MFS® Investment Management

# 2023 MFS® Annual Sustainability Report

RESPONSIBLY
ACTIVE
FOR A
CENTURY

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# Letter from Michael Roberge

A centennial is a significant milestone. In 2024, we're celebrating one hundred years as a global, active investment manager, serving financial advisors, intermediaries and institutional clients. Since inventing the US mutual fund, we've proven that MFS is a durable business focused on helping our clients achieve their long-term goals.

If we reflect solely on the past five to ten years, we have seen strong industry convergence around sustainability and traditional investing. From an investor standpoint, this makes complete sense. Financial institutions and corporate actors contribute — directly and indirectly — to the conditions of our aligned goals. As we have stated for many years, all good investors should be concerned with the viability and durability of the issuers they own on their clients' behalf, which means they must understand the material risks and opportunities in the system in which those issuers operate. However, our industry has become inundated with a dizzying array of narratives around environmental, social and governance (ESG), impact investing, sustainability and other related concepts. It doesn't help that ESG, in particular, has been the topic of recent political debate in some jurisdictions we operate in. Given the complexity of the topic, silos have begun to develop along with deglobalization and current political climates around the world.

Importantly, we do not view this as entirely unexpected. Sustainability has grown into a mainstream topic, and as it matures — in the same way the incorporation of any new way of thinking does — new boundary lines are being discovered and new best practices emerging. It is normal for an increased focus and scrutiny to rise from this growth, as well as a more nuanced understanding of interests and needs coming to the fore. We believe that "ESG investing" as practiced today by many actors has outlived its usefulness as a distinct approach, and we believe that the industry should stop looking at these issues separately instead of just being one facet of quality investment research on material topics that affect the companies that we own.

As I reflect on my discussions with our clients and key stakeholders over the year, there are a few thematic undercurrents that appear all around the world that are worth noting. Clients, regulators and the companies in which we invest are all grappling with how to reconcile long-term value creation in an economic system that traditionally operates around short-term shareholder gains. This construct is — at least in part — a result of excessive preoccupation with short-term financial results and the so-called "passivication of capital," which I believe is feeding a misunderstanding of risk and a breakdown in the alignment within our industry. We should be focusing on what should be our ultimate objective — how we allocate capital in order to create value for our clients over the long term.

For a company to thrive for 100 years, we must always be thoughtful, careful and invest forward, all underpinned with patience and a long-term focus.

We do not believe that we need to converge around widely accepted principles of ESG to recognize that if we want our financial, economic and social systems to endure, we must remain focused on our responsibility as active managers to act in the best interests of our clients. And we believe we are well placed to do so.

For a company to thrive for 100 years, we must always be thoughtful, careful and invest forward, all underpinned with patience and a long-term focus. Even as sustainability has moved at rapid speed over the past few years, we remain steadfast and robust in our decision making, using alignment to our clients and our duty to them as our north star. We believe that remaining true to our investment process and philosophy — and the way in which we embed sustainability — differentiates us in many ways that will ultimately help our clients in the pursuit of their financial objectives.

We have crafted this report to underline our long-term, active mindset and to showcase our focus on sustainability. We hope this message resonates with you, and we look forward to serving our clients for another 100 years.

Michael W. Roberge
Chair and Chief Executive Officer

## / ADHERENCE TO THE UK STEWARDSHIP CODE /

The UK Stewardship Code is a prominent standard that guides investors not only in the United Kingdom but around the world. Adherence to the code requires that we demonstrate how we are effective stewards of our clients' capital. In the spirit of deep integration, we have incorporated into this report our public response to the code.

The report and our approach to satisfying each of the principles under the code has been reviewed and approved by the MFS Investment Sustainability Committee. To find our response to each principle, see the table below. We have provided a symbol to identify each principle and provided the page numbers on which you can see how we act in accordance with it.

| PRINCIPLES OF THE UK STEWARDSHIP CODE | PRINCIPLE | PAGE |
|---|---|---|
| **Principle 1:** Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society. | 1 | 5-13, 15-21, 27-31, 43, 54-57, 62-63, 65, 75-94 |
| **Principle 2:** Signatories' governance, resources and incentives support stewardship. | 2 | 7-13, 15-19, 22-26, 53, 65-70, 75-94, 95-104 |
| **Principle 3:** Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first. | 3 | 44-53, 108-110 |
| **Principle 4:** Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system. | 4 | 15-19, 53, 55-57, 75-94, 105-107 |
| **Principle 5:** Signatories review their policies, assure their processes and assess the effectiveness of their activities. | 5 | 15-19, 44-52, 111-112 |
| **Principle 6:** Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them. | 6 | 60, 62-63, 115 |
| **Principle 7:** Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues and climate change, to fulfill their responsibilities. | 7 | 5-13, 15-26, 32-38, 43, 75-94 |
| **Principle 8:** Signatories monitor and hold to account managers and/or service providers. | 8 | 113-114 |
| **Principle 9:** Signatories engage with issuers to maintain or enhance the value of assets. | 9 | 27-31, 39-43, 54, 118 |
| **Principle 10:** Signatories, where necessary, participate in collaborative engagement to influence issuers. | 10 | 20-21, 32-38, 54, 59, 61, 75-94, 105-107 |
| **Principle 11:** Signatories, where necessary, escalate stewardship activities to influence issuers. | 11 | 27-31, 41-42 |
| **Principle 12:** Signatories actively exercise their rights and responsibilities. | 12 | 44-52, 116-117 |

*These icons are used throughout the document to demonstrate each principle, for more information about the UK Stewardship Code, please visit frc.org.uk/investors/uk-stewardship-code.*

## Sustainability Overview

This section gives a high-level overview of our approach to sustainability and the structures we have put in place to ensure our firm's goals are aligned with our core purpose: to create value responsibly for our clients.

# Sustainability Overview

# Our Approach to Sustainability

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## / THREE PILLARS UNDERPIN OUR STRATEGIC APPROACH /

### INVESTMENT

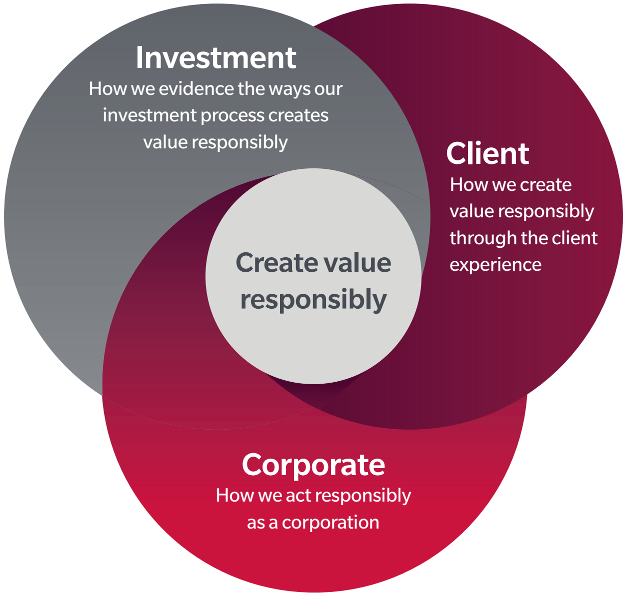
We have formally embedded sustainability topics into our investment process since 2009. Our work in this area is not outsourced or siloed. It is seamlessly integrated into our investment process because we believe that this is the best way to responsibly manage our clients' money and create long-term value. Systematically integrating sustainability factors into our investment process improves our understanding of what is, and what is not, priced into equity and fixed income valuations.

### CLIENT

Creating value responsibly is critical to our license to operate in the future. We have a crucial opportunity to empower our clients so they can fulfill their fiduciary duties and better integrate sustainability into their own work and communications. We take this responsibility seriously and remain focused on serving the needs of our stakeholders.

### CORPORATE

We manage our business the same way we invest — with a long-term focus. We aim to serve as exemplars to the businesses owned in our portfolios. Whether it's treating and compensating our employees fairly, advancing our diversity and inclusion efforts or reducing our long-term impact on the environment, we seek to be at the forefront of these issues and to consistently align our sustainability efforts with our purpose, creating long-term value for the clients and end investors we serve.



# Our Approach to Sustainability

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MFS seeks to integrate material sustainability factors into the investment decisions made across all the portfolios that we manage. This means that, in our fundamental research process, we take account of traditional indicators of financial performance, as well as environmental, social or governance factors that we believe will substantially affect the ongoing valuation of the company or issuer. From our perspective, environmental, social and governance considerations are jigsaw pieces of fundamental research and need to be integrated when material.

We believe that research alone will not lead to the achievement of our clients' long-term investment objectives. To do so, it must be combined with thoughtful engagement with the companies and issuers in which we invest along with effective proxy voting. Hence, our philosophy on sustainability can be detected across our fundamental research, proxy voting and issuer engagement processes and has enabled us to consistently identify companies that we believe exhibit enduring competitive advantages and financial returns.

# Resources and Governance 1 2 7

At MFS, it is our firm belief that a successful approach to sustainability cannot be accomplished by building a separate team. Over the last decade, we've thought carefully about how to construct our team and allocate resources with regard to sustainability. We believe that a de-centralized approach is the most effective model for us. While we maintain a center of expertise coordinating and creating the environment for distributed ownership and specialization, we believe the responsibility of integrating sustainability into our work is the duty of the entire team. The groups described in this section provide strategic leadership and support the effective integration of sustainability across the firm, but ESG integration is the responsibility of each industry analyst and portfolio manager, not only or solely the responsibility of our sustainability professionals. As a result, our sustainability professionals do not conduct all or even the majority of our research on these topics. The responsibility for sustainability-related research falls on our entire team of investment professionals around the globe, who are experts in the companies and issuers they cover. It is impossible to overstate the importance of this fact: Sustainability must be handled by the same people who are making investment decisions all day long, not a siloed team.

Overall, our approach to governance is designed to ensure that we remain focused and relevant on all matters of sustainability. It is also designed to reflect the three core pillars of our strategic response — investment, client and corporate.

## / SUSTAINABILITY GOVERNANCE STRUCTURE /

The MFS Sustainability Executive Group (SEG) provides strategic leadership concerning the firm's sustainability strategy. It includes our chair and CEO, President, Chief Investment Officer, Chief Technology Officer, general counsel and other senior leaders responsible for the integration of sustainability across the firm. The SEG meets periodically to oversee the development of long-term sustainability strategy, including climate change-related issues, advise on and coordinate the implementation of that strategy, and resolve any issues of prioritization and resource allocation for sustainability-related projects. The firm has also established committees and working groups that are a part of its existing committee governance structure and are devoted to the implementation of specific aspects of the strategy. They allow us to be agile and focus on key sustainability issues.

### MFS SUSTAINABILITY STRATEGY AND GOVERNANCE STRUCTURE

SUSTAINABILITY EXECUTIVE GROUP (SEG)

PROXY VOTING COMMITTEE

INVESTMENT SUSTAINABILITY COMMITTEE (ISC)

CORPORATE SUSTAINABILITY COMMITTEE (CSC)

### The Investment Sustainability Committee (ISC)

The ISC is accountable for defining and implementing MFS' strategy and policies relating to the integration of sustainability in the investment process, engagement with issuers and escalation activities, the firm's adherence to relevant stewardship codes (including the Australian, Japan and UK Stewardship codes) and MFS' membership in investment-led collective engagement groups.

### The Proxy Voting Committee (PVC)

The PVC oversees the adoption and administration of the MFS Proxy Voting Policies and Procedures as well as our proxy voting activities. As part of its responsibilities, it works with the ISC to create an integrated approach to setting engagement goals and priorities.

### The Corporate Sustainability Committee (CSC)

The CSC is accountable for defining and implementing MFS' sustainability client and corporate strategies and policies to ensure consistency in interactions with clients on sustainability issues (*e.g.* reporting, regulation and education), providing oversight of membership in client-focused collective engagement groups and coordinating corporate sustainability efforts.

