



# MFS® Fixed Income History

## A Heritage of Innovation and Growth

### In brief

- **History and expertise** — MFS has a deep history and expertise in fixed income. The firm was an early pioneer in the development of credit-oriented active bond management.
- **Risk management** — A strong risk-aware culture took root in the fixed income group before spreading across the firm.
- **Global research platform** — Close collaboration between equity and fixed income analysts and portfolio managers, a hallmark of the firm's investment model, was fostered early on in the history of the firm.

### A pioneer in active bond management

The history of fixed income (FI) investing at MFS mirrors the genesis of active bond management in the financial markets in general. In 1970, Keith Brodtkin came to the firm from New England Life Insurance Company to lead the newly established FI group and manage the bond sleeve of a balanced fund, MFS® Total Return Fund. It was one of the first funds of its kind to include bonds as an integral component. Up to this point, bonds were generally owned by wealthy individuals and insurance companies, which held them as an asset to match their liabilities. These were "buy-and-hold" securities, held to maturity — the coupons were literally clipped.

Brodtkin developed the FI group in the 1970s, hiring numerous colleagues from New England Life. With a few other key market players, he pioneered active bond investing. He made his mark focusing on security selection based on fundamental credit analysis as a complement to interest rate calls. A key part of his investment strategy was to buy corporate bonds in anticipation of changes in their credit ratings, with the result being these credit strategies emphasized total returns rather than yield. Traditionally, bonds had been seen as a source of income based on yield. The total return focus developed under Brodtkin required that investors appreciate the two components of a bond's return stream: income and capital appreciation or depreciation.

The first institutional account was established in 1972. In 1974, MFS® Corporate Bond Fund was launched. It sought to enhance returns with raterated bonds. The same year, a watershed event occurred in the bond markets: Penn Central Transportation Company went bankrupt. This was a turning point for the FI markets and propelled the growth of active bond management. A "buy it-and-forget it" approach was no longer feasible. Investors needed to be aware of the implicit credit risk associated with all corporate bonds.

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Beginning in the 1970s, MFS spearheaded the evolution of FI credit markets beyond the standard liability-driven insurance product that had predominated. The firm's focus on credit investing and total returns today can be traced back to that beginning. ▲

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Brodkin continued to expand the FI product set and hired Joan Batchelder from Keystone Investments to help manage MFS® High Income Fund, which was launched in 1978. The firm became one of the early entrants in the high-yield category with the introduction of this fund, consistent with the emphasis on credit.

Batchelder built the framework for security selection and managing credit exposures in portfolios, as well as the system of risk management versus the benchmark. The philosophy that consistency and risk management should form the foundation of FI investing was firmly inculcated in the group. The mantra was to avoid disasters like Penn Central: "Winning by not making mistakes."

This approach of diversifying risk and allocating the risk budget to the area where we think the firm has the most skill — credit selection — changed the firm's investment philosophy and formed the basis for the risk management process that permeates the entire Investment Department today. Over time, as the bond markets grew, asset allocation became a natural extension of credit selection and our risk management process.

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Credit analysis, risk allocation and ongoing risk management became part of the DNA of fixed income at MFS early on. ▲

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## MFS funds in the forefront

The firm continued to play a leadership role as the fixed income markets continued to evolve. MFS launched a muni fund in 1976 (MFS® Municipal Income Fund), one of the nation's first, soon after legislation permitted muni bond mutual funds.

The firm was a pioneer in investing in new bond markets around the world as they opened up to foreign investors in the 1980s and 1990s. In 1981, MFS launched America's first global fixed income mutual fund (MFS® International Bond Fund), which invested in global sovereign bonds. These investments, by definition, required original research. At the time, sovereign bond markets were prone to volatility, and extensive sovereign credit analysis was required to position portfolios to earn excess returns.

The global fund actively traded derivatives and currencies, the first MFS fund to do so. This set the stage for the use of currency forwards to manage currency exposure, as well as the employment of bond futures and swaps to manage interest rate risk. These derivative strategies first used with the global portfolios are an integral part of active FI management.

It was this application of the MFS research philosophy to international opportunities that subsequently led to the firm's expansion into emerging markets and, more recently, international credit markets. The global/international bond portfolios were early adopters of emerging market bonds (EMD), investing opportunistically starting in the early 1990s. As the asset class grew in breadth and depth, MFS launched a dedicated EMD strategy in 1997, one of the first of its kind.

