



# Your Money Matters

Where does your money go and why should you care?

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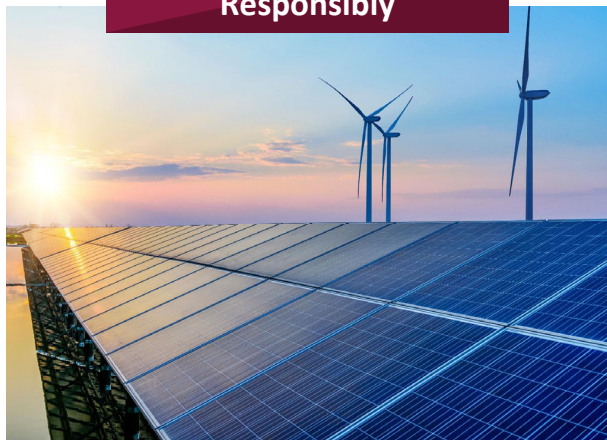
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## What does this mean for you?

### Create Value Responsibly



### Financial Implications



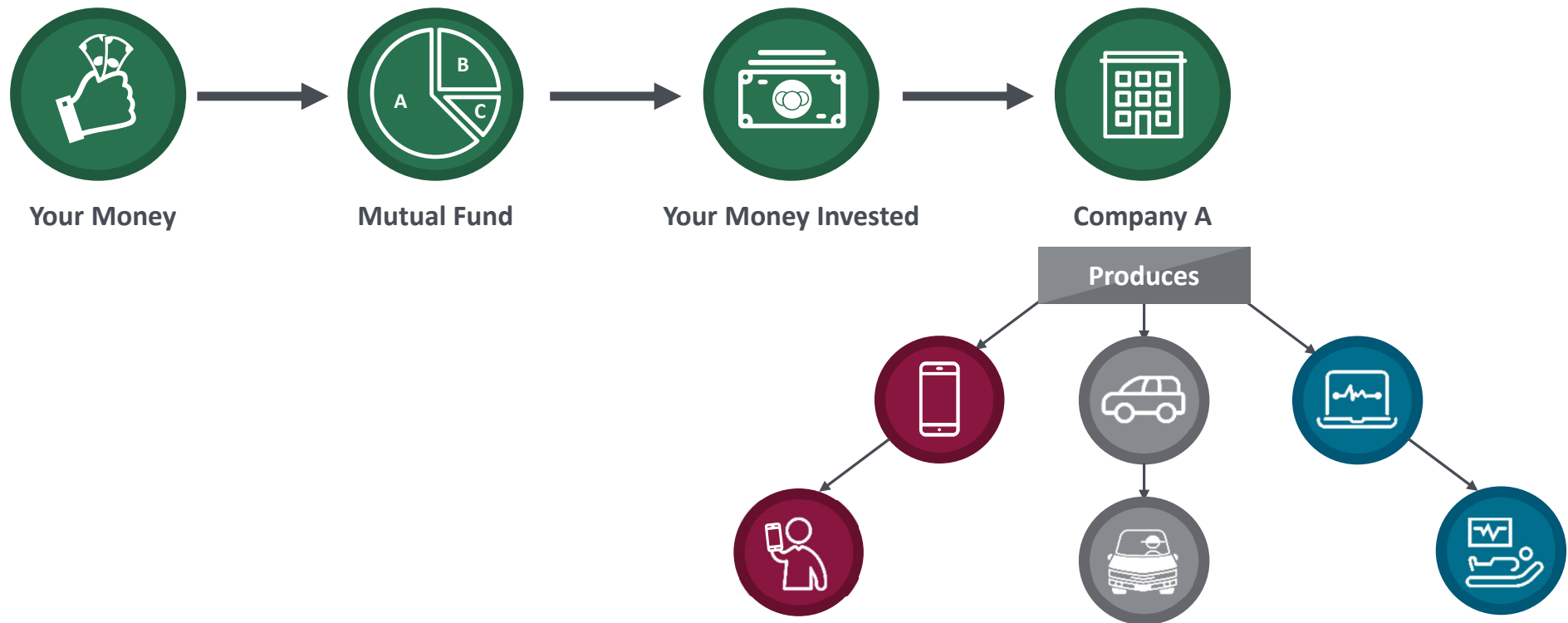
### Positive Influence on Corporate Behavior



