



## **MFS INVESTMENT MANAGEMENT'S POLICY ON RESPONSIBLE INVESTING**

Our clients appoint us as fiduciaries to help them achieve their investment objectives over the long term. Generally, our clients' objective is to maximise the financial return of their portfolios within appropriate risk parameters. To help our clients achieve their objective, we employ an investment approach that generally focuses on companies with sustainable, long-term competitive advantages. We are aware that certain environmental, social, and corporate governance (ESG) issues often impact sustainable value of businesses. We therefore integrate ESG factors into our investment process and our ownership practices to the extent that the integration of such factors is consistent with our fiduciary duty to help our clients achieve their investment objectives and protect their economic interests.

To oversee the integration of ESG issues into our investment process and our ownership practices, we established the MFS Responsible Investing Committee. The Committee is also responsible for overseeing our engagement activities with respect to ESG issues. The Committee includes members of our investment and proxy voting teams.

### *Incorporation of ESG issues into Investment Process*

We integrate ESG factors into our investment analysis to the extent we believe they are material to shareholder value. In particular, we find that well-managed companies often achieve higher returns with less volatility over the years than other companies. We will only introduce ESG driven restrictions into a client's portfolio if directed by a client. In general, the integration of ESG factors into our investment analysis relates to investments in equity and fixed-income securities. In integrating ESG factors into their analysis, members of our investment team adhere to the following general principles:

- When evaluating an investment, they consider a company's ESG policies and ESG factors that may impact the company to the extent they believe that such policies and factors are material to and have a long-term economic impact on shareholder value; and
- They seek to understand ESG policies of portfolio companies through their own research and the research of third parties.

### *Incorporation of ESG issues into Ownership Practices*

We incorporate ESG issues into our ownership practices primarily by considering ESG issues when voting securities owned by our clients for which we have been delegated voting authority. The exercise of voting rights is overseen by our Proxy Voting Committee, and we have adopted proxy voting policies and procedure with respect to our exercise of voting rights.

In integrating ESG factors into our exercise of voting rights, we generally support proposals relating to ESG issues that we believe are in the best long-term economic interest of the company's shareholders. In particular, we generally support governance proposals that we believe are in the best long-term economic interest of our clients, including, but not limited to, (i) the de-classification of the board of directors, (ii) the elimination of supermajority vote requirements, (iii) the implementation of a majority voting system in director elections, (iv)

the submission of poison pills to a shareholder vote, (v) the ability of shareholders to act by written consent, (vi) the ability of shareholders to call a special meeting, (vii) the implementation of confidential voting, and (viii) the ability of shareholders to cast an advisory vote on an issuer's executive compensation practices (commonly referred to as "Say on Pay"). Likewise, we support reasonably crafted shareholder proposals that (i) request disclosure on the impact of environmental issues on the company's operations, sales, and capital investments; (ii) seek to amend a company's equal employment opportunity policy to prohibit discrimination based on sexual orientation and gender identity; and (iii) request additional disclosure regarding a company's political contributions. For a copy of our complete proxy voting policies and procedures, please visit the proxy voting section of our website at [www.mfs.com](http://www.mfs.com).

### *Engagement Activities*

Our investment team raises ESG-related issues, among other issues, during meetings with management of investee companies and prospective investee companies when we believe the discussion can enhance our understanding of the company's practices and goals to increase shareholder value. Some of the issues we typically evaluate include: (i) corporate governance matters, including the level of independence of the board, shareholder-friendly orientation of managers, and executive compensation; (ii) labour relations; (iii) environmental stewardship and safety controls, and risk management; and (iv) compliance with all relevant laws, regulations, and accounting principles.

Likewise, members of our Proxy Voting Committee will also engage in a dialogue with a company or another shareholder when we believe that the discussion will enhance our understanding of certain matters on the company's proxy statement. Some of the issues we discuss with companies are: executive compensation, director accountability, and shareholder proposals on various ESG issues. We may also engage with a company in advance of its formal proxy solicitation to discuss our thoughts on certain contemplated proposals involving ESG matters.

