

# PROXY VOTING AND ENGAGEMENT

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## **PROXY VOTING & ENGAGEMENT REPORT – PROXY POLICY UPDATES & 2013 PROXY SEASON PREVIEW**

### **Overview**

MFS believes that robust ownership practices can 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.

This 2013 Proxy Voting and Engagement Report provides a summary of the major revisions to the MFS Proxy Voting Policies and Procedures (our proxy policy) and a review of the leading proxy voting issues heading into the 2013 proxy season.

### **Amendments to the MFS Proxy Voting Policies and Procedures**

Our proxy policy affirms our commitment to casting all proxy votes in what we believe to be in 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 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 typically updated in February. This year's amendments to our proxy policy go into effect February 1, 2013. Major changes, as described more fully below, include our views on the right of certain shareholders to nominate directors in a company's proxy statement (also known as "Proxy Access") and the separation of the Chair and CEO positions.

*Proxy Access:* Our proxy policy previously stated that we analyze all Proxy Access proposals on a case-by-case basis, considering factors such as ownership criteria and proponent rationale. We have amended our proxy policy to state that we support reasonably-crafted Proxy Access proposals at the ownership threshold of 3% for a period of 3 years. We believe this ownership threshold can be

beneficial to shareholders, balancing the potential benefits of Proxy Access with its potential misuse by shareholders. All other Proxy Access proposals will be reviewed on a case-by-case basis considering the proposed ownership criteria and the proponent's rationale for seeking Proxy Access.

*Separation of Chair/CEO Positions:* Shareholder proposals seeking a separation between the Chair and CEO positions have been a topic of debate for quite some time. Proponents maintain that a combined Chair/CEO can lead to an environment of excessive risk-taking and unchecked CEO power. Opponents often argue that a combined Chair/CEO is often advantageous for strategy implementation and that the appropriate leadership structure is best determined by the company's board of directors. Our proxy policy previously stated that we do not support shareholder proposals seeking to separate the Chair/CEO positions. We have amended our proxy policy to indicate that we will generally support proposals to separate the Chair/CEO positions at companies with governance concerns (including a dual class or similar controlling structure). While we continue to believe that the most beneficial leadership structure of a company should generally be determined by the company's board of directors, we also believe that separating the CEO and Chair positions can be beneficial to shareholders at companies that have governance concerns.

### **2013 Proxy Season Preview**

Looking ahead to the 2013 proxy season, we believe that executive compensation will likely continue to be in sharp focus for all companies. Shareholders across the globe continue to advocate for "pay-for-performance" as well as a vote on pay issues (also known as "Say on Pay"). This interest will likely translate into increased attention to "Say on Pay" votes at companies that have either not performed well and/or have received significant dissent from shareholders in 2012.

Shareholders of U.S. companies took advantage of regulatory changes relating to Proxy Access and submitted proposals requesting it at approximately 9 companies during the 2012 proxy season. According to the 2012 Proxy Season Review from Institutional Shareholder Services, such proposals included a wide variety of ownership thresholds and averaged approximately 35% support, with two proposals received majority support (each proposal had an ownership threshold of 3% for a period of 3 years). It remains to be seen to what extent shareholders will advocate for Proxy Access in 2013, but we believe the issue itself will likely continue to be a topic of debate. In our view, other possible

topics for shareholder proposals include de-staggered boards, majority voting in director elections and eliminating supermajority vote requirements.

Shareholder engagement with their portfolio companies on proxy voting matters has been on the rise over the past several years. We believe shareholder engagement will likely continue to rise. We also believe that shareholders will begin to focus on not just engagement, but the impact of such engagement on proxy voting issues, including those relating to ESG matters. Companies that choose to be unresponsive to an issue raised by a significant number of shareholders in 2012 via either engagement or voting could face increased opposition at their 2013 shareholder meetings.

### **Additional Resources**

- For more information about our proxy voting activities, including a complete copy of the MFS Proxy Voting Policies and Procedures and Frequently Asked Questions, please visit the proxy voting section of [www.mfs.com](http://www.mfs.com).
- For the MFS Policy on Responsible Investing, please go to [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 MFS.com website.

### **Contact Information**

We would be happy to receive feedback from our clients on this report.

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- or contact your client service representative.

Statistics included in this report are calculated based on accounts for which MFS clients have fully delegated proxy voting authority pursuant to the MFS Proxy Voting Policies and Procedures. With the exception of the meetings voted statistics listed on page 1 of this report, all voting statistics exclude instances where MFS did not cast a vote. Statistics also do not include instances where an MFS client may have loaned shares and therefore was not eligible to vote. Statistics are calculated on a meetings-level basis.

Please be advised that the companies named in this report may not be held by an MFS client at the time this report is published.

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