members of our investment team in our engagement activity. Many of our discussions during the fourth quarter focused on issuers’ responses to 2021 vote results along with compensation, governance, climate change and other ESG issues ahead of the 2022 proxy voting season.
Representative Engagement Activity

ESR Cayman

Asian real estate development, leasing and management company

**Sector:** Real estate  
**Industry:** Real estate  
**Date:** October 2021  
**Participants:** Analyst team  
**Meeting type:** Letter

In a recent letter as a followup to past engagements, we raised our concerns with ESR Cayman, a real estate company, regarding the lack of relevant experience of an independent director whose personal interests had also been called into question. This particular director will be stepping off the board next year. We also encouraged the company to reduce the number of directors as we feel a large board reduces individual board member accountability, and to increase gender diversity, as limited gender diversity can suggest a lack of openness to new ideas and perspectives.
MFS met with the lead director of Air Products on the company’s vision and growth strategy, board versus management control, oversight and governance, and culture. We discussed the very positive impact of the company’s CEO and Air Products’ outlined succession planning, which is ongoing and dynamic given the advanced age of the incumbent. The company is assessing overall energy levels on the board rather than the age of its constituents. Also discussed were the opportunities for adding value in the areas of hydrogen and carbon capture. The board meet quarterly to discuss the viability of potential projects across the firm, which are assessed both on factors of sustainability and on returns, and projects are required to deliver on both. Overall, we feel the board is well equipped to manage opportunities.
Comcast

Media and technology company

Sector: Communication services

Industry: Media

Date: November 2021

Participants: Covering industry analyst

Meeting type: Conference call and letter

MFS followed up an engagement with Comcast, a large North American telecommunications company, by sending a formal letter asking it to disclose employee turnover data. We sent the same letter a year ago, and it explains our perspective on the matter: We believe that an organization’s culture is critical to its long-term success or failure and a crucial driver of long-term value creation. We commended Comcast on its diversity and composition disclosures and much appreciate the progress it has made. We do not feel there is a “correct” level or trend when it comes to employee attrition but think disclosure can facilitate a dialogue that can in turn help us understand the reasons for changes and the long-term objectives of the company. We provided the company examples of other companies in the telecom industry who we think are doing a particularly good job in this area.
Our stewardship team and other members of our investment team spoke with representatives of NextEra Energy, focusing on environmental and governance matters. Specifically, we discussed the company’s current GHG emission disclosures and climate planning. MFS advocates for emission reduction plans aligned with the Paris Agreement, and we explored the company’s ongoing efforts to set short-, medium- and long-term goals, including those targeting net zero. On governance, our discussion focused on the role of the board’s lead independent director. At the time of our discussion, this role was held by the company’s longest-tenured director. For boards with a combined CEO and board chair role, we look to see an appropriate and counterbalancing leadership structure in place (e.g., a strong lead independent director with the appropriate powers and duties). We discussed the board’s refreshment practices for the lead independent director role and the robustness of that director’s duties and responsibilities.
Our stewardship team and other members of our investment team spoke with representatives of Microsoft Corporation, focusing on board updates as well as specific ballot items in advance of the company’s upcoming annual shareholder meeting. We discussed recent changes in board composition and the addition of a new director in 2021 as well as proposed changes to the executive compensation program. We explored the company’s efforts to integrate ESG metrics into executives’ incentives and noted that diversity and inclusion metrics are currently incorporated into the company’s annual incentive program. Much of the engagement focused on five shareholder proposals on the ballot. We discussed the company’s efforts to engage with shareholder proponents, the board’s concerns with the requests being made, and any progress made on certain concerns raised by the proponents. One proposal that was discussed requested a report on the effectiveness of workplace sexual harassment policies, which MFS voted in favor of following further communication among our stewardship team and other members of our investment team. The proposal was supported by a strong majority (78%) of shares voted, indicating clear shareholder concern.
MFS met with this specialty chemicals company during the fourth quarter. As part of a growing focus on climate change, we applauded the company’s efforts to adopt a science-based carbon reduction target. In our research, we noted that the company’s Scope 2 carbon intensity was almost double that of its peers. The company said this was because it was more vertically integrated than its peers and that the business mix was slightly different, leading to more purchased electricity. We discussed the growth potential of its “sustainable” products and brought up the subject of tracking water stress for future discussion. Other topics discussed included staff turnover, the company’s approach to cybersecurity and succession planning. There are also a number of topics on which we feel we may need more information, and we welcome any opportunity to discuss these with the company.
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 professionals, 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.