### *Conflicts of Interest*

Our proxy voting policies and procedures include a description of how we manage potential, material conflicts of interest in regards to proxy voting at portfolio companies. Our policy is that proxy voting decisions are made in what we believe to be in the best long-term economic interests of our clients, and not in the interests of any other party or in our corporate interests. If a member of the MFS Proxy Voting Committee or any other employee involved in a voting decision identifies a personal interest with respect to such voting decision, then he or she must recuse himself or herself from participating in the voting process. Further, the Proxy Voting Committee does not include individuals whose job responsibilities primarily include client relationship management, marketing, or sales. Additionally, in cases where we (i) consider overriding a specific guideline in our proxy voting policies or procedures, (ii) consider a matter that is not governed by a specific guideline in our policies, (iii) evaluate an excessive executive compensation issue related to the election of directors, or (iv) consider a matter that requires consultation with our investment team, we will check to see whether the matter involves an issuer that has a significant relationship with MFS. Where we identify a potential conflict, the MFS Proxy Voting Committee will carefully evaluate the proposed vote to ensure that the proxy is ultimately voted in what we believe to be the best long-term economic interests of our clients and not in our corporate interests and then report the matter to the MFS Conflicts Officer.

### *Codes and Guidelines*

Many industry groups, trade associations and other multi-national initiatives have adopted codes and guidelines relating to responsible investing. These codes and guidelines continue to change and develop. While we believe that it is not always in our clients' economic interests for us to take a formalistic approach towards responsible investment by following the letter of a particular code, we will support a code to the extent we believe the code is consistent with the long-term economic interests of our clients and our investment policies described above. The appendix to this document contains a description of how we incorporate the principles set forth in certain established codes, including the UK Stewardship Code, into our approach to responsible investing.

In February 2010, MFS became a signatory to the United Nations Principles for Responsible Investment (UN PRI). The six principles of the UN PRI provide a voluntary and aspirational framework for incorporating ESG issues into one's investment approach and ownership practices. We believe that the principles of the UN PRI are consistent with our approach to responsible investing.

### *Collaborative Efforts*

We believe that working with other like-minded investment managers and asset owners on collaborative engagement initiatives is often helpful in understanding ESG issues and the challenges that the integration of those issues into the investment process pose to our industry. The Responsible Investing Committee regularly assesses whether we should participate in collaborative bodies or organisations or support various collaborative initiatives relating to responsible investing or ESG issues. We are currently a member of the Carbon Disclosure Project, a collaborative engagement initiative that seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions from the world's largest companies.

### *Reporting*

Clients who have delegated us with proxy voting authority can receive a vote summary report of their portfolios. We regard the exercise of proxy votes on behalf of our clients as confidential and therefore will disclose proxy votes publicly only to the extent that we are required to do so by law. For example, pursuant to US securities regulation, the proxy voting records for US registered mutual funds are required to be filed on an annual basis with the US Securities and Exchange Commission and to be made publicly available by the mutual fund. To access the proxy voting records of certain US registered mutual funds for which we serve as investment adviser, please visit the proxy voting section of our website at [www.mfs.com](http://www.mfs.com). We also report on responsible investing efforts as required by any collaborative body or organisation that we join.

## **For Further Information**

For MFS clients wishing to discuss our commitment to responsible investing, please contact your client service representative.

For media inquiries wishing to discuss our commitment to responsible investing, please contact:

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**Compliance with the UK Stewardship Code**

In July 2010, the Financial Reporting Council issued a statement setting forth best practices for institutional investors that choose to engage with the companies in which they invest. The Code consists of seven principles. These principles and how MFS incorporates them into our approach to responsible investing are described below.

**Principle 1 – Publicly disclose their policy on how they will discharge their stewardship responsibilities**

We are appointed to act as fiduciaries to our clients to help them achieve their investment objectives, and we take these stewardship responsibilities very seriously. We believe it is not always in our clients' economic interests for us to take a formalistic approach towards compliance with each principle of the Code, but we incorporate the principles of the Code to the extent that compliance is consistent with the long-term economic interests of our clients and the specific investment mandates of our clients. Our responses to the Code's six further principles, together with our publicly available brochure on our approach to responsible investing, detail how we intend to discharge our stewardship responsibilities.