**You have more power than you may think**

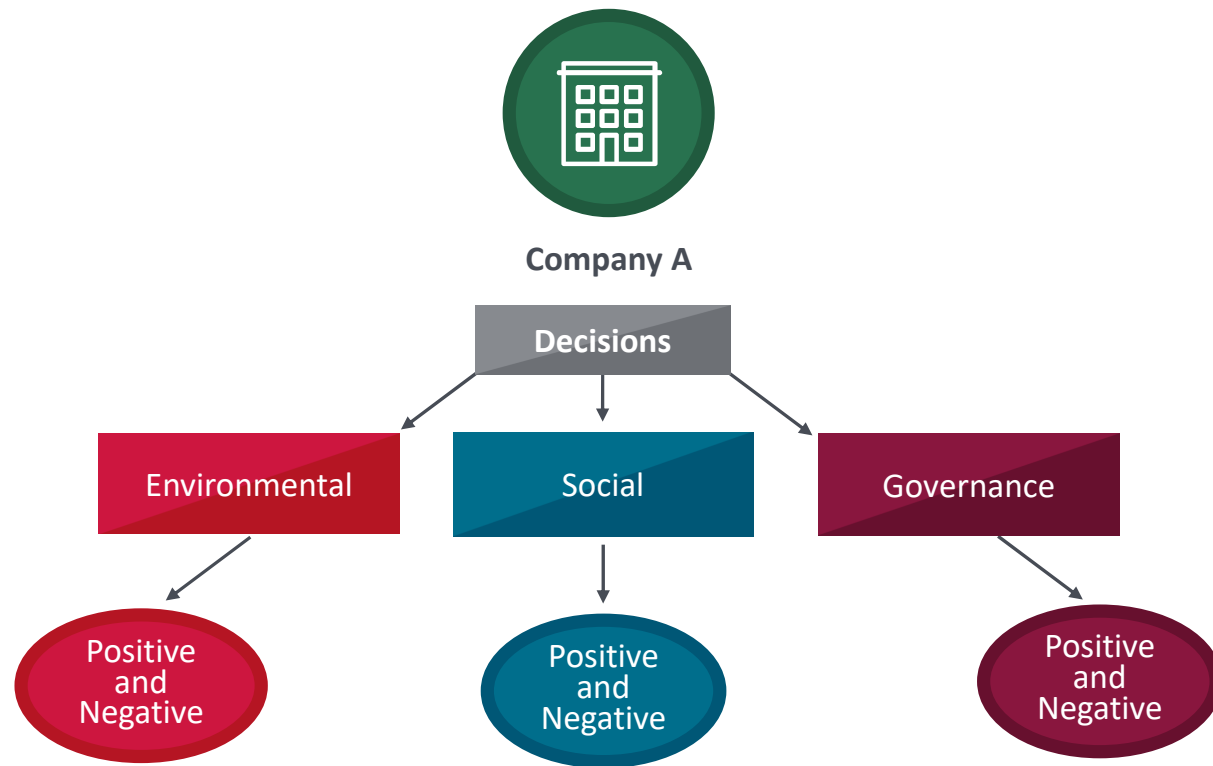
## CREATING VALUE RESPONSIBLY

## Where does your money go?



Once invested, a company's management heavily influences your financial outcome

Congratulations! You are part owner of Company A

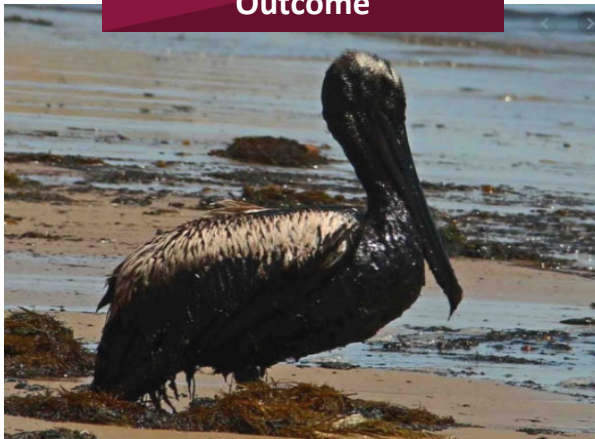


For better or worse, the company's management decides how to spend your money

# Corporate decisions may have financial and societal implications



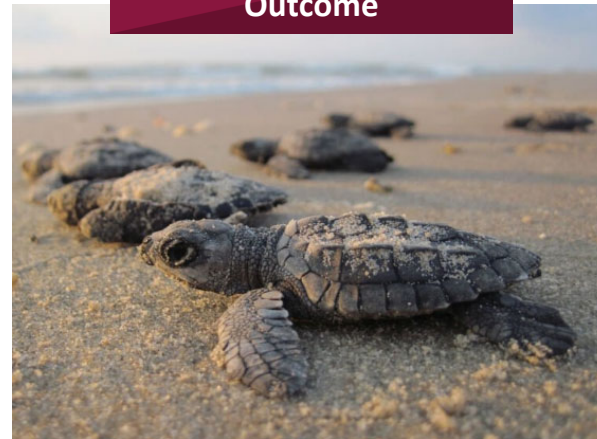
