White Paper
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How ESG fits into MFS LifePlan Funds

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Intensifying marketplace interest in environmental, social and governance (ESG) integration has brought a new dimension to the way plan members think about retirement funds. ESG integration considers material environmental, social and governance factors in addition to traditional valuation factors in pursuing the objective of maximizing financial returns and mitigating risk — it isn't motivated by the desire to advance an environmental or social goal (impact investing) or to invest in a way that reflects plan member values (socially responsible).

MFS has a long history of integrating ESG factors, along with other material factors, into our investment process and portfolios. To support this, we seek to engage with companies and ensure they are managed for long-term value creation. We incorporate ESG factors into the MFS LifePlan Funds, our target date suite, which invest directly in a wide range of MFS equity and fixed income portfolios.

We expect plan member demand for ESG-related investments will continue to increase, giving plan sponsors the opportunity to fit such investments into their menus while still maintaining their fiduciary duty.

Product versus process: Different approaches to incorporating ESG into target date funds

In our view, there are two dominant approaches to ESG investing that can be regarded as product-led and process-led:

- Product-led: The addition of ESG-labelled funds to the investment menu. These often employ screens or benchmark tilts or target specific companies.
- Process-led: ESG-related factors are integrated during the company evaluation, security selection and portfolio construction process.

At MFS, we believe in and focus on a process-led approach. The integration of material ESG factors into our research process is reflected across our global research platform, which affects every portfolio we manage, including our target date suite of the MFS LifePlan Funds. That's because we believe these factors, in addition to other fundamental factors, represent risks and opportunities that can, and frequently do, affect the long-term value of securities we own on behalf of our clients. The following shows examples of traditional and ESG factors that are considered.

Environmental

- Climate change
- Greenhouse gas (GHG) emissions
- Resource depletion,including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labor
- Local communities, including indigenous communities
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

Our approach brings ESG integration into our research process as well as proxy voting and issuer engagement, and helps us to identify companies that we believe exhibit long-term competitive advantages.

ESG integration works its way into our target date suite. For our investment personnel to make effective investment decisions, all relevant material factors are considered when evaluating securities and constructing portfolios. ESG information represents an additional dataset, which enables a more holistic understanding of risks and opportunities that could affect the long-term viability of a business.

The power of engagement

It is our view that stewardship is a critical component of ESG integration. We believe influencing real-world outcomes is more likely to be achieved through strong relationships and regular, mutual dialogue with the companies we invest in rather than through taking an exclusionary approach. ESG topics are some of many topics we discuss with companies. Our goal when engaging is to exchange views on any fundamental topic that represents a material risk for companies or issuers, and to effect positive change on such issues. We believe that long-term-oriented asset managers who constructively engage companies on these topics can positively influence a multitude of better business practices, which we believe may ultimately accrete value.

While we recognize the appeal of seeking to exert influence through exclusions, we view this approach as an abdication of responsibility, and feel that ESG-labelled products based on exclusion and divestment are misaligned with our clients' objectives and our stated purpose of creating value. Moreover, we believe an exclusionary approach can hinder future returns by seeking to avoid low-rated companies with improving ESG characteristics, or certain sectors, such as energy. As is true in all aspects of investing, we can't simply avoid every material ESG risk that may arise. Instead, we must focus our efforts on engaging with the companies we invest in to ensure our portfolios are well positioned to manage those risks, while also aiming to take advantage of ESG opportunities.

MFS LifePlan funds incorporate ESG

Security-level recommendations by MFS analysts reflect integration and assessment of ESG factors in addition to other material fundamental factors. Recommended securities will often make their way into our equity and fixed income portfolios. The LifePlan funds, as a fully proprietary suite, are 100% invested in a broad range of MFS portfolios. As a result, ESG integration is embedded within the target date portfolios, not because we target a specific long-term outcome or ESG rating, but because ESG is integrated into our research process in an effort to maximize risk-adjusted returns.

MFS LifePlan Funds — What's Under the Hood*

CANADIAN EQUITY	GLOBAL EQUITY	FIXED INCOME	NON-TRADITIONAL
Fundamentals • MFS Canadian Research Equity Fund • MFS Canadian Equity Fund **Low Volatility** • MFS Low Volatility Canadian Equity Fund	**Fundamentals** • MFS Global Research Fund • MFS Global Equity Growth Fund • MFS Global Equity Value Fund • MFS US Equity Core Fund • MFS International Equity Fund **Low Volatility** • MFS Low Volatility Global Equity Fund	**Fundamentals** • MFS Global Research Fund • MFS Global Equity Growth Fund • MFS Global Equity Value Fund • MFS US Equity Core Fund • MFS International Equity Fund **Low Volatility** • MFS Low Volatility Global Equity Fund	**REITs** • MFS Global Real Estate Fund

MFS LifePlan Funds are diversified across and within asset classes.

*As of December 31, 2023.

Key takeaways for plan sponsors to consider

- Screen with care: Consider the extent to which your manager employs exclusions and how this might affect the underlying characteristics of the portfolio. Managers' tools of influence should be aligned with the overall values of the organization and should be working in the best interest of portfolio returns and their fiduciary duty.
- Process over product: Consider the extent to which your managers incorporate ESG as part of their overall investment process. Are the investment decision makers incorporating ESG, or is there a separate team of individuals responsible for managing ESG considerations?
- Harness active ownership: Engagement is a powerful way to influence companies. Managers who take this approach should be able to demonstrate that they are regularly and actively engaging with companies on ESG issues. They should be able to articulate their objectives and describe their rationale for choosing them, as well as be able to provide examples of engagements they have had with companies.