## / STRENGTH IN COLLABORATION /

As mentioned above, it is our belief that a successful approach to sustainability requires the participation of our entire firm. Sustainability is integrated into our fundamental investment process. It is not a separate discipline involving different employees, inputs or outcomes. As such, our process requires that all our investment professionals are actively engaged in, and responsible for, its success.

### ESG integration across geographic regions, client types and asset classes

Our investment team operates on a global research and investment platform. Our investment decisions are rooted in collaboration and consensus across our globally located investment teams, and thus we manage our clients' assets the same way regardless of type, asset class or location. That said, we have investment personnel located in major financial centers around the world. While our process remains consistent, this broad reach gives us the ability to dig deep into local issues and provide more insightful and better tailored research, which can be leveraged by our global investors.

> Within our global research platform, we conduct high-quality, bottom-up analysis and engagement. We have over 300 investors in regions across the major markets in which we invest. This affords us the benefits of scale, allowing us to conduct thorough research into the companies we own using the diverse expertise of our platform to better help investees manage all material risks and opportunities. Our fully integrated global research platform is the foundation of our investment process. We believe using a collaborative global structure to share and integrate information builds better insights for our clients. It allows us to look at viewpoints and opportunities from every angle and provides a global context for every decision.

Analysts are organized into eight global sector teams that include equity and fixed income analysts as well as fundamental and quantitative ones. These sector teams meet weekly on a formal basis. In addition, portfolio managers regularly attend these meetings to participate in the discussion. Each team is led by one or more sector leaders and covers a major sector (*i.e.* capital goods, consumer cyclicals, consumer staples, energy, financial services, health care, technology and telecom) from a worldwide perspective. In addition, our sustainability and stewardship team recently launched our soft sector coverage initiative within the broader team. We are going to align our ESG-dedicated investment team members with our eight global sectors teams to allow for the development of deeper research insights. This should better facilitate communication, inform our views on materiality and strengthen integration with our global investment platform on a sector and issuer level basis. This approach facilitates the sharing of information on companies and industries across fundamental and quantitative disciplines, geographic regions of the world, asset classes and capital market structures. Our ability to leverage all the proprietary research conducted by our analysts is a critical element of our ability to drive consistent long-term results for our clients. MFS research analysts and portfolio managers analyze and engage with management teams on topics that may be material for the securities they cover or hold, which is why the majority of our sustainability insights originate from our industry analysts and portfolio managers rather than our sustainability-dedicated analysts. Simultaneously, the investment team benefits from collaborating with its sustainability-dedicated analysts, who often provide new insights and differentiated perspectives on a wide variety of topics and securities. These collaborations support and enhance our ability to identify and assess material risks and opportunities.

# DEDICATED SUSTAINABILITY PROFESSIONALS

## Investment Team

### ESG Research & Strategy Team

| | |
|---|---|
| *Chief Sustainability Officer*<br>**Barnaby Wiener** | *Fixed Income Research Analyst*<br>**Mahesh Jayakumar** |
| *Director of Global ESG Integration*<br>**Rob Wilson** | *Fixed Income Research Associate*<br>**Gabrielle Johnson** |
| *Equity Research Analyst*<br>**Pooja Daftary** | |

### Stewardship Team

| | |
|---|---|
| *Director of Global Stewardship*<br>**Franziska Jahn-Madell** | *Stewardship Coordinator*<br>**Alexandra Schoepke** |
| *Stewardship Analyst*<br>**Andrew Jones** | *Stewardship Associate*<br>**Herald Nikollara** |

## Client Facing

### Client Sustainability Strategy

| | |
|---|---|
| *Head of Client Sustainability*<br>**Vishal Hindocha** | *Lead Analyst*<br>**Tessa Fitzgerald** |
| *Senior Strategist*<br>**George Beesley** | *Lead Analyst*<br>**Pelumi Olawale** |
| *Lead Strategist*<br>**Bess Joffe** | *Analyst*<br>**Yasmeen Wirth** |
| *Strategist*<br>**Daniel Popielarski** | |

## Legal & Compliance

### Legal & Compliance

| | |
|---|---|
| *Managing Counsel*<br>**Jay Herold** | *Compliance Lead Specialist*<br>**Corey Bradley** |
| *Managing Counsel*<br>**Susan Pereira** | *Regulatory Senior Specialist*<br>**Nicholas Pirrotta** |
| *Compliance Officer*<br>**Justin McGuffee** | |

## Global Information Technology

### Agile ESG Team

*This team currently consists of several business system developers supporting our ESG integration efforts.*

As of 31-Dec-23.

To facilitate the adoption, implementation and enhancement of sustainability-related practices across the firm, we task certain people with providing strategic leadership and supporting the effective integration of sustainability topics across teams and disciplines. These people are positioned across our Investment, Stewardship, Client Sustainability Strategy, Legal, Compliance and Information Technology teams, as outlined below.

## Investment[1]

We currently have a Chief Sustainability Officer (CSO) in place who works closely with our ESG-dedicated research analysts as they collaborate with the rest of the investment team to ensure our investors properly address sustainability in their research and portfolio management duties.

Our investment team includes our Director of Global ESG Integration, an equity research analyst, a fixed income research analyst and a fixed income research associate, who are all dedicated solely to ESG research, proxy voting and engagement and who have done much to advance the entire investment team's thinking on sustainability topics. These people fulfill a critical role in facilitating our sustainability efforts by supporting and enhancing the ongoing research into ESG topics performed by our portfolio managers and analysts.

## Stewardship[2]

The Stewardship team's position within the investment team improves the collaboration between our stewardship professionals and our investment professionals with the goal of more efficient and impactful engagements across our holdings. The team is responsible for guiding and supporting our investment team's stewardship efforts, including individual and collective engagements and exercising our proxy voting rights. We continue to prioritize investing in our stewardship resources.

## Client sustainability strategy[3]

A team of seven is dedicated to engaging with our clients and the investment industry on ESG issues as well as developing thought leadership around sustainability topics. This team plays an important role because industry participants want to understand how asset managers such as MFS approach sustainability. This team also brings sustainability insights from the outside back into MFS to keep informing our strategy and our internal stakeholders.

## Legal and Compliance[4]

Two attorneys and one paralegal in our Legal Department are dedicated to assessing, monitoring and appropriately addressing sustainability and stewardship-related issues to ensure MFS is aware of all relevant regulatory and legal requirements in jurisdictions where we do business. Additionally, we have an ESG-dedicated compliance officer as well as a compliance specialist situated in our Compliance Department.

## Information technology

The Agile ESG team within our IT department is strategically placed to facilitate our data and reporting capabilities. They contribute to the development and enhancement of numerous ESG-related systems as we continue to work toward meeting evolving regulatory requirements and client reporting demands.

For the biographies of the team members referred to on page 12, please see Appendix 2.

[1] Please note that as announced on March 2, 2023, our chief sustainability officer will retire from MFS and from his responsibilities, effective April 30, 2024. With his retirement, the chief sustainability officer's responsibilities will be incorporated into the CIO role. Part of the CIO's responsibilities include working with the asset class CIOs, investment professionals and sustainability governance groups to ensure that sustainability is integrated into our investment process and philosophy across the global research platform.

[2] In early 2024, we added two new members to our Stewardship team, a senior stewardship associate and a stewardship associate, bringing the team to six members.

[3] As of March 1, 2024, our lead strategist became our Global Head of Sustainability Strategy who will continue to report into our Head of Investment Solutions Group.

[4] Effective March 1, 2024, Jay Herold no longer provides legal and regulatory advice with respect to our sustainability efforts and Susan Pereira assumed responsibility for regulatory and legal efforts with respect to our sustainability efforts.

## / PERFORMANCE EVALUATION AND COMPENSATION OF INVESTMENT PERSONNEL / 2

MFS' philosophy on compensation calls for us to align the compensation of investment personnel with the goal of providing clients with long-term value through a collaborative investment process. To achieve this, the firm believes that part of the compensation calculation should involve the degree to which personnel foster long-term investment performance and contribute to the overall investment process.

The compensation of investment personnel consists of a base salary and performance bonus, with the latter typically representing most of the total cash compensation and based upon quantitative and qualitative factors. The main quantitative factor is the pretax performance of accounts managed over a fixed period to assess performance over a full market cycle and a strategy's investment horizon. Qualitative factors involve a person's contribution to the investment team's collaborative culture, including how well they consider and communicate material risks and opportunities. The qualitative portion of the team's compensation is based on the results of an annual 360-degree peer review process, as well as an assessment of the analyst's research processes. Sustainability is an explicit element of the qualitative assessment of performance alongside other factors such as teamwork, communication and collaboration throughout the investment process. The analysis of all material risks and opportunities is part of our investment process, and the long-term performance of each individual reflects this integration. It is our firm belief that each investor's ability to recognize and integrate material, long-term factors into their investment analysis does and will continue to impact this aspect of each investor's compensation.

We believe that this overall approach, rooted in incentivizing long-term performance, collaboration and the consideration of all financially material factors, exemplifies the firm's prioritization of integrating material sustainability factors and stewardship.

## / OUR VIEW ON EXCLUSIONS /

Given our investment principles, the asset classes in which we invest, purpose-driven culture and fixation on fiduciary duty, we believe constructive engagement is likely to yield better real-world outcomes than excluding sectors and industries from a client's portfolio. We believe our clients are best served through a deep understanding of what we own on their behalf, which entails active ownership practices. We expect companies to be managed in the interest of longevity, not short-term profit maximization. We expect them to pay due care and attention to social and environmental externalities that could incur a material financial cost at some point down the line. As is true in all aspects of investing, we cannot simply avoid every material risk that may arise. Instead, we must focus our efforts on ensuring the companies we invest in are well positioned to manage those risks while also taking advantage of opportunities.

> As active managers charged with being good stewards of our clients' capital, we avoid, engage with and divest from companies every day for a wide range of reasons that we believe may break or fulfill an investment thesis. We do this to accrete long-term value, and we believe an exclusion-based approach hinders our ability to uncover what we believe are the best investments for client portfolios.

However, when an engagement fails to generate improvements in the management of material issues, or at least allay concerns, we may adjust our modelling and valuation expectations and we may also reduce position size or divest entirely from a security. The decision to disinvest starts with a deep understanding of the topic, engagement with management and, depending on the outcome of that engagement, a potential adjustment to the investment view. This can result in the decision to add, maintain, reduce or even disinvest entirely. The time frame for this is company specific, but in general, the more material the topic, the sooner we expect that it should be addressed.

## / EXCLUSION, DIVESTMENT AND AVOIDANCE /

Discussions around the concept of exclusion are nuanced, and we believe it is becoming increasingly important to distinguish three terms commonly used interchangeably.

**Exclusion** — Deciding not to invest in certain sectors, companies, or projects exclusively due to a non-financial factor such as line of business, sector or industry, or third-party ESG rating prior to doing any research or analysis.

MFS does not implement exclusions or negative screens unless directed by a client to do so in a separate account or as required by regulations (*e.g.* cluster munitions in certain markets).

**Divestment** — The post investment liquidation of an investment from a portfolio based on fundamental factors, which may include sustainability factors.

Divestment can be driven by a change in any fundamental factor, not just sustainability factors. Importantly, divestment is not permanent and is a point-in-time activity based on our current financial analysis, making it different from exclusion. We may choose to later repurchase a company we have divested from should there be an improvement in material factors.

**Avoidance** — Post-analysis, but pre-investment; an active choice not to make an investment due to fundamental reasons.

Avoidance is not permanent and is a point-in-time activity based on our current financial analysis, making it different from exclusion. We may choose to later purchase a company we have avoided if there is an improvement in material factors.

## Research and Investment Outcomes

We have consistently and thoughtfully combined analytic, bottom-up and thematic research and systematic risk management with robust active ownership in making our investment decisions. Remaining committed to this process, we have presented an overview of our sustainability initiatives, research and stewardship activities throughout the year.