**Negative Environmental Outcome**



**Oil Spill**

Hazardous Waste and Pollution

**Positive Environmental Outcome**

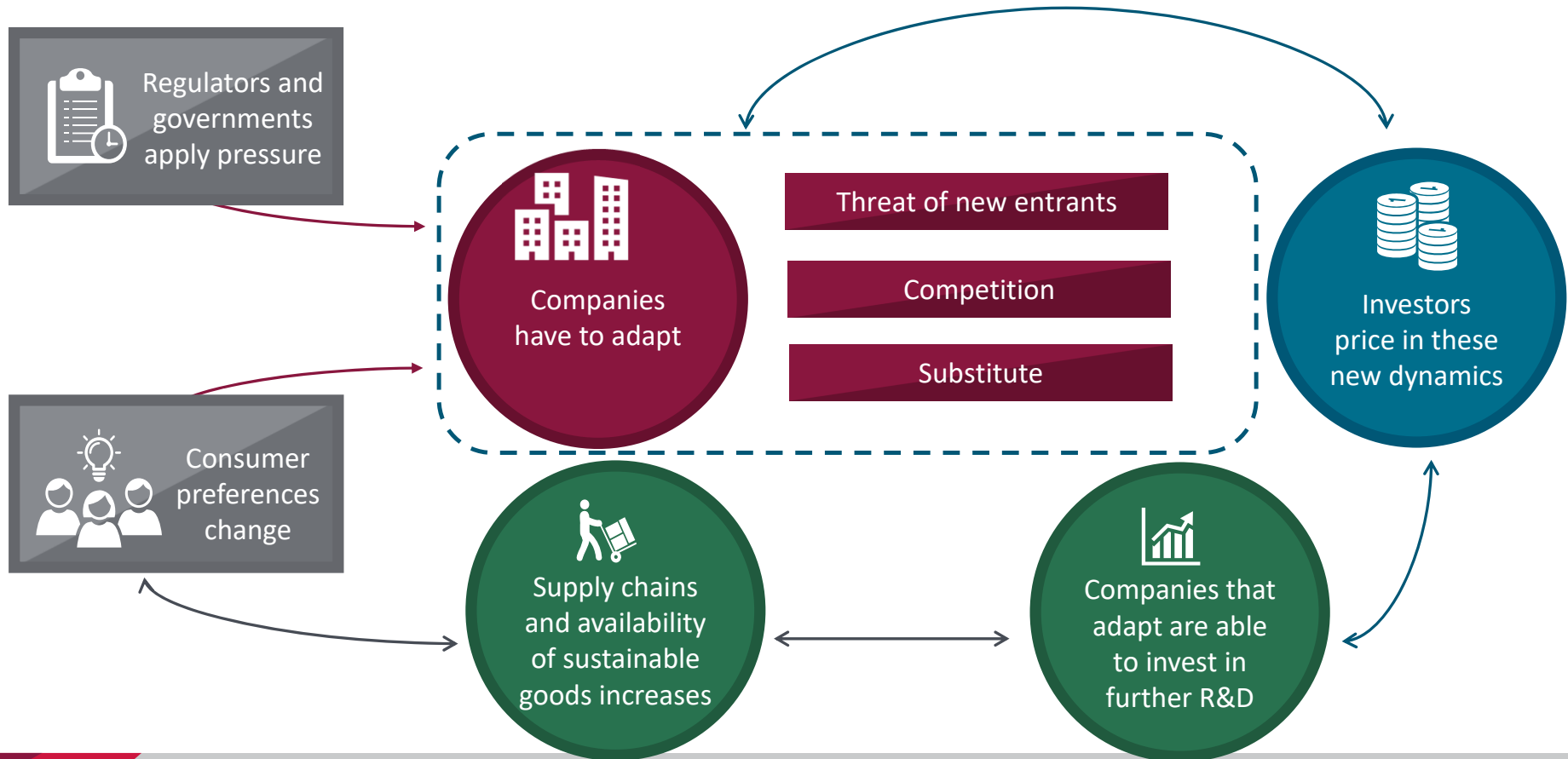


**Cleaner oceans**

Hazardous Waste and Pollution

**Companies have great power but not all use it responsibly**

## Pressure for companies to change is coming from above and below



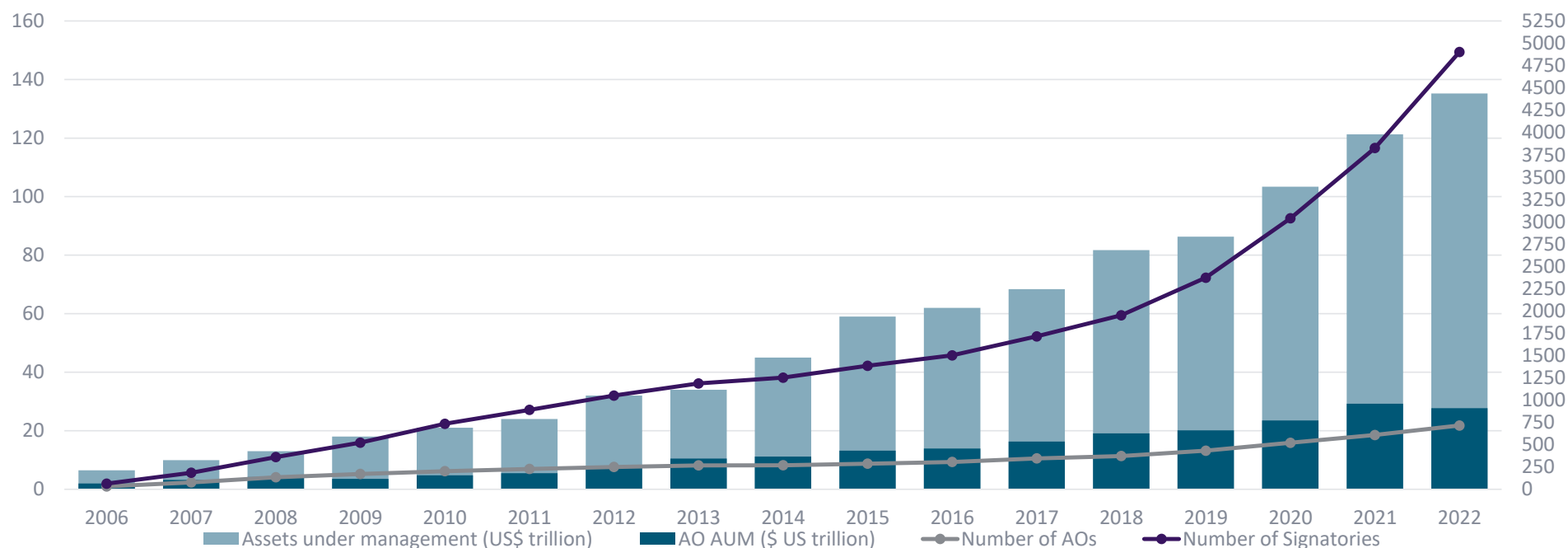
**Companies have to adapt or they won't remain competitive**