The firm continued to focus on credit investment strategies, and in 1984, MFS® Municipal High Income Fund was introduced as the first US mutual fund seeking high, tax-advantaged income from lower-rated municipal securities. In 1986, MFS® Municipal Income Trust was launched as the first closed-end mutual fund to seek high, tax-advantaged income, followed by MFS® Intermediate Income Trust in 1988, a closed-end mutual fund which attracted \$2 billion, in the largest initial public offering (IPO) in US history up to that point.

In the 1980s, the firm introduced the MFS® Government Securities Fund, which invested primarily in treasuries, agencies and mortgage-backed securities (MBS), and began investing in asset backed securities (ABS). In the 1990s, commercial mortgage-backed securities (CMBS) were added to the product mix, along with emerging market debt. In the early 2000s, a TIPS (treasury inflation-protected securities) fund was introduced, followed by local emerging market debt and more recently, global credit strategies. See the timeline on page 4 for a detailed listing of major FI fund launches.

## Global research platform: A collaborative approach from the outset

From the outset, collaboration has been a hallmark of our fixed income research process, and today, structural connectivity — sharing information — is our mantra. Ideas are shared and debated through

- daily meetings with FI portfolio managers, analysts and our macro team
- team meetings across disciplines
- rates and foreign currency strategy group forums
- quarterly macro/micro meetings to discuss, evaluate and validate inputs

Of course, sharing information takes place almost constantly on an informal basis. Cross departmental discussions — structural connectivity — ensures that information and ideas are widely discussed and debated. We believe that diverse viewpoints in a setting of respectful challenge lead to better investment decision making for our clients.



The close collaboration of equity and FI analysts and portfolio managers was established early on. The FI team leveraged the firm's equity research analysts quite extensively in the beginning, particularly in the case of the strategies that called for credit analysis. The team benefited from joining their equity counterparts in meetings with company management and the insights that stemmed from the equity side of the capital structure. Similarly, equities derived value from understanding the leverage and debt issuance of a company. This team approach is an important component of the way the firm manages money to this day.

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MFS' investment model has encouraged cross-capital-structure collaboration from the beginning and is a key differentiator to this day. ▲

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## Integration of ESG research

Since our start as active bond managers in the 1970s, research — understanding what can go right and what can go wrong — has been integral to our investment process. Determining the risks in the bond market related to environmental, social and governance (ESG) issues therefore comes naturally to us. And understanding how those risks have evolved is critical to making solid investment decisions.

## Conclusion

MFS played a pioneering role in the development of credit-oriented active bond management. A great deal of experience and expertise has been gained during the course of the firm's longstanding engagement in FI.

The collaborative team approach bolsters the strength of the global research platform, which spawns valuable insights on security selection and risk management. MFS' senior management has a deep understanding of and commitment to FI borne of their experience investing in the asset class.

In sum, the firm's storied history in FI — particularly in the credit-oriented markets — and strong collaborative culture provide a solid foundation on which to grow the FI franchise, and as we pass the 50-year mark in our fixed income history, we continue to build our fixed income global platform, adding people, resources and products to better serve our clients. ▲

## A history of innovation: Key dates and MFS fixed income launches

1924	Massachusetts Investors Trust introduced as America's first mutual fund.
1969	Massachusetts Financial Services Company created to expand the organization's product line and investment management capabilities.
1970	Fixed Income Department established to serve mutual fund investment counsel accounts.
1970	MFS® Total Return Fund
1974	MFS® Corporate Bond Fund
1976	MFS® Managed Municipal Bond Trust opens as one of the first national municipal bond funds.
1978	MFS® High Income Fund introduced; one of the first of its kind.
1981	Massachusetts Financial International Trust Bond opens as America's first globally diversified fixed income mutual fund.
1982	MFS becomes a wholly owned subsidiary of Sun Life (US) and thus affiliated with Sun Life Assurance Company of Canada, one of the world's largest life insurance companies.
1984	MFS® Municipal High Income Fund introduced as the first mutual fund seeking high, tax-free income from lower-rated municipal securities.
1986	MFS® Municipal Income Trust introduced as the first closed-end mutual fund to seek high, tax-free income.
1988	MFS® Intermediate Income Trust introduced; a closed-end mutual fund that attracted \$2 billion in the largest initial public offering in US history up to that point.
1989	MFS® Global Opportunistic Bond Fund
1990	MFS® Global Total Return Fund
1997	MFS® Emerging Markets Debt Fund
1998	MFS® Global High Yield Fund
2003	MFS® Inflation-Adjusted Bond Fund
2006	MFS® Diversified Income Fund
2008	MFS® Emerging Markets Debt Local Currency Fund
2021	MFS® Municipal Intermediate Fund
2022	MFS® Core Bond Fund

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