# Research and Investment Outcomes

# Research and Investment Outcomes

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## / SOFT SECTOR ALLOCATION INITIATIVE /

In late 2023, our ESG integration and stewardship teams launched our soft sector coverage initiative within the broader investment team.

After thorough discussions within the ESG-dedicated investment team members, we have aligned some of these members with our eight global sector teams. We feel this should better facilitate communication, inform our views on materiality and strengthen integration with our global investment platform at a sector and issuer level. As always, our colleagues will collaborate across teams as many material sustainability themes extend across sectors. They are meant to be resources to work alongside and empower the sector teams to analyze material sustainability topics. Ultimately, it should be the investor's call as to how to determine implications for valuation and stock recommendations. Given this sector alignment is a new adjustment, we're approaching it with a "learn as we go" mindset and will be open to making further modifications as needed to position us as best as possible to add value to our clients. We will continue to give updates on this in our quarterly client publications and will look for our investors' feedback and observations on how this is going in the months ahead.

As we've mentioned many times, just as our ESG analysts aren't solely responsible for our integration efforts, the goal of positioning these team members to support each sector isn't to do all the sustainability research for a given sector. Our goal is still integration. In other words, we want to help MFS' investors (1) understand what is — and isn't — financially material, (2) become more efficient in their research process and (3) identify new and emerging risks and opportunities.

## / GLOBAL INVESTMENT ROUNDTABLE /

We hosted our annual global roundtable for all members of the investment team in September. The goal of this event was to encourage collaboration and idea sharing amongst our investors, provide updates from different parts of the firm and to discuss investing activities. Sustainability was an important part of the event's focus. Sustainability conversations were conducted in small group breakout sessions and panels.

The first session was on understanding the Energy Transition in Emerging Markets. Topics discussed included key policy dilemmas, the outlook of Indonesia, China and India while using Chile as a positive example, as well as the transition to electric vehicles everywhere, including emerging markets.

Another session was on the Considerations for Hard to Abate Industries in the Net Zero Transition. The session began discussing the current state of play where certain governments and regulators have essentially started to encourage exclusion through regulation and portfolio level reduction targets. However, this contradicts what is happening in the real world — the need to enable the transition for hard to abate industries. Excluding them does not enable an orderly transition. Industries discussed included steel, cement and carbon capture, utilization and storage (CCUS) and the recognition that significant upfront capital expenditures will be required to decarbonize these hard to abate sectors.

The third breakout session was called Efficient Engagement and ran through several examples of successful engagements, particularly those in Japan. The group also went through the background on these meetings, approach and timeline, resolutions and results and lessons learned.

### Case Study in Action: Michelin

We have been investors in Michelin, a global tires company, for quite some time. Tires are known to have high carbon and particle emissions and are not viewed as environmentally friendly. Michelin tires have lower abrasion, low rolling resistance and other performance features that makes the tires last longer, increases fuel efficiency and therefore reduces total emissions (scope 3 for the company). Michelin is also a leader in the development of sustainable tires that will allow tires to be recyclable. Michelin is shifting manufacturing process from coal and diesel to gas and to electric in the future, further reducing scope 1 emissions. So, despite being a higher emissions company, we believe that its leadership role as being part of a more sustainable solution to be a driver of sustainability tailwinds for the company.

### Case Study in Action: GFL

Our investment team has recently identified a potential opportunity for positive long-term returns at GFL, a company which provides waste management services. Recently, the company has significantly invested in technology that captures the methane released from landfill sites and converts it into pipeline-quality, renewable natural gas. This gas can then be sold to generate RIN (renewable identification number) credits under the Renewable Fuel Standards program created by the EPA. In the last two years, the market has turned its attention to the landfill gas space, and we believe that GFL's investments in this space have not been appropriately reflected in its current valuation. Our ability to take a long-term view allows us the opportunity to capitalize on the dislocation between the market's view on the company's capital spend and our internal assessment of these investments. In addition, these projects continue to further GFL along in their sustainability initiatives by slowly replacing fossil fuel–based transportation fuel with renewable alternatives. Looking forward, we will monitor progress around the company's renewable fuel production efforts.

### Case Study in Action: Flutter

During 2023, we reduced our risk exposure to an online gambling company across some of our strategies. The decision was driven by a combination of factors, two of which are regulatory risks and lack of visibility on the company's revenue concentration from problem gambling. We feel that these factors currently pose the most material risks to the company. While we cannot be sure what percentage of its revenues come from problem gamblers, due to a lack of industry-wide standard disclosures on the metric, the regulatory landscape around gambling tends to change quite suddenly and related stocks can experience considerable volatility. However, in our view, the company has historically been better diversified than many of its peers and thus shielded from drastic impacts caused by regulatory action in one market.

For these companies, there is a balancing act occurring between incentivizing gamblers to continue their patronage and protecting against regulatory repercussions associated with encouraging risky behavior. The company is also being scrutinized on its frameworks and processes meant to mitigate problem gambling among its customer base. So far, we feel that the company has proactively rolled out initiatives to help address gambling problems while appropriately monitoring regulatory and reputational risks in its business model. Moving forward, we will continue our engagement program with the company, stressing our belief that executive remuneration should place greater weight on performance around regulatory and reputational issues. Throughout our relationship with the company, we have seen positive action following our engagements and hope to see the trend continue.

## / THE JUST TRANSITION /

During the year, one of our ESG analysts focused on research around the concept of "the just transition." Our research explored how the just transition can present both opportunities and risks to the economy and relevant stakeholders. To achieve the goal of the Paris Agreement, of keeping warming "well below" 2°C and aiming to limit it to 1.5°C, a significant amount of change is needed. Just transitions can be a way to achieve change of such scale but requires careful execution.

From an investor standpoint, a just transition seeks to address the interconnectedness of financial material issues of climate change, racial injustice, public health and economic inequity. We recognize the value in just transitions but are aware of the possible negative ripple effects they can have on communities due to economic dependencies. Negative impacts caused by a poorly planned just transition can cause people to reject decarbonization actions, doing more harm than good. Key sustainability standard setters and policymakers are spending more time to understand how to best approach this transition to ensure that all key stakeholders are treated fairly. This includes taking job loss and growth into consideration as well as supply chain impacts and universal access to affordable energy. It is important to recognize that certain communities will be more impacted than others, which will exacerbate unjust social effects and put the successful delivery of the transition at risk.

The framework for evaluating the management of a just transition is therefore nuanced and not (yet) standardized across the investment management industry. The materiality of the just transition and the risks and opportunities associated with it exist on two levels: company and country.

As we continue to think about the risks and opportunities associated with the just transition, the following questions would enable us to begin our analysis in this area when engaging with companies:

- What key stakeholders and issues do you need to prioritize for your climate transition to be successful, and over what timeframe?
- What is the impact of potential job losses on your firm and within the broader communities you operate in? How will you address them?
- What are the supply chain impacts of your net zero framework? What are the most pressing issues to address with suppliers? What will your customers expect from you as a supplier in relation to the just transition?

### Case Study in Action: Enel

This company employs approximately 75,000 people worldwide, with 36,000 in Italy. Enel faced up to the challenge of the energy transition and the EU's tightening emissions limits by announcing the Futur-e Program, an initiative to close and repurpose legacy fossil fuel assets. In May 2017, it announced the closure of two large coal power plants by 2018 and a plan to close all its coal and lignite generation plants by 2030. Along with a 2050 carbon neutral target, Enel announced the reconversion of 23 power stations with significant employment implications. The unions have always taken a very critical view of the Future-e plan and have been critical of the lack of information and their scarce involvement in these processes. As a result, Enel entered a social dialogue on a just transition framework agreement with its Italian union partners covering retention, redeployment, re-skilling and early retirement. It provides an example of a just transition plan that included provisions for recruitment using apprenticeships to ensure the knowledge transfer from elderly to younger workers. It also encourages mobility and training to optimize internal resources and dedicated training measures to ensure qualification and employability for the development of its new business.

For more information on company and country level specifics, please reference the white paper we published in 2022 called Linking Climate, Companies and Communities: A Framework for Evaluating the Just Transition.

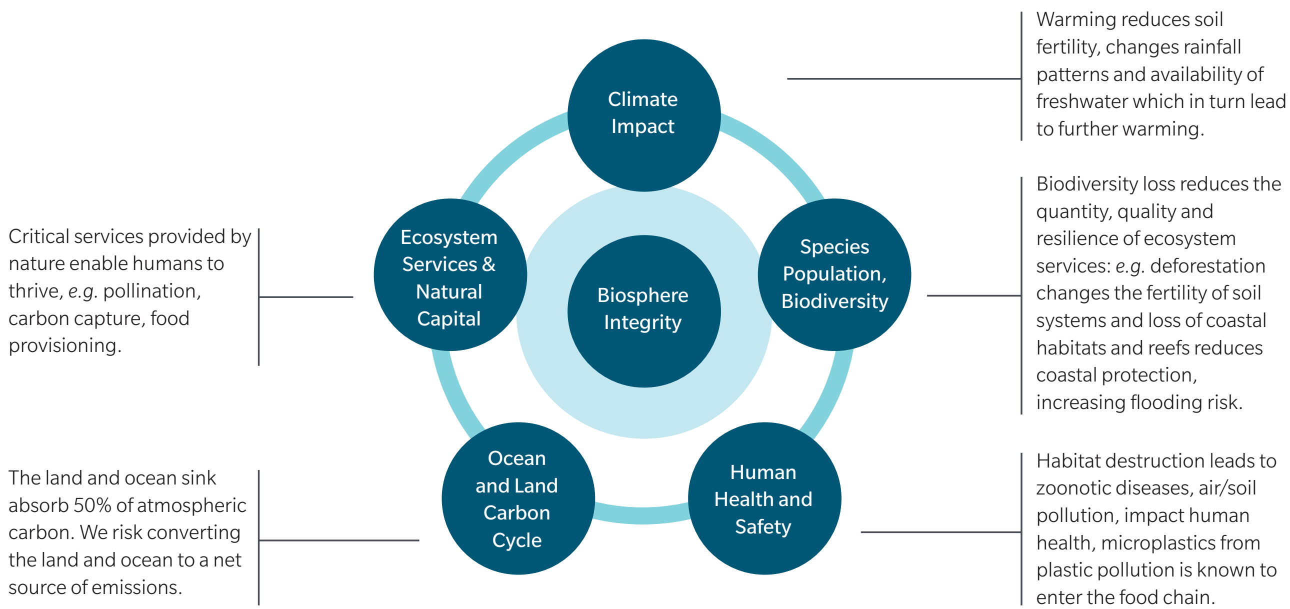
## / BIODIVERSITY AND NATURAL CAPITAL /

Biodiversity and natural capital are areas that present risks and opportunities that we will continue to research and manage our exposure to. To date we have conducted research and have had internal investment team discussions on palm oil–related deforestation and peatland burning, mining byproducts management and water pollution. We also engage with portfolio companies on these topics if we feel the company is not managing this risk adequately.

Natural capital is worth considering in its own right, but its link to climate change makes it all the more important. It is becoming increasingly clear that we cannot achieve the goals of the Paris Agreement without halting and, indeed, reversing nature loss. Land use and forestry changes (mainly agriculture and deforestation) amount to just under a quarter of human-caused greenhouse gas emissions. Forests and oceans currently absorb vast amounts of carbon dioxide. Oceans alone can now absorb around 25% to 30% of anthropogenic atmospheric carbon, but this is diminishing due to acidification, biodiversity loss and plastic pollution.

Our increasing understanding of the value derived from nature and our impact on it is another major driver to continue our exploration on this topic. As we approach various tipping points, such as those relating to greenhouse gas emissions, biodiversity loss, novel entities and pollution, the impact of the impairment of natural capital becomes more important.

**Exhibit 3: Natural Capital and Its Impacts on Biosphere Integrity**




Source: Integrated Ocean Carbon Research available at https://unesdoc.unesco.org/ark:/48223/pf0000376708.