# Is this a fad?



## Principals of Responsible Investing Members

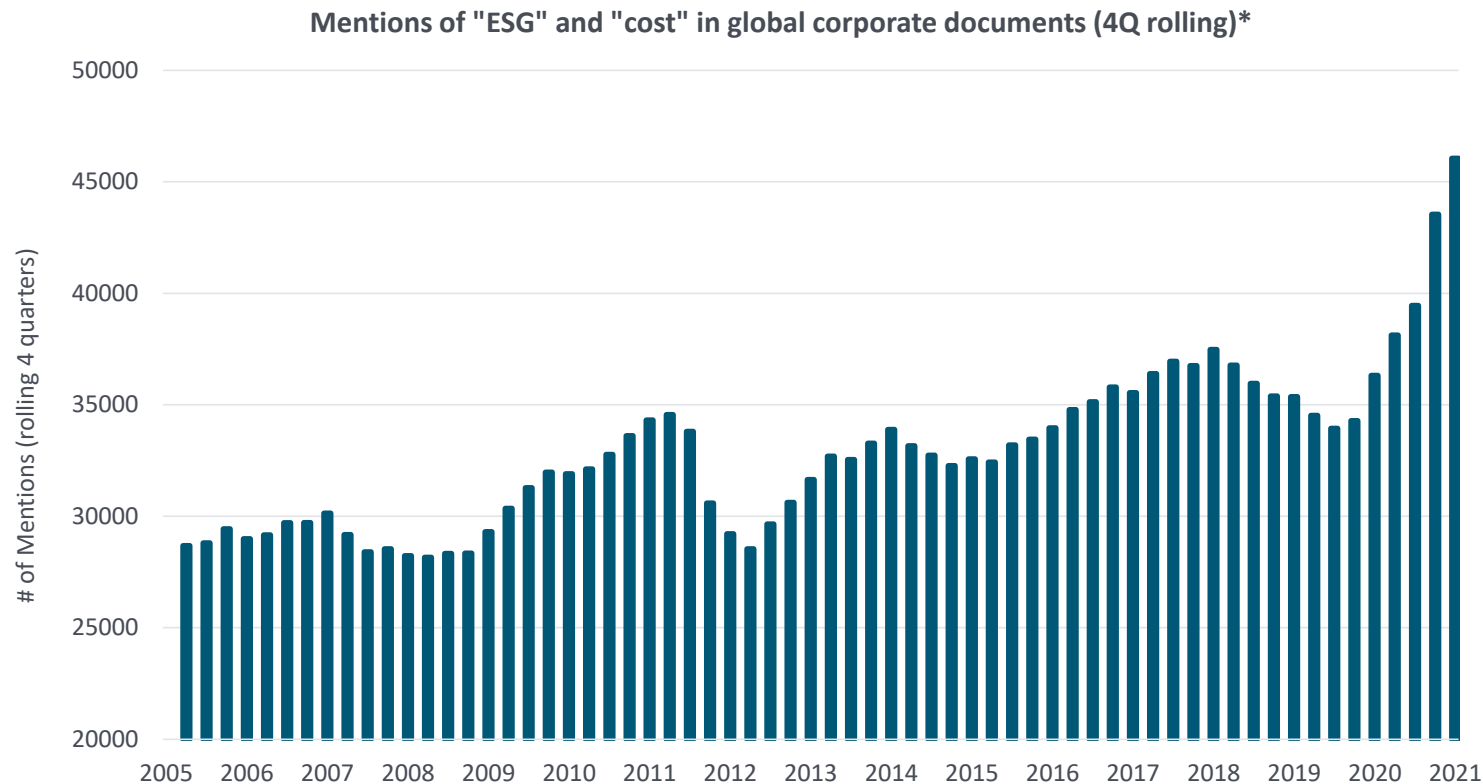


Source: PRI. Methodology: Total Assets under management (AUM) include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by end of March of that year. Total AUM since 2015 excludes double counting resulting from subsidiaries of PRI signatories also reporting, and external assets managed by PRI signatories. AUM for previous years include some element of double counting. Asset Owners' (AO) and Total AUM for 2014-2022 are based on reported information (and include double counting). AO AUM for 2007-2013 are estimates calculated using 2014 AO AUM data, growth rates for 2007-2013 from the OECD pension market focus report from 2015, and signing dates of signatories to the PRI. Number of AO and total signatories provided by GNO through salesforce and includes service providers (SP).