**Principle 2 - Have a robust policy on managing conflicts of interest in relation to stewardship and how this policy is publicly disclosed**

Our proxy voting policies and procedures include a description of how we manage potential, material conflicts of interest in regards to proxy voting at portfolio companies. Our policy is that proxy-voting decisions are made in what we believe to be in the best long-term economic interests of our clients, and not in the interests of any other party or in our corporate interests. If a member of the MFS Proxy Voting Committee or any other employee involved in a voting decision identifies a personal interest with respect to such voting decision, then he or she must recuse himself or herself from participating in the voting process. Furthermore, the Proxy Voting Committee does not include individuals whose job responsibilities primarily include client relationship management, marketing, or sales. Additionally, in cases where we (i) consider overriding a specific guideline in our proxy voting policies or procedures, (ii) consider a matter that is not governed by a specific guideline in our policies, (iii) evaluate an excessive executive compensation issue related to the election of directors, or (iv) consider a matter that requires consultation with our investment team, we will check to see whether the matter involves an issuer that has a significant relationship with MFS. Where we identify a potential conflict, the MFS Proxy Voting Committee will carefully evaluate the proposed vote to ensure that the proxy is ultimately voted in what we believe to be the best long-term economic interests of our clients and not in our corporate interests and then report the matter to the MFS Conflicts Officer. For a copy of our proxy voting policies and procedures, please visit the proxy voting section of our website at [www.mfs.com](http://www.mfs.com).

**Principle 3 - Monitor their investee companies**

The monitoring of investee companies is undertaken by members of both our investment team and our Proxy Voting Committee. Members of the our investment team periodically attend meetings with management of investee companies when we believe the discussion can enhance our understanding of the company's practices and goals to enhance shareholder value. Because we believe that environmental, social, and corporate governance (ESG) issues often impact the sustainable value of businesses, ESG issues are often discussed at these meeting. In order to aid the investment team in their analysis and monitoring of critical issues, we also obtain third-party research with respect to ESG issues.

Likewise, members of our Proxy Voting Committee will also engage in a dialogue with a company or another shareholder when we believe that the discussion will enhance our understanding of certain matters on the company's proxy statement. Some of the issues we discuss with companies are: executive compensation, director accountability, and shareholder proposals on various ESG issues. We may also engage with a company in advance of its formal proxy solicitation to discuss our thoughts on certain contemplated proposals involving ESG matters.

**Principle 4 – Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value**

As described above, members of our investment and proxy voting teams engage with companies on relevant governance issues. Escalation of such engagement may include voting against a board of directors, voting against management proposals, supporting shareholder proposals, and increased dialogue with company management, including the board of directors. We may also choose to sell a security in lieu of escalating our engagement activities if we believe that disposition of the security is in the best interests of our clients.

**Principle 5 – Be willing to act collectively with other investors where appropriate**

We believe that working with other like-minded investment managers and asset owners on collaborative engagement initiatives is often helpful in understanding ESG issues and the challenges that the integration of those issues into the investment process pose to our industry. Our Responsible Investing Committee regularly assesses whether we should participate in collaborative bodies or organisations or support various collaborative initiatives relating to responsible investing or ESG issues. We are currently a member of the Carbon Disclosure Project, a collaborative engagement initiative that seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions from the world's largest companies. We are also a signatory to the United Nations Principles for Responsible Investment (UN PRI).

**Principle 6 - Have a clear policy on voting and disclosure of voting activity**

We have adopted a clear and robust policy on voting securities owned by our clients for which we have been delegated voting authority. Our proxy voting policies and procedures describe situations where we may vote against directors and management recommendations. We seek to vote all shares held by our clients, with the exception of certain cross-border voting impediments such as "share-blocking" requirements. We have entered into an agreement with a third party to perform various proxy voting related administrative services. We also receive third-party reports and vote recommendations for all investee companies, which may help us identify (i) potentially excessive executive compensation practices, (ii) environmental and social shareholder proposals that may warrant support, and (iii) general best practices within certain markets, including certain aspects of the UK Corporate Governance Code. For a copy of our proxy voting policies and procedures, please visit the proxy voting section of our website at [www.mfs.com](http://www.mfs.com).

**Principle 7 – Report periodically on their stewardship and voting activities**

We report on our responsible investing efforts as required by any collaborative body or organisation that we join and will share such a report with our clients. Clients who have delegated us with proxy voting authority can also receive a vote summary report of their portfolio.

**For Further Information**

For MFS clients wishing to discuss our commitment to responsible investing, please contact your client service representative.

For media inquiries wishing to discuss MFS Investment Management's activities under the UK Stewardship Code, please contact:

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