One of our key findings is that the impacts of natural capital risk are extremely complex, and there are serious analytical challenges in being able to determine winners or losers and even identify those most at risk. We believe that to do this well, we must conduct granular bottom-up analysis. To build out a framework for our global platform of investment specialists to use, we began in the food sector by seeking the answer to questions such as those below in our own meetings and in meetings with relevant companies:

- How dependent are the companies on commodities that have a high natural capital impact, and where in the supply chain does the impact occur?
- What types of natural capital are most impacted, and how disruptive could the impact be?
- What can companies do to reverse or remediate the impact?

As we continue to work through the details, we are learning a lot about how to think about these risks and opportunities and value them. We also participate in some industry collaborations on natural capital risks, including the PRI SPRING initiative which is addressed later as part of our discussion on industry initiatives.

In addition, we are currently in the process of assessing the recently published recommendations of the Taskforce on Nature-Related Financial Disclosures, and how adoption of the framework would look for our business and our portfolios. We are very early into this process, but we will be working on this into 2024.

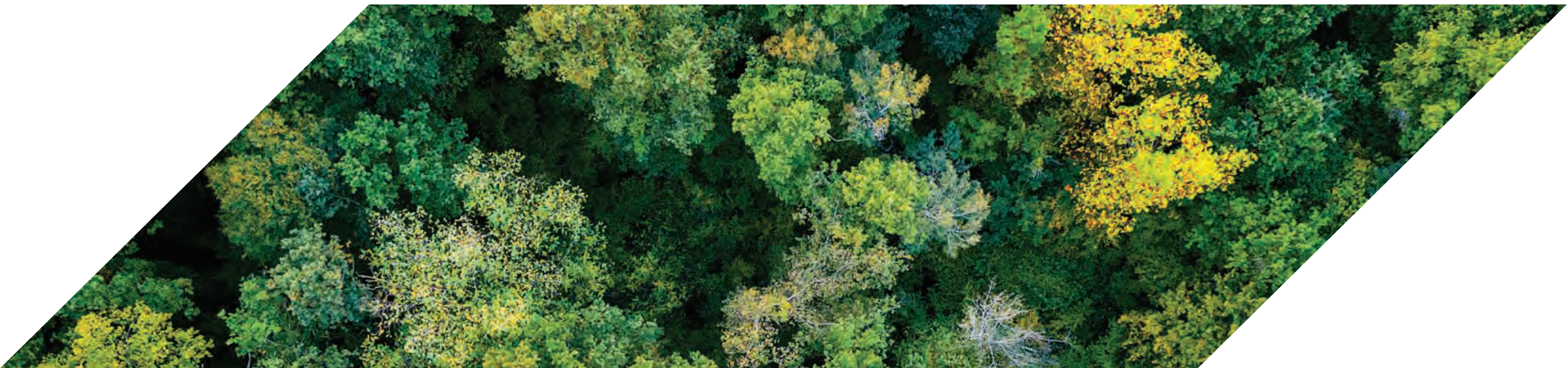
### Case Study in Action: Danone

During an engagement with Danone last year, we discussed deforestation. As part of the company's new Forest, Land Use and Agriculture (FLAG) targets, Danone committed to no deforestation across its primary deforestation-linked commodities, with a target date of FY2025. Danone says that this commitment adds more focus and impact. Since the company is global and sources all kinds of commodities, it can make a difference for only some raw materials, rather than spreading focus too thinly. Five commodities are in scope: soy (including animal feed), palm oil, cacao, paper and pulp. The commitment is clearer now with more comprehensive mapping and traceability in place.

The commitment also incorporates:

- A strengthening of supplier policy and narrowing focus on biggest impacts
- Stronger commitments on transparency and clean supply chain — full traceability of the sources, and engagement with a larger group of suppliers
- Regeneration that protects and restores ecosystems where they are relevant for most material crops

We believe that these commitments will be additive to the company's overall climate targets as the company moves forward.



## / SUSTAINABILITY IN FIXED INCOME / 1 7 10

We continued to focus on strengthening our integration frameworks for various fixed income sub-asset classes, including corporate debt, sovereign debt and US municipal sub-sovereign debt (*i.e.* states, provinces, or cities), among many others.

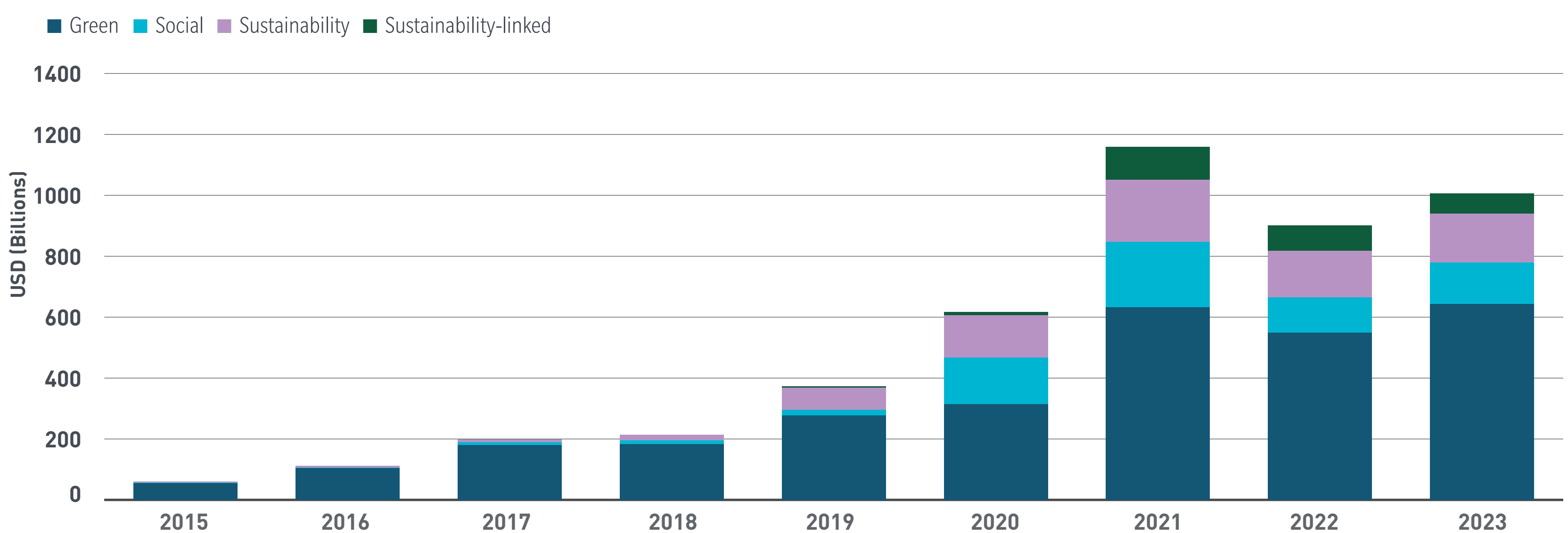
### Sustainability-Themed Bonds

We continue to own sustainable debt across mainstream portfolios, including green, social, sustainability and sustainability-linked bonds.

We purchase these bonds alongside mainstream debt using a rigorous credit analysis process and feel that they also represent strong investments for our clients from a risk/return standpoint. Due to the recovery of market conditions and slightly increased volume of issuance, our exposure to them increased by more than 40% in 2023. However, the proportion of sustainable debt as a share of overall bond sales was one of the lowest since 2020. The proportion of these bonds as a percentage of our overall FI AUM increased this year.

In terms of overall issuance, sustainable debt issuance topped one trillion USD in 2023 due to higher levels of sales in green and social bonds at close to $640 billion and $135 billion, respectively. However, issuance of sustainability-linked bonds decreased by 20% to $67 billion in 2023.

### Annual Issuance of Sustainable Debt




Source: Bloomberg. Green bonds are specifically earmarked to raise money for climate and environmental projects. Social bonds are dedicated to funding social projects or activities that have a positive impact on individuals, communities or society. Sustainability bonds are bonds the proceeds of which are exclusively applied to financing or refinancing a combination of both green and social projects. Sustainability-linked bonds are a fixed income instrument the financial and/or structural characteristics of which are tied to predefined sustainability or ESG objectives. The objectives are measured through predefined Key Performance Indicators and evaluated against predefined Sustainability Performance Targets.

### ASCOR (Assessing Sovereign Climate-related Opportunities and Risks)

The ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) project was established in mid-2021 to create a framework and an accompanying tool to provide investors and other stakeholders with a common understanding of sovereign exposure to climate risk and how sovereign issuers plan to mitigate and adapt to them. The research is being led by the Transition Pathway Initiative team at the Grantham Research Institute on Climate Change and the Environment at the London School of Economics. As a founding member of the advisory committee, we continued to play our part in guiding the project in 2023.

In February 2023, ASCOR published a Consultation Report and launched a public consultation process to collect feedback on the initial ASCOR framework. The public consultation process lasted for several months and ultimately led to the publication of the methodology note in November 2023. Following the release of the ASCOR tool in December 2023 the project showcased research insights from the assessment of the initial set of 25 pilot countries along with market participant reflections.

## / ESG DATA AND TOOLS / 2 7

Sustainability issues are complex, interconnected and evolving too quickly for a single rating or data point to reflect the full extent of sustainability-related risks and opportunities facing a company or investment. There are still many inadequacies when it comes to the availability and comparability of ESG data, which is one reason we believe there is no substitute for in-depth issuer analysis. The assessment of materiality cannot be automated.

The availability, quality, consistency and comparability of ESG data is improving (albeit from a low base). So far, we have not been able to identify a single provider with high quality data on all the material ESG considerations that we wish to consider. Therefore, we have chosen to take a best-of-breed approach, seeking to identify and acquire the best-in-class data on an issue. As a result, MFS draws data from numerous third-party ESG data providers and a diverse group of nongovernmental and other organizations. These organizations provide ESG-related data, company and issuer analysis and ratings, and sector and country analysis. MFS also receives research support from a large and growing number of sell-side ESG investment analysts.

### Tools Used by MFS

| Tool | E | S | G | Controversies | Overview |
|---|---|---|---|---|---|
| MSCI-ESG Research | √ | √ | √ | | Broad-based provider of ESG metrics and provider of aggregated scores. We use this underlying data as an input into our fundamental research. |
| S&P/Trucost | √ | | | | Widely recognized as a market leader in providing carbon emissions data on companies and issuers. We currently have data from TruCost feeding into our research notes and use their data in the ESG Dashboard. |
| RepRisk | | | | √ | Uses a quant or AI approach in scoring ESG risks. It is a controversy aggregator with broad coverage. |
| ISS | √ | √ | √ | | Provides quality ESG data used in our proxy voting process. |
| Glass Lewis | √ | √ | √ | | Provides ESG data used in our proxy voting process. |
| Bloomberg | | √ | | | Has higher-quality social metrics (such as worker safety and employee turnover) than many other broad providers and has more for fixed income investors. |
| RisQ | √ | √ | √ | | Provides ESG data for municipal bonds. |
| Clarity AI | √ | √ | √ | | Primarily aimed at ESG reporting for clients and regulators; provides off-the-shelf reports on regulations such as SFDR and the EU taxonomy; offers ESG “scores” and some raw data. |

## Sustainability Data Hub

To house our proprietary research and relevant third-party data, MFS maintains easily accessible, issuer-specific data hubs within our investment research system. Our team can access a wide range of data and reports from a centralized location, making it a powerful research tool.