**Professional investors are taking this seriously**

# Many companies recognize they need to be better corporate citizens

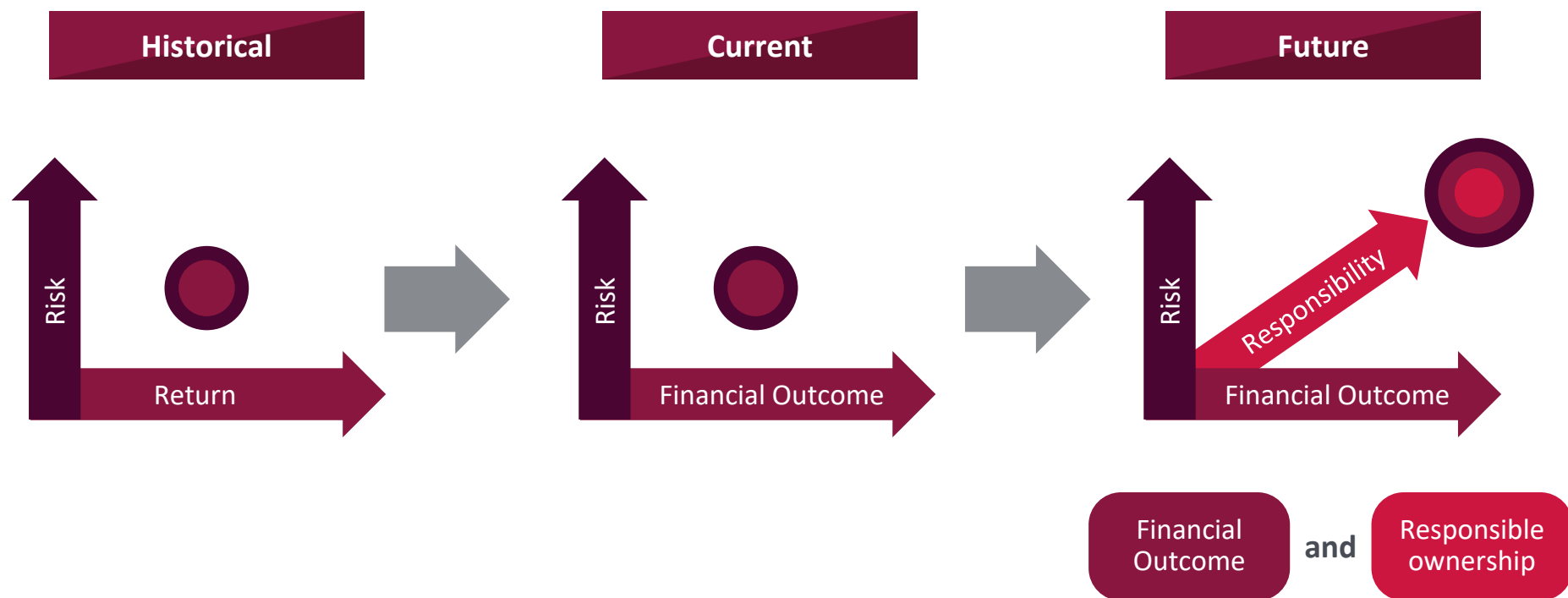
## Increasingly Referencing Sustainable Development Goals



Source: AlphaSense, Deutsche Bank. Quarterly data from 30 September 2005 to 30 June 2022 (latest available). \*Mentions of "ESG" and "cost" are at a maximum distance of 5 words within one another. ESG = Environmental, Social and Governance.

**Companies are starting to look at the interests of all stakeholders (customers, suppliers, community)**

## Investors preferences are changing



Source: MFS Investment Research. For illustrative purposes only

***How returns are made is becoming increasingly important***

# **Financial Implications**

## **Managing Long-Term Risks, Not Short-Term Profits**

## Asset managers discuss many issues with companies



### 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

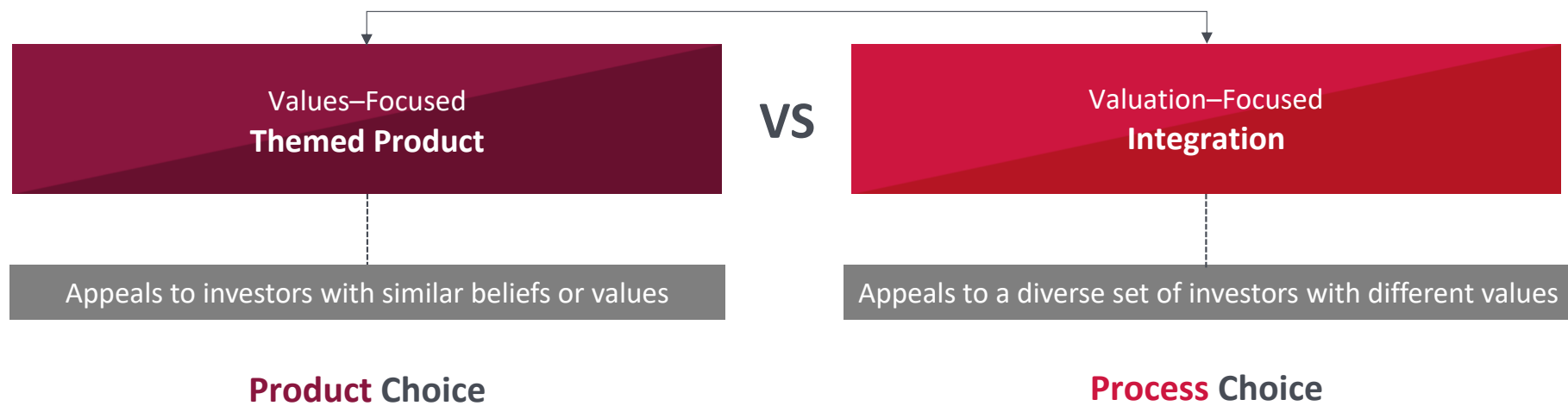
- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

Any of these factors could impact how a company is positioned for tomorrow's economy