Centralized location for both internal and external research

MFS | Engage | MSCI | Trucost | ISS | RepRisk | Working Groups | ESG Company & Portfolio Dashboard

Links to relevant research notes written by equity, fixed income and ESG analysts

| RATING | PRICE | SUBJECT |
|---|---|---|
| Notes: 11/01/2020 to Present | | |
| *Company rating, pricing and note subjects removed for display purposes* | | |

| ANALYST | DATE |
|---|---|
| Slingsby, Benjamin | 8/15/2023 |
| Wilson, Robert | 1/14/2023 |
| Slingsby, Benjamin | 10/11/2022 |
| Jassur, Lior | 8/6/2022 |
| Slingsby, Benjamin | 7/1/2021 |
| Slingsby, Benjamin | 1/27/21 |
| Slingsby, Benjamin | 11/27/2021 |

**Sector Map:** Textiles, Apparel & Luxury Goods Industry    Higher risk    Moderate/Tail risk    Lower Risk    Opportunity

| TOPIC | MFS COMMENTARY | MANAGEMENT QUESTIONS |
|---|---|---|
| Income Inequality/ Labor Practices | Summary: Society's growing focus on inequality could increase labor costs for these companies, which often offer their front line employees near-minimum-wage pay with limited or no benefits. Metrics: Employee turnover, CEO: Median employee pay gap, Glassdoor ratings, average pay of front line worker, % of front line workers who receive benefits (healthcare, insurance, paid vacation and sick leave, overtime pay), % of workers that are part time vs. full time and difference in benefits, Safety metrics such as injury rates and insurance policy for workplace accidents, fatalities, freedom of association/unionization. | Have you estimated a living wage for majority of your employees and how do you compare that vs. minimum wage? What are your targets for reaching a living wage over a 3 and 5 year period? Do you have a comprehensive employee survey and if so, what are the 3 major focus areas? Is there a material difference between full time and part time salaries and benefits and do you expect regulators to move towards closing that gap? How do you think about managing or flexing labor costs through a restructuring or slowdown? How flexible is your labor cost base, and how sustainable do you think this strategy is over the long term? |
| Sustainable Sourcing of Raw Materials | Summary: The pressure to source materials responsibly and clearly audit the supply chain for compliance is increasing. Quality companies understand the reasons behind sustainable sourcing and set targets to increase the % of goods they source sustainably. Metrics: Tier 1, 2 & 3 Supplier Audits all the way to farm/mine level. % of raw materials sustainably sourced and certified by a third party. Knowthechain rankings. | Can you outline your policies on sustainable sourcing and auditing of raw materials? Do you audit all three tiers of suppliers all the way to source? Do you report on the number of audit violations every year and remediation results? Do you disclose the name of all suppliers publicly? What third party certifications do you rely on to ensure sustainability compliance? |
| Supply Chain Mgmt & Modern Slavery | Summary: Supply chains are an increasing source of operational & reputational risk in these industries. Firms should outline unacceptable supplier practices (*e.g.* forced labor and/or overtime) and develop rigorous audit practices to uncover and correct non-compliance. Best practice also includes supplier transparency (publicly listing all suppliers) and offering long term contracts to suppliers to drive safety investments & living wages. Metrics: % of Tier 1,2 and 3 suppliers that are audited, reported number and type of labor code violations and specific remediation measures taken, % of suppliers committed to paying a living wage, % of supply chain that receives consistent training on labor mgmt and modern slavery. | What business/operational risk does modern slavery in the supply chain pose to your business and how are you working to eradicate it? What technological investments are you making to increase transparency within your supply chain? Does the board and C-Suite weigh in on supply chain labor management and if not then which group in the organization does so? What remediation action do you take when you find labor rights violations within the supply chain? |

Notes written by our analysts and portfolio managers that address relevant sustainability issues are automatically linked, enabling the broader team to quickly identify and evaluate internal viewpoints on material factors impacting the issuers they cover or hold in a portfolio. We are also able to highlight when a research note is sustainability focused or contains information about an engagement.

Each company sustainability page also displays our proprietary sector map for the relevant industry. MFS' sector maps outline the key environmental and social issues we believe are material to the industry and subindustry in which a company operates.

Each topic shown on a company's map includes an assessment of the magnitude of the risk or opportunity, an overview of the topic (including key data points to analyze) and potential questions.

In addition to having access to the data hubs, our investment team can make use of an ESG dashboard that provides a wide variety of up-to-the-minute third-party data and insights for multiple issuers. This includes data associated with emissions, water usage, diversity, injury rates, employee attrition, data security, bribery and corruption practices, executive compensation, audit quality, controversies and more.

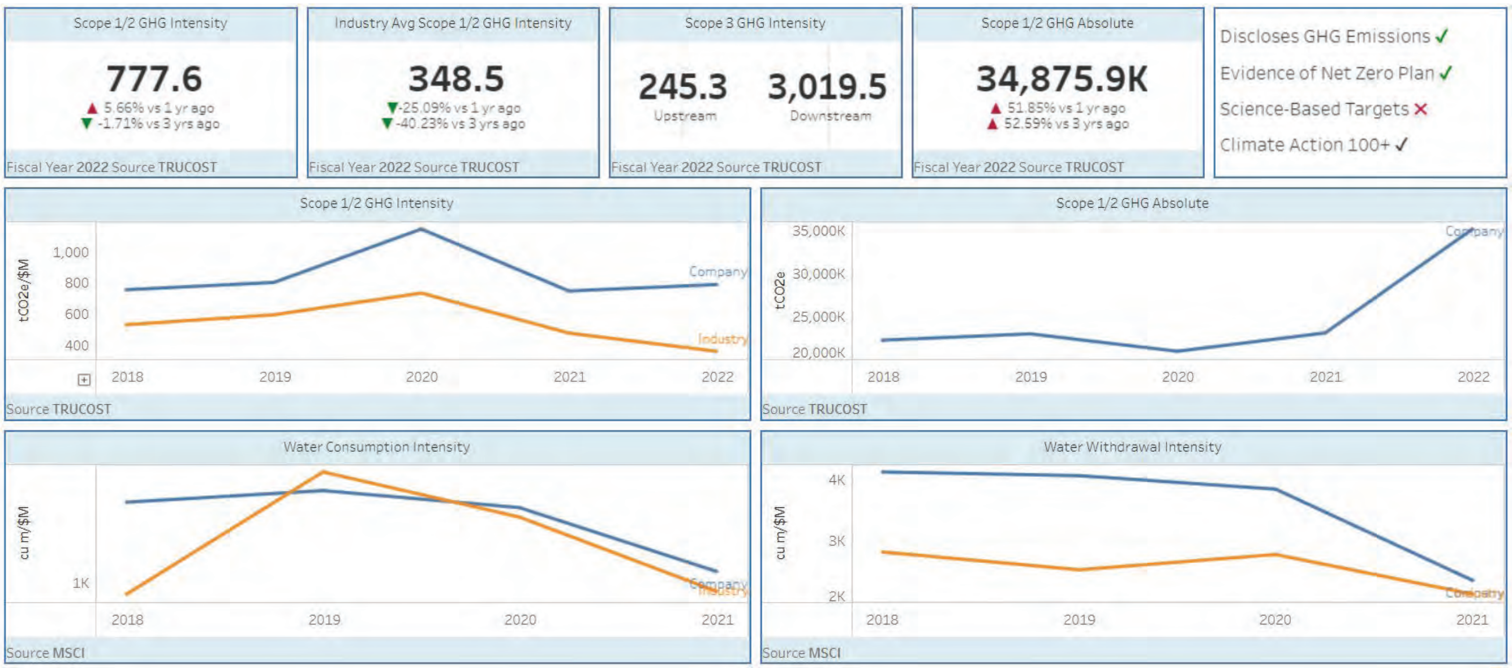
### Use of Third-Party Ratings

It is our belief that many asset managers rely too much on third-party ESG ratings. ESG is, by its nature, subjective and often involves considering risks or opportunities that are intangible and hard to measure. This leads us to conclude that weighing the risks facing an individual company (be they financial or nonfinancial) is very difficult to do accurately using the one-size-fits-all approaches of credit rating agencies. In our view, most ESG ratings providers generally employ a single-score approach (*i.e.* assigning a security or fund a rating), and the methodology by which this score is determined varies. Standardized data on E, S and G factors are harder to get than traditional financial metrics. Providers may use different data sources as inputs into their rating, which can result in varying outlooks for a company across ratings providers. It is difficult to accurately use the one-size-fits-all approach most ratings providers employ when evaluating securities or funds. As such, we consider the perspectives of multiple ratings providers to collate a more holistic view of a company, but we are careful not to over-rely on them in our research process.

## / UPDATES FROM 2023 /

Given the importance of using transparent, reliable and accurate ESG data, our investment team is reaching out to our data providers at least annually to ask about various data points and their accuracy, suggest improvements and evaluate other providers for data we feel is not sufficient from an existing provider. We also seek out new providers we feel will enrich our research and expand our reporting capabilities and evaluate them on a case-by-case basis. In 2023, we onboarded several data providers, to help meet our regulatory and client reporting requirements.

### ESG Dashboard



In 2023, we completed the initial development of our proprietary ESG dashboards. These dashboards were built using an interactive web-based software and offer our entire investment team the ability to visualize ESG data and trends for issuers and portfolio holdings through a variety of charts and graphs, in addition to presenting the underlying datapoints. The data presented is entirely company-reported and not based on ESG ratings as we continue to believe such ratings are not an effective tool in active investment decision making. The platform is housed within our existing research database and allows investors to track and monitor a variety of E, S and G metrics across our platform. Data is presented in three tabs: climate, social and governance and is intended to provide investors with a consolidated overview of key ESG metrics to help inform research and engagement activity.

Within the dashboard, investors view individual company metrics as well as aggregated portfolio data for select metrics. For example, under the "climate" tab of the dashboard, investors are able to view a portfolio's weighted average carbon intensity versus its benchmark over time for its current holdings, as well as the Weighted Average Carbon Intensity of the portfolio's underlying securities.

Under the company level dashboard here are a few examples of metrics our investment team can see under each pillar:

| Environmental | Social | Governance |
|---|---|---|
| • Scope 1/2 GHG Intensity vs. Industry over time<br>• GHG Reduction Targets<br>• Climate Action 100+ status<br>• Science Based Targets | • Avg/Median Employee Pay<br>• Employee Turnover<br>• Gender Diversity of Workforce/Mgmt<br>• Employee Health & Safety Metrics | • Board Independence<br>• Racial Diversity vs Industry vs Country<br>• Board Size<br>• Board Tenure |

## Sustainable Finance Disclosure Regulation (SFDR) Dashboard

We also developed our SFDR alignment dashboard to facilitate monitoring and reporting for our Article 8 portfolios. This dashboard allows our investment team to monitor progress at both a granular and holistic level over time. It also gives us the ability to share this progress with our clients.

## Engagement Dashboard

During the past few months, our technology team finalized our Engagement Dashboard. This dashboard records the number of engagements during a certain period, referencing whether it was an E, S or G engagement. There are also other fields such as MFS and external attendees, more specific topics discussed, if it was a collective engagement, etc. This will make it easier for us to see what topics we're engaging on, and the progress made to date. It will also improve our ability to report on such efforts with our clients.

## / CONSTRUCTIVISM: A COLLABORATIVE APPROACH TO STEWARDSHIP /

Our goal when investing is to be value makers. We believe constructive stewardship serves this aim well. Such stewardship is not just about the discharge of a duty. It is also about collaboration and understanding. It gives us an analytical advantage and can act as a source of alpha generation. This approach to stewardship is consistent with how we allocate capital and our culture of long-term investing because it allows us to learn more about and more effectively influence the companies in which we invest, which we believe will ultimately accrete value for our clients and help us achieve the best risk-adjusted returns we can for them.

In the investment industry, the prevailing wisdom seems to be that the stewardship decision is a binary one: You are either an activist or you are passive. We do not agree. There are many forms of effective stewardship. Academics from Oxford published a note on the four forms of stewardship: conservatism, opportunism, constructivism and activism. The diagram below outlines the key features of each approach.

### ACTIVISM

**CHARACTERISTICS**
- Adversarial
- Focus on fulfilling (significant) investor demands
- Willingness to escalate
- Investor knows company and has explicit ideas for change
- Quality engagement (high stakes)

**TOOLS**
- Shareholder resolutions/campaigns
- Naming and shaming
- Public engagement
- Strategic litigation

### CONSTRUCTIVISM

**CHARACTERISTICS**
- Collaborative, open language
- Consensus-focused
- Focus on materiality
- Relationship-building
- Investor knows company
- Quality engagement

**TOOLS**
- Frequent outreach from both sides
- Active ownership (including voting)
- Private engagement
- Investor collaboration

### CONSERVATISM

**CHARACTERISTICS**
- Focused on risks
- Often driven by minimum standards in client policies
- Threshold and policy focused
- High reliance on ESG data providers
- High quantity
- Exclusion is often escalation

**TOOLS**
- Letter writing
- Private engagement
- Investor collaboration
- Exclusion

### OPPORTUNISM

**CHARACTERISTICS**
- Thematic approach
- Often reactive (flavor of the year)
- Often in collaboration with other investors
- Focused on system change (targeting entire sectors)
- Used for public positioning
- Quantity-engagement (high scopes)

**TOOLS**
- Letter writing
- Investor collaboration
- Public engagement (in case of investor collaboration)

Image source: Four strategies for effective engagement | Responsible Investor (responsible-investor.com).

## Stewardship

We believe open communication with companies and issuers is an important aspect of our ownership responsibilities, which is why we take a constructive approach to engagement. Characterized as collaborative, materiality oriented and issuer-focused, we believe this approach gives us an analytical advantage and can act as a source of alpha generation. It is our view that the best outcomes are most likely achieved through strong relationships and regular, mutual dialogue with our portfolio companies. Our goal when engaging is to exchange views on sustainability topics that represent material risks or opportunities for companies or issuers, and to effect positive change on such issues. We believe that long-term-oriented asset managers who engage companies on sustainability topics can positively influence a multitude of better business practices, which will ultimately accrete value for our clients. Our engagement approach is driven by strong collaboration between all members of our investment platform, including our stewardship team. Our engagements take place consistently, and in several different forms, often through mutual dialogue with company management, formal letters, ESG-focused board meetings and more. We may also work with other industry participants.

We believe that our approach to engagement can generate positive impacts for industries, individual companies and a wide range of stakeholders, including shareholders. We actively participate in industry initiatives, organizations and working groups that seek to improve and provide guidance on corporate and investor best practices, ESG integration and proxy voting issues. MFS is a member of or signatory to a variety of organizations and initiatives that promote sustainability topics, including the Principles for Responsible Investment (PRI), the US Investor Stewardship Group (ISG), the Workforce Disclosure Initiative (WDI), the CDP, Climate Action 100+ (CA100+) and Ceres. We are actively encouraging our portfolio companies to enhance disclosure and adopt best practices across a variety of topics such as setting science-based emissions reduction targets, addressing modern slavery and forced labor concerns and enhancing disclosure around employee management practices.

When we engage, our approach is primarily centered around the aim of improving our understanding of investee companies and enhancing our investment decisions. By engaging with a company to achieve specific goals, we improve our understanding of the material ESG risks and opportunities it faces. We may also seek to challenge issuers' behavior in relation to ESG considerations if we believe it is necessary to add value for our clients.

## Stewardship Methods

The stewardship spectrum ranges from constructive dialogues with issuers, to making voting decisions reflecting our engagement efforts.

### Collaboration

Where appropriate, in line with our fair competition policy, we will seek to engage on a collaborative basis. We recognize that in some situations our concerns will align directly with those of other shareholders in collaborative initiatives. However, our overarching aim is to act in the best interests of our clients, which takes precedence over collaborative action.

We recognize that many ESG issues are systemic, and hence are more suited to coordinated, cross-sectoral action.

### Issuer meetings

We engage in dialogue with company management, directors, and other issuer representatives on a regular basis. We monitor and set up planned company meetings based on our identification of financially material issues, and where appropriate request and thoughtfully analyze information on sustainability topics. We may make specific requests in these meetings, with the hope of avoiding the need to escalate our engagements as discussed below.

### Proxy voting strengthens engagement

We take the opportunity to vote seriously, as it enables us to further encourage boards and management teams to consider and address areas that we are concerned about.

MFS generally votes on all proposals submitted to shareholders at shareholder/bondholder meetings, including resolutions proposed by shareholders as well as corporate action resolutions (*e.g.* mergers, acquisitions, share and debt issuances).

## Areas of Focus for Engagement

MFS' long-term investment horizon, investment process and detailed proxy voting policies and procedures provide a foundation for our stewardship activities, clearly setting out our expectations of company management teams and boards. We believe that long-term value is enhanced through a financial materiality-focused assessment of environmental, social and governance issues.

Some areas of our investment team's research have included but are not limited to:

### Board effectiveness

- It is our understanding that the primary role of a company's board of directors is to hire, incentivize, retain, guide and hold to account the CEO. They also set corporate policies and objectives. In that regard, a board should be sufficiently independent, diverse and skilled to undertake its stewardship role: to hold executive management to account, including on the development and implementation of strategy. Each board member should have sufficient time and attention to fulfil their duties and should not be over-committed.
- The experience and skills that each non-executive and executive director brings to their role and to the board should be relevant to the company's activities, disclosed to stakeholders and, when practicable, add cognitive diversity. The nominations processes should be transparent.

### Climate Change

- MFS supports alignment with the goals of the Paris Agreement. It is our ambition for our assets to be operating at net zero by 2050 or sooner. We are a Net Zero Asset Manager initiative (NZAM) signatory.

### Corporate Culture

- We believe that a company's culture is critical to its long-term success.

### Disclosure

- MFS encourages accuracy and transparency in disclosure, which is a key instrument for accountability.

### Diversity Equity and Inclusion

- We support inclusive business practices and, specifically, those that incorporate Diversity, Equity and Inclusion (DEI). We believe that issuers should consider their own DEI practices as well as DEI issues impacting their underlying value chains, including suppliers, local communities, and customers.

### Sustainable tax rate

- We support companies that generally manage toward a sustainable tax rate that ensures taxes are paid where economic value is truly generated.

### Environmental sustainability

- MFS' investment process aims to understand and incorporate the impact a company has on nature because we believe that topics such as biodiversity, environmental degradation, deforestation and pollution will have a long-term impact on the companies we own.

### Societal principles

- We believe that a company is more likely to maximize and sustain long-term growth if it takes care of its stakeholders, which includes its workforce, vendors, customers and communities as well as its shareholders and bondholders. It is our goal to determine which of these topics are most financially material for each company and engage with those companies that do not appear to be properly managing these risks or taking advantage of the opportunities available to them in these areas.

### Prioritizing Engagement Topics

As a thoughtful and active asset manager, our core strength is in bottom-up, contextual analysis of issuers.

Platform-wide strategic engagement priorities will be aligned with areas of greatest potential investment risk and opportunity.

We may also determine that strategic engagement affecting multiple issuers within an industry might be appropriate. These strategic engagements occur in instances where significant ESG risks impact multiple issuers held by MFS and we determine that a holistic approach to engagement provides the greatest opportunity for our clients' portfolios.

Strategic engagement themes predominately tackle systemic risks such as climate change and issues where multiple industry sectors are affected. These risks require a deliberate focus on and prioritization of outcomes at an industry-wide scale.

Before an engagement theme is implemented, the member of the investment team proposing such action must first provide the Investment Sustainability Committee with key objectives, targets and core milestones as well as an expected timeline for the engagement. The Proxy Voting Committee is responsible for confirming that such an engagement is aligned with our proxy voting policy and procedures.

***How do we prioritize engagements?***

We will prioritize issuers by triangulating several factors:

**Exposure** – We generally target our engagement according to the percentage of assets under management and the percentage of security holdings, which means that we may prioritize the largest holdings or holdings where we own a large stake on behalf of our clients.

**Severity and outcome** – We are more likely to engage on issues that present an immediate or severe threat to the best interests of our clients.

**Materiality to the issuer and MFS** – We are more likely to prioritize ESG issues that are in our opinion of a pressing and severe nature to the value of our investment.

**Investment conviction** – We are more likely to prioritize an engagement where the issuer is currently in receipt of a recommendation from our investment process.

**Proxy Voting–related engagements** – We are more likely to prioritize an engagement if it is in relation to proxy ballots to ensure MFS casts votes in the best long-term interest of our clients.

Engagement objectives, expectations and desired form of success should be clearly communicated to issuers with which we engage at the beginning of the engagement cycle. Regular reviews will try to ensure that the engagements are on track and most current data and information is considered. Members of the investment team write engagement notes in our investment database to track details of our strategic engagements.

Our investment process raises issuer specific ESG-related risks and opportunities identified as part of our fundamental analysis and ESG integration work in management meetings, and we endeavor to factor these into our investment thesis where relevant and material.

**AS A THOUGHTFUL AND ACTIVE ASSET MANAGER, OUR CORE STRENGTH IS IN BOTTOM-UP, CONTEXTUAL ANALYSIS OF ISSUERS.**

## / INDUSTRY INITIATIVES / 7 10

### MFS' Net Zero Commitment and Update

At MFS, our objective is to create long-term value for our clients by allocating capital responsibly. The way we do this is by actively identifying companies and securities we believe will generate strong investment performance for our clients over time. In our view, ESG integration, engagement and active ownership support this goal.

In July 2021, MFS joined the Net Zero Asset Managers initiative (NZAM), a voluntary collective of more than 315 international investment managers with $57 trillion in assets under management. As a signatory of NZAM, MFS supports the goal of achieving net zero carbon emissions by 2050 or sooner. In our view, climate change is a systemic investment risk that cannot be diversified away.

Our approach to achieving net zero alignment is based on engagement, not exclusion. By effectively engaging with the companies in which we invest, we can manage the overall climate-related financial risks within our clients' investment portfolios while also helping relevant industries recognize the risks and opportunities associated with the transition and related decarbonization efforts. That is why we believe that our research and engagement on climate topics is in the best interest of our clients and aligned with our purpose of creating long-term value and in line with our fiduciary duty.

***Our Net Zero Commitments***

When we joined NZAM, we were asked to set an interim 2030 target, to be reviewed every five years, for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner. MFS set the following targets:

**90%**
of in-scope assets under management (AUM) considered net zero aligned or aligning by 2030[2]

**100%**
of in-scope AUM considered net zero aligned or achieving by 2040

**100%**
of AUM considered 'achieving net zero' by 2050

***Our rationale for an AUM-focused target***

**1. Focus on issuers (real world emissions), not portfolio emissions.**
Decarbonizing the global economy requires greenhouse gas (GHG) emissions reductions across industries and sectors. Decarbonizing portfolios applying linear GHG reduction targets seems counterintuitive to us for two primary reasons: 1) Sectoral decarbonization pathways are nonlinear. For example, in some hard-to-abate sectors certain technologies are still in development, and it is understood that emissions may go up briefly before trending down. 2) Managing portfolios towards a GHG emissions reduction target might lead to the exclusion of sectors with larger emissions that are vital for transitioning to a decarbonized world, such as steel, cement and industrial gases.

Furthermore, while each of our portfolio managers has discretion in security selection, much of the climate-related research that happens at MFS is conducted by industry specialists who support many different portfolio managers and strategies. As a result, we believe an AUM target using an engagement-based approach allows us to prioritize in-scope AUM on the path to achieving net zero while at the same time remaining true with our investment philosophy and mindful of our fiduciary responsibilities to our clients. We also believe this approach aligns with the NZAM initiative's ambition to achieve real world emissions reductions in our portfolios.

**2. Engagement is our primary tool because we believe it is more effective.**
We are confident that our approach of long-term, constructive stewardship is the best way for us to fulfill our duty to clients. We are excited about our ability to create value in a way that is complementary to our investment process. We believe that large, long-term-oriented asset managers who engage companies and issuers can positively influence governance and business practices by helping executive teams and directors evaluate the climate-related risks and opportunities facing their industry. That is why we have developed a sectoral-focused engagement program that will report how companies' climate transition plans compare to Paris-aligned temperature pathways, while factoring in issuer-specific risks and opportunities.

Importantly, we do not use exclusion, or the purchase of "green" companies solely for the purpose of reducing portfolio carbon emissions, because neither reduces real world emissions nor aligns with our fiduciary obligations to our clients. We may, however, elect to selectively divest from an investee company if we believe an investee company is not making sufficient progress toward addressing the climate risks in their operations. We may also elect to invest in companies that aid climate change mitigation and adaptation if we believe this to be in the best interest of our clients and in line with our fiduciary duty.

**3. Every issuer is unique; contextual analysis is important.**
For an active manager like MFS, bottom-up, contextual analysis of companies is at the core of our investment approach. Authentically integrating our climate related engagement program into our investment decision making means that we take into consideration geographical differences (*e.g.* emerging markets and developed markets), are appreciative of challenges and dependencies of company transition plans and understand how technological and regulatory changes impact issuers and industries differently.

**4. Integrated organizational structure: one investment platform.**
As an active manager, we can leverage the unique perspectives and expertise of our global team of investment professionals. Engagements on climate related issues are performed by fundamental analysts, portfolio managers and the stewardship team. Our collaborative approach ensures that company-specific business models are understood in engagements, our engagement program is aligned with our investment thesis and engagement insights are shared across the investment platform.

***2023 Net Zero Sector Focus - Consumer Staples***

The global food system alone accounts for approximately one-third of all anthropogenic GHG emissions, a testament to the sector's profound environmental footprint. This includes an estimated 7.1 to 8.0 billion tons of CO2 emissions from human agricultural activities, aquaculture and capture fisheries, alongside 3.2 to 5.7 billion tons of CO2 from land use changes, particularly through commodity-driven deforestation and the conversion of vital ecosystems.* These numbers underscore the intricate link between preserving natural ecosystems and achieving decarbonization targets, highlighting the sector's pivotal role in the fight against climate change.

In our upcoming 2023 Net Zero Progress Report, we expect to take take a deep dive into the consumer staples sector which stands at a critical juncture in the global effort to achieve net zero goals. As the sector responsible for a significant share of global greenhouse gas (GHG) emissions, its role in mitigating climate change is undeniable and urgent. We explore the sector's impact on climate change, the challenges it faces in reducing GHG emissions and the strategic initiatives required to align with global decarbonization goals.

*Source: https://transitiontaskforce.net/wp-content/uploads/2024/04/Food-and-Beverage.pdf.

## / PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI'S) ADVANCE INITIATIVE /

MFS conducted its first engagement as part of the PRI's Advance Initiative which focuses on understanding and evaluating human rights risks within corporates and their supply chains. We began our engagement with a large-cap mining company. Our investor engagement group, along with the company, discussed public human rights policy, the role of governments in facilitating a Just Transition, the development and implementation of a tiered risk-ranging procedure for different jurisdictions and the potential for adopting human rights reporting standards with quantitative metrics.

### Asia Investor Group on Climate Change (AIGCC)

During the first quarter of 2023, MFS joined the AIGCC (Asia Investor Group on Climate Change) with the goal of building a greater understanding of the energy transition in Asia and the opportunity to engage with Asian corporates and other stakeholders as Asian markets and companies develop their net zero pathways. MFS has joined the deforestation and the energy transition working groups within AIGCC. We believe that participating in this group is well aligned with our firmwide net zero commitment. More work will be coming out of our collaboration with this group in 2024.

### Global Reporting Initiative (GRI)

The GRI Standards enable an organization to publicly disclose the most significant impacts on the economy, environment and people, and how the organization manages them. The GRI Standards also seek to align with other reporting frameworks to avoid duplication of disclosure effort and ease the reporting burden for organizations. However, unlike other frameworks that focus on how sustainability-related risks and opportunities affect the organization, the GRI Standards focus on the outward impacts of the organization.

They are a modular system comprising three series of standards: the GRI Universal Standards (GRI 1 - Foundation, GRI 2 - General Disclosures and GRI 3 - Material Topics), the GRI Topic Standards (reporting specific information on material topics), and the GRI Sector Standards (describes material topics relevant to a sector). The three Universal Standards apply to all organizations. The intention is that the use of Sector Standards will increase the quality, completeness and consistency of reporting by organizations.

In 2023, we became a member of the Capital Markets Technical Committee (TC) for developing the sector standards that improve the sustainability reporting of the capital markets sector. Organizations in this sector provide or facilitate the investment of money to generate financial returns and include asset owners, asset managers, pension funds and sovereign wealth funds. Most of the work will be carried out in 2024 with a draft standard expected in October 2024. The public comment period will take place between November 2024 and February 2025.

### GRESB

We also signed onto the GRESB APAC Real Estate Collaborative Engagement letter, which was aimed at encouraging GRESB participation in the Asia Pacific. Highlights of the initiative included the following:

1. 18 out of 46 target companies held a meeting with GRESB (a 39% participation rate, compared with 25% in 2022), indicating that more companies are willing to engage in sustainability conversations.
2. Countries with significant state-owned enterprises, such as China, Vietnam and Indonesia, showed the lowest response rate.
3. GRESB's strategic direction for those countries is likely to be going direct or working with local partners rather than collaborative engagement.

## United Nations Global Compact (UNGC)

We also became a signatory to the United Nations Global Compact (UNGC) during the first quarter of 2023. The UNGC is a non-binding United Nations pact to get businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. Signatories are expected to internalize the ten principles of the UNGC into their business. Our decision to become signatories was motivated by our desire to learn, share and implement best practice around the principles of human rights, labor, environment and anti-corruption into our own operations over the long term and to strengthen our existing activity in these areas. It is important to note that our status as signatories is focused on our corporate operations, not our investment process. Our investment teams will continue to integrate the risks and opportunities highlighted by the UNGC principles when they are believed to be financially material to the investment case of the issuer being evaluated. Importantly, as part of our long-standing practice of not employing exclusions except where required by law or for clients with separate accounts, we do not plan to implement any firm-wide exclusions based on the UNGC principles.

## Workforce Disclosure Initiative

Over the past several years we have been participating in completing the Workforce Disclosure Initiative (WDI) survey, which covers a range of workforce-related topics. MFS works with the WDI team to encourage portfolio companies to participate in WDI by completing the questionnaire and publishing their results. The firm has committed to doing the same and has completed and submitted responses to the core questions of the questionnaire. We believe the WDI will continue to help standardize industry metrics on DEI and workforce transparency.

## Principles for Responsible Investing Steering Committee

During the year, our Director of Global ESG Integration joined the Sustainable Systems Investment Manager Reference Group (SSIMRG) Steering Committee (SteerCo). The SSIMRG provides a unique opportunity for investment managers to share developments, questions, concerns and feedback with the PRI Executive related to:

- Innovative solutions to barriers to responsible investment and a sustainable financial system
- The role of investment managers on system level issues
- PRI’s sustainable systems change plan
- PRI’s Progression Pathways

## Responsible Tax Working Group

During the year, we participated in an initiative of the PRI called the Investor Data Needs Program. The aim of the initiative is to amplify PRI signatories' voice with standard setters such as the International Sustainability Standards Board (ISSB), as well as regional standard setters such as the Financial Accounting Standards Board (FASB), the Securities Exchange Commission (SEC) and the Global Reporting Initiative (GRI).

They developed a framework over the past year to evaluate what company-reported information was "decision useful" for investors. The framework was developed with the understanding that investors differ significantly in their needs for data due to differing objectives, strategies and jurisdictions.

The two primary use cases for the Investor Data Needs Framework are:

- To identify data needs: applying the framework to identify a set of requirements for corporate sustainability data for a specific use context, whether for an investment strategy or activity, or for a specific sustainability issue, etc.
- To assess a corporate sustainability disclosure standard, rule or law: applying the framework to assess disclosure requirements using the set of corresponding data needs mentioned above.

Using this framework, we have been having conversations with ISSB and FASB helping to shape their research and standard setting agenda around tax disclosures and best practise.

We also had a collaborative meeting with the B Team as part of our involvement in the Responsible Tax Working Group. The B Team is a global nonprofit initiative that advocates for business practices that are more centered on humanity and the climate. This group brings together a community of companies with a commitment to responsible tax. The purpose of the group is to share learnings and best practices in pursuit of meaningful tax reporting and engagement with stakeholders, including investors. During our engagement, there was a two-way discussion between companies trying to come together around sustainability practices and best practice surrounding tax principles. Our Director of Global ESG Integration also presented to the B Team during the session, sharing MFS's approach to responsible tax and tax risk management and provided insights into the agenda of the wider PRI tax group.

## / CLIMATE ACTION 100+ /

***Background***

- MFS joined CA 100+ in 2020.
- Since we joined, we have led/co-led on five engagements and participated in four others.
- Currently we are lead/co-lead investor on two engagements and participate in four others.
- CA 100+ instructs signatories that when conducting engagements that they should be aware of and in compliance with relevant laws, including competition laws and acting in concert rules.
- We have gained valuable insights through our engagements.
- Key benefits of CA 100+ include:
  - Ongoing education and investment insights — importantly, these also benefit our 1:1 and ongoing dialogues with portfolio companies
  - Broadening and deepening our thinking on key issues, including through a collaborative exchange of ideas with our peers
  - Unlocking efficiencies in our investment research processes by dividing and conquering core research areas
  - Accessing management and specialist teams at some issuers
  - Sectoral working groups (*e.g.* industrials) give us insights in companies we are not directly engaged in (*e.g.* new working streams on sectoral issues such as chemical value chain)
- Over the years we have not shied away from departing from some industry efforts or declining to participate in others. At all times we make that decision based on what is authentically in service of our investment process and the long-term risk-adjusted returns we seek to earn for our clients.

### MFS Governance Process / Oversight

- Our membership of Climate 100+ is predicated on our commitment to understanding the full spectrum of financially material risks and opportunities that impact our ability to generate long-term value for our clients.
- Our fiduciary duty remains paramount, and we don't view our participation as conflicting with this duty in any way. We diligently observe and abide by all laws and regulations that apply to our participation.
- MFS conducts an annual review of the collaborative initiatives we participate in as part of our internal review process. We assess them to ensure they continue to align with our investment philosophy and support our sustainability efforts on behalf of our clients.
- We undertook this assessment in Q2 2023 and agreed that CA 100+ still met the criteria for our participation.
- This was reported to our Corporate Sustainability Committee, and we plan to undertake the same assessment again this year in keeping with our annual review process.

**CLIMATE ACTION 100+ IS AN INVESTOR-LED INITIATIVE WHICH AIMS TO ENSURE THE WORLD'S LARGEST CORPORATE GREENHOUSE GAS EMITTERS TAKE NECESSARY ACTION ON CLIMATE CHANGE. CLIMATE ACTION 100+ ENGAGEMENT FOCUSES ON COMPANIES THAT ARE CRITICAL TO THE NET-ZERO EMISSIONS TRANSITION. INVESTORS ARE RESPONSIBLE FOR DRIVING ENGAGEMENT AND DEVELOPING AND IMPLEMENTING COMPANY SPECIFIC ENGAGEMENT STRATEGIES.**

## / 2023 CA 100+ IN REVIEW /

2023 saw us taking a step back from leading engagements with some companies in the energy, metals and mining and aerospace and defense sectors. Our decision to pass on the lead roles on these engagements was the result of the companies having made sufficient progress on plans and performance for mitigating climate-related risks and impacts in line with our requests and the objectives of the initiative, and the need to reallocate resources to higher priority engagements. Over the course of the engagement, steps taken by the companies gave us greater confidence in their commitment and ability to substantially decarbonize and mitigate climate- and transition-related risks, and that the issue was integrated in governance, oversight and decision making. We will continue to support the engagements as is helpful and engage bilaterally with these companies as needed.

We continue to co-lead the engagements with companies in the consumer staples and metals and mining sectors, where the pathway to decarbonization is less clear. We continue to participate in additional engagements in the energy sector and have joined a new chemical sector-focused working group.

### PRI's SPRING Initiative

As part of our involvement with the PRI's SPRING initiative, one of our ESG analysts out of Singapore joined the advisory board during the year. SPRING is a PRI stewardship initiative for nature, convening institutional investors to use their influence to halt and reverse global biodiversity loss by 2030. SPRING aims to address the systemic risk of nature loss to societies and long-term portfolio value creation by enhancing corporate practices on forest loss and land degradation. We have been actively involved in crafting SPRING's landing page and clarifying the materiality of policy transparency and alignment. In addition, we presented at a PRI webinar, giving an overview of how MFS views the materiality of natural capital loss. We also emphasized the role of investors in helping shape reasonable regulations to encourage companies to adequately manage their supply chains to mitigate natural capital loss over the long term.

### General Investor Advocacy

Separately, MFS regularly participates in discussions of trade associations (in which we are a member) about regulatory action with respect to sustainability, stewardship and proxy voting. In 2023 MFS engaged with these trade associations on proposed regulations, including the European Commission's targeted consultation on the EU Sustainable Finance Disclosures Regulation. In 2023 MFS also participated in discussions organized by these trade associations with the US Securities and Exchange Commission (SEC) about the SEC's proposed Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social and Governance Investment Practices rule.

## / ENGAGEMENTS IN ACTION / 9

### Engagement in Action: Samsung

We had several engagements with Samsung this year around its modern slavery risk management processes across Tier 1, 2 and 3 suppliers. We note that the company has taken significant action on sourcing critical minerals from modern slavery– free supply chains. The company has also been working with industry peers to try to make the ethical sourcing of critical minerals an industry practice such that competitors are not incentivized to compete on price or cost or source critical minerals from suppliers that are prone to poor labor management practices. We engaged with the company on developing and maintaining remediation mechanisms when incidents of modern slavery are identified. Samsung shared that it is a member of the Responsible Business Alliance (RBA) and has jointly conducted audits with the RBA.

We then had a further engagement with Samsung on its supply chain practices. This was a particularly constructive discussion as the company has become more open to discussing the topic, which is receiving more attention as supply chain regulations are tightening in the European Union and elsewhere and companies are increasingly being asked to prove that their suppliers do not violate modern slavery laws.

Our focus has been on the company's mobile phone business in particular as it is labor intensive and has a multitiered global supply chain. Samsung has developed better risk monitoring systems for suppliers over the past few years, but an additional issue to address is how upstream suppliers are incentivized through contractual terms that affect suppliers' compliance with the company's modern slavery policies. While Samsung conducts extensive labor audits, the audits in and of themselves tend to be focused on historical issues and may not address emerging pockets of labor risk in the supply chain.

We believe that Samsung is also exposed to supply chain labor risk in its sourcing of critical minerals such as nickel and cobalt. It has joined the Responsible Minerals Initiative (RMI) as a board member to establish industry best practice on securing conflict-free minerals. We believe this is a positive development that could indicate that the company views these issues to be both financially and operationally material. We are keen to explore this topic in further detail with them.

We note that Samsung's disclosure on risk management systems for supplier monitoring has also improved substantially over the past year and that the management team has been open to dialogue with investors, which we find encouraging.

Areas of future engagement will be focused on understanding how supply chain labor due diligence is conducted, remediation for noncompliant suppliers, the structuring of purchasing contracts and specific clauses around modern slavery.

### Engagement in Action: Shenzhou

MFS has been engaging with Shenzhou, a large Chinese apparel manufacturer that manufactures apparel for both major international and Chinese brands. This company has been a beneficiary of brands consolidating their suppliers to reduce modern slavery risk in their supply chains. We learned that most brands have their own representatives on the factory floor to monitor labor treatment and they routinely conduct audits. However, we are yet to understand how this manufacturer engages with its own upstream suppliers of fabrics, dyes, etc., to manage labor risks at Tier 2 and 3 supplier level. This will be an area of ongoing dialogue.

### Engagement in Action: IG Group

In 2023, we had discussions with IG Group in relation to potential changes to their remuneration structure. We feel that remuneration and incentivization are important to the company given its focus on profitable growth. We believe good governance practices and incentive planning are important elements of an organization's long-term success. We provided feedback to IG Group on their proposed changes to its executive remuneration policy.

After two meetings with the Chair of the Remuneration Committee and others, we outlined our feedback in writing. We supported the change to a forward-looking Total Shareholder Return (TSR) measure but opposed the introduction of the revenue diversification metric as it would have significantly shifted the weighting of metrics. We suggested instead the introduction of return on capital metric, which we felt would more adequately capture long-term shareholder value creation.

We then had a follow-up discussion with the company after it made changes to the original proposal. IG Group introduced several additional safeguards around the revenue diversification metric to ensure that growth through diversification is not at the expense of long-term profit margins or earnings, and the weight of the metric in the plan was reduced. Further, the weighting ascribed to TSR was increased.

Due to the shift to a forward-looking TSR, the degree of alignment with the shareholder experience is increasing. We appreciate the company's responsiveness to feedback.

If we believe that discretion around the revenue diversification component has not been used appropriately, we are still available to express that view by voting against future remuneration reports. We will monitor the application of this metric in future award cycles and engage for further change if required.

### Engagement in Action: Aristocrat Leisure

Our team engaged with Aristocratic Leisure Ltd Entertainment on various occasions in 2023, including the sustainability team, senior management (CEO, CFO) as well as the Board Chair to learn more about their sustainability efforts, mainly with respect to responsible gambling. Aristocrat Leisure is a slot machine manufacturer and gaming studio owner based in Australia. They have two main divisions, a business-to-consumer segment (mobile games, including social and fake money casino), and a business-to-business segment (slot machine sales and leasing). We believe there is value in owning Aristocratic Leisure as it is working to position itself as a leader in sustainability in the gambling industry, mainly through responsible gaming.

To encourage responsible gaming, the company is focused on digital wallets. Digital wallets are cashless wallets that are added to customers' loyalty mobile app. This wallet can be split into a gaming wallet where the money can only be used for slot machines and a venue wallet. The wallet has a suite of limit setting measures based on different triggers including limit per bet, max win limit, max loss limit and max time. These limits can either disable the wallet, give an in-app notification to the gambler, or even summon for physical intervention from the venue. The physical intervention feature helps to avoid situations where a biased venue staff interaction can take place. Digital wallets are currently being trialed in New South Wales and have gained a large amount of focus with the upcoming elections as both political parties are demanding introduction of some form of a digital wallet to enable gamblers to control gambling spend.

Alongside digital wallets, it has introduced compulsory training for employees and launched a new set of policies to prioritize responsible gaming across the company. They have also created a "positive play" consumer marketing campaign in the US and on social media to encourage responsible gaming. We value their efforts towards responsible gaming and continue to monitor the progress they make.

### Engagement in Action: Saudi Arabian Oil Co

In October 2023, our investment team met with Aramco to better understand where they see themselves in relation to the energy transition. As the largest oil company in the world, the company's dependence on fossil fuels make it highly exposed to energy transition and stranded asset risks. We believe there is value in owning this company due to their work towards achieving an energy transition. The company frames their energy transition on the "energy triangle" — equity, sustainability and energy security. Their current focus in this is the resilience of the system. The company has a zero flaring target and a near zero methane target but did not disclose the timeframe in which they aim to achieve these targets. The company is also largely focused on electrifying transportation. Transportation-related research and development will focus on synthetic fuels and e-fuels. The company's business case around their sustainability commitments centers on remaining the lowest cost producer. Due to these developments in energy transition initiatives, we believe there is value over the long term in owning this company. We continue to closely monitor the risks associated with their high dependence on fossil fuels.

## / ESCALATION / 9 11

Escalation refers to investor use of additional stewardship tools and activities to progress unsuccessful earlier efforts, or to address issues that are especially urgent.

If the outcome of our initial, direct engagement is not satisfactory, MFS may consider escalation using a variety of different tactics with a range of stakeholders at a company, such as the investor relations team, management or non-executive directors, as well as the sustainability team. The approach we take will depend on the circumstances of each case and may change in light of progress by the company or other developments.

***Our escalation toolbox includes the following:***

- Additional targeted meetings with company management or non-executive director
- Writing letters to the board or management
- Withholding support or voting against management and non-executive directors
- Withholding support or voting against specific resolutions such as the report and accounts
- Joining collaborative engagement groups or bodies (subject to our fair competition policy)
- Making a statement at a company's Annual General Meeting
- Making a public statement
- Disinvesting of an asset: While we consider engagement to be a powerful mechanism for change within companies, we recognize that it is not always effective despite our best endeavors, and that a failed engagement may lead to disinvestment should our overall investment thesis be impaired by the company's lack of response to tackling specific risks.

It is our view that voting in favor of shareholder resolutions is not reserved for escalation following unsuccessful engagement and is not necessarily to be seen as a criticism of the board or management's overall approach. We want to provide the company transparent feedback on our voting decisions, complementing and reinforcing messages that may have been shared through private engagement.

## Escalation in Action

As we review company performance against previous engagement priorities and prior requests, we are increasingly considering the need to escalate engagements where performance remains below expectations. We have used votes (both management and shareholder proposals), board level engagement and formal letters to the board in the past to escalate engagements and seek to do this more systematically in future. A few examples of where engagements were escalated in the year include:

**US Technology:** In April, ahead of the company's upcoming AGM, we had a call with members of this company's governance and executive teams, including the chair of the board. Topics of discussion focused on updates to the company's board composition, as well as proposed changes to the company's executive compensation structure. As part of our review of the company's executive compensation plan, we raised concerns with the one-time special equity retention grant awarded to the CEO, which we felt was excessive in magnitude and lacked rigorous performance and vesting conditions. As a result of our concerns with the retention award granted to the CEO, we determined that a vote against the proposal and the compensation chair was appropriate. This created a dialogue that led to further engagements with the company, in which we provided suggestions on enhancements and modifications to the compensation plan, which included strengthening the performance metrics that underpin the award and lengthening the vesting period for the achievement of the award by a few years. We have since had further engagement with the company to address aspects of compensation and management incentive design.

**US REIT:** Similarly, following concerns over what we perceived as excessive one-off awards we engaged with the compensation committee chair. As concerns continued on the governance and oversight of management compensation and incentives following the discussion, we determined to vote against the committee chair as well as the compensation.

**European Capital Goods:** We voted in support of the company's previous Climate Report but sought further evidence of progress in implementing the plan. Following the vote, we provided the company additional areas of disclosure where we wanted to see the reporting improved in order to continue to be supportive of future progress reports. As these areas were not sufficiently addressed in the company's next report, we determined to vote against it.

**European Consumer Cyclicals:** We raised MFS' concerns on board independence in engagements in 2022 and the company had been positive on changes being implemented in the near future. A year later, the same non-independent directors were again presented for re-election with no timeline specified for their departure from the board. We again raised our concern in engagements but, given the lack of commitment to refreshment of the board in the near term, are determined to vote against the re-election of the director of concern.

**Board Gender Diversity Guidelines for Latin America and Asia:** Following insufficient progress by companies in major Latin American and Asian markets to increase the gender diversity of boards, we determined to introduce a minimum percentage guideline for companies in these markets that will lead to votes against directors at 2024 annual meetings. We sent letters to our largest holdings in these markets to communicate this new policy and our broader expectation on board gender diversity in 2024.

## / FIXED INCOME STEWARDSHIP / 1 7 9

Open communication with issuers is an important aspect of bond ownership. We believe that long-term-oriented asset managers that invest in all asset classes can positively influence governance and business practices as they engage companies by encouraging executive teams to recognize that certain material issues are relevant to an increasingly broad investor base and require further consideration.

Accordingly, since 2020, our fixed income investment professionals have been included in all issuer engagement meetings conducted by the stewardship team. We