## ESG investing: Product vs. Process

### Approaches to Incorporating ESG Factors



It's important to understand how your money is invested

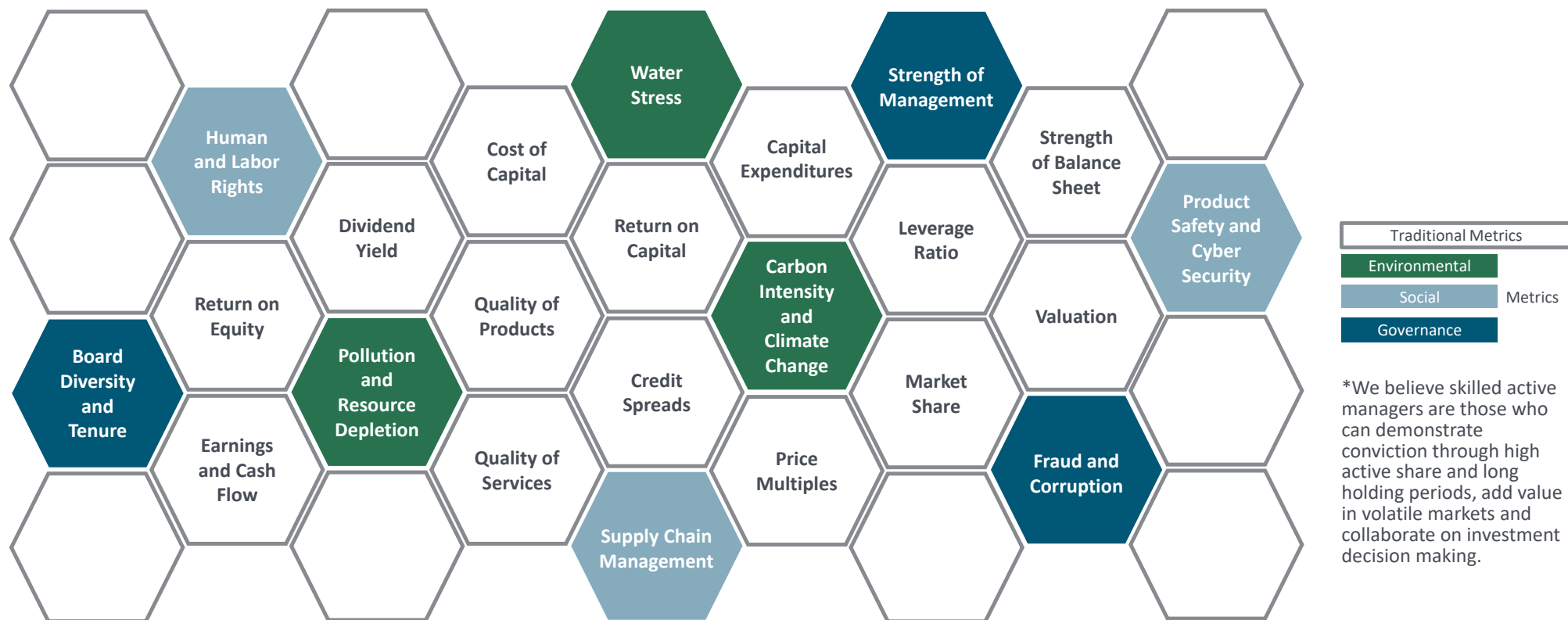
Labels aren't enough: Know what you own



In investing, finding what's behind the label matters

# ESG Information Is Fundamental Data

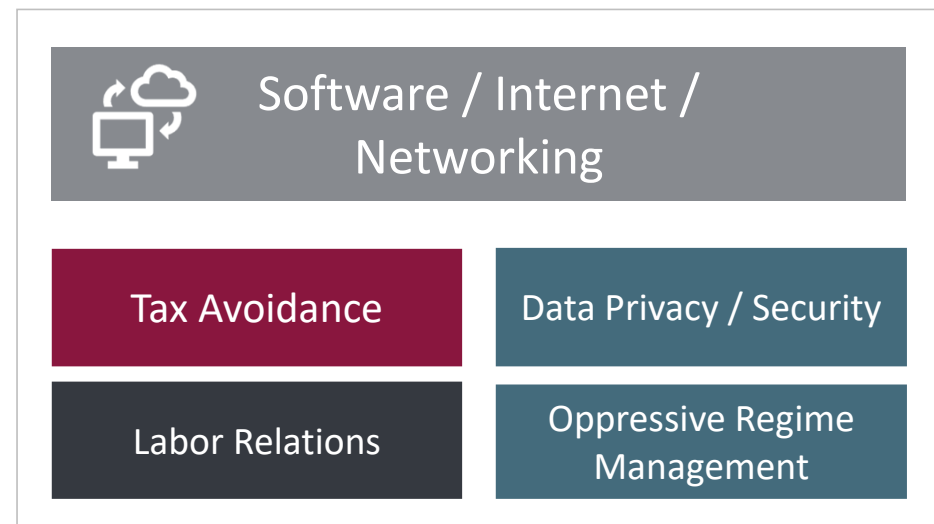
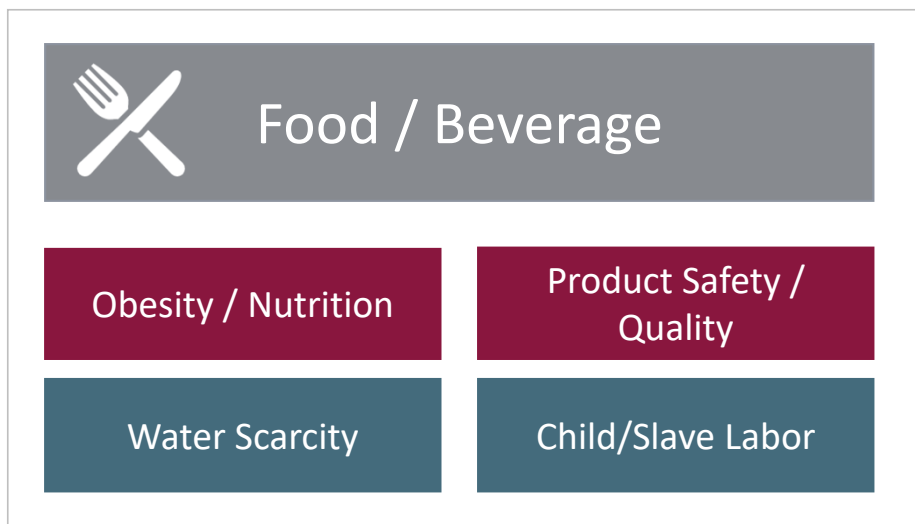
*Skilled active managers must consider all relevant information\**



\*We believe skilled active managers are those who can demonstrate conviction through high active share and long holding periods, add value in volatile markets and collaborate on investment decision making.

MFS may consider environmental, social, and governance (ESG) factors in its fundamental investment analysis alongside more traditional economic factors where MFS believes such ESG factors could materially impact the economic value of an issuer. The extent to which any ESG factors are considered and whether they impact returns will depend on a number of variables, such as investment strategy, the types of asset classes, regional and geographic exposures, and an investment professional's views and analysis of a specific ESG issue. ESG factors alone do not determine any investment decision. MFS may incorporate ESG factors into its engagement activities when communicating with issuers but these engagement activities will not necessarily result in changes to any issuer's ESG-related practices.

## Financial materiality influences investment analysis



### Potential Financial / Valuation Impact

Modest

Moderate

High

Source: MFS Investment Research. For illustrative purposes only. This may not be a full list of all of the risks and opportunities within an industry.

**Focus on issues that pose the largest risks and opportunities for a company**

## What you see isn't always what it appears

Which is a better long-term investment?



### Electric Vehicle

- + Low emissions may be better for the environment over the long term and has historically led to high ESG ratings
- Low social scores, poor employee relations, high worker injury rates



### Traditional Automaker

- ESG ratings downgraded by prior scandals
- + Automaker is working behind the scenes to make improvements
- + Automaker is increasing their investment in electric vehicles

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**There is no perfect company; analysis is critical to investing money responsibly**



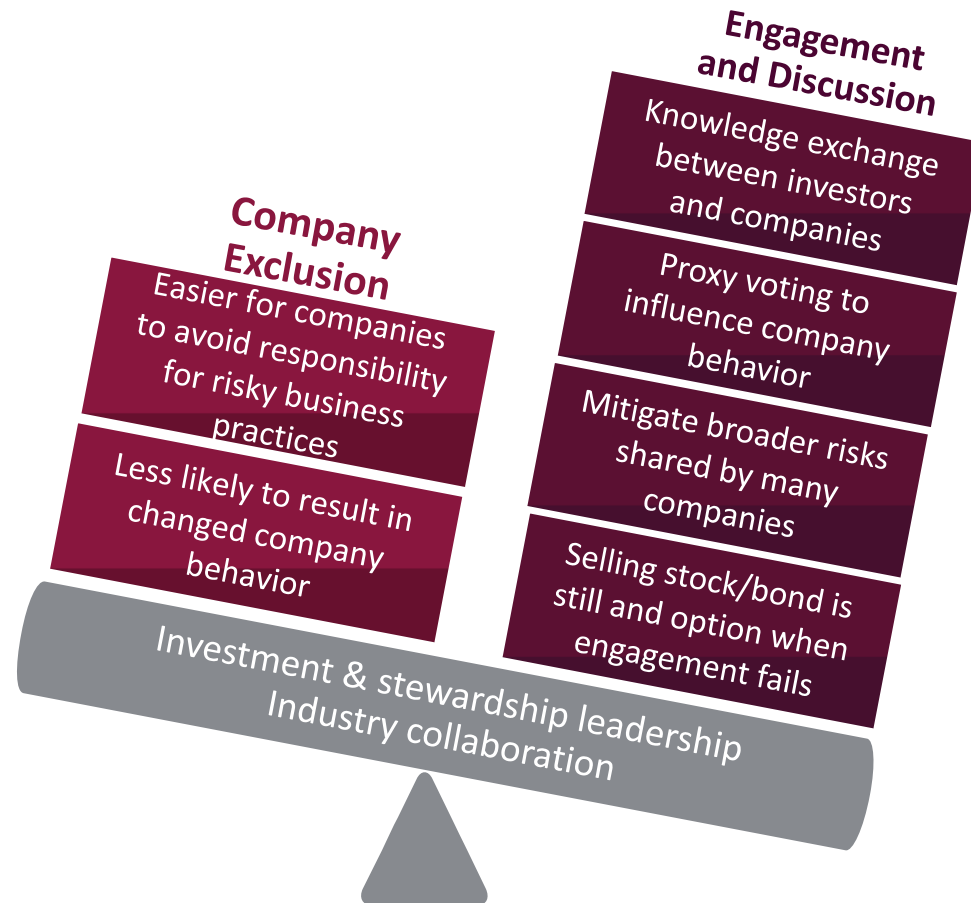
## Encouraging Active Ownership

Would you buy this house unseen?



**Don't buy without a complete picture of what's going on inside**

# The Power of Active Ownership

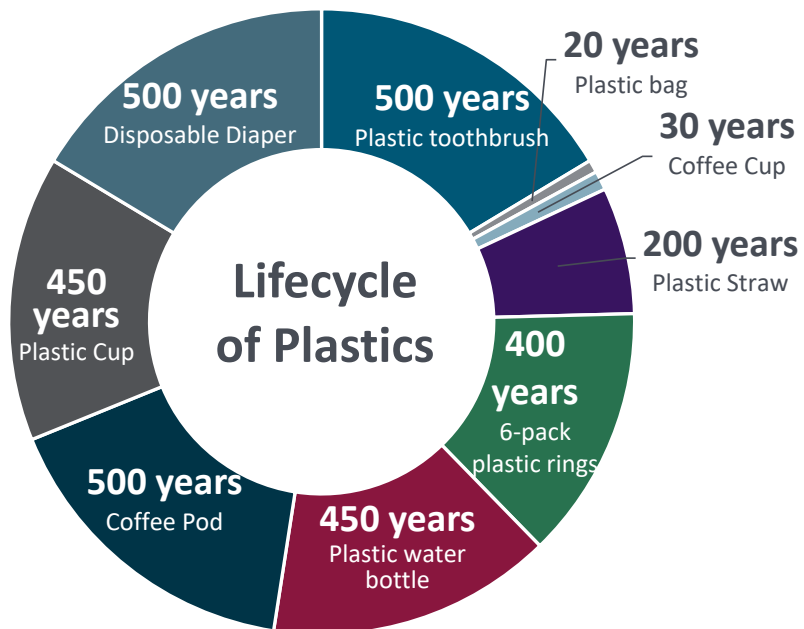


## ESG Engagement Discussions and Escalation Toolbox

- Frequent outreach from both sides
- Voting
- Letter Writing
- Withholding support or voting against management
- Withholding support or voting against specific resolutions
- Investor collaboration
- Making a statement at a company's annual shareholder meeting
- Selling the stock or bond

## Engagement in action – Environmental

*In-Depth Engagement with Consumer Staples Company*



Source: WWF, "No Plastic in Nature: Assessing Plastic Ingestion From Nature To People," June 2019

### Dealing with the plastic problem

- Understand the big picture theme
- Assess how it impacts value chain
- Research what companies are doing
- Evaluate how companies are affected
- Engage with them for long-term change

**Investors can influence positive long-term change by working with companies**

## Engagement in action – Social

*Assessing Social Risks in Supply Chains*



### Digging deeper to separate the walk from the talk

- Companies can be impacted by risks in their supply chain
- Concerns around modern day slavery are prevalent
- Companies may be unaware but this is not an excuse
- Investors need to look beyond the company to assess risks

**Risks exist outside of the company itself**



## Key Take-Aways



Create Value Responsibly



Financial Implications



Influence Corporate Behavior

**Understand (Ask?) how asset managers are allocating money on your behalf**

# Disclosure



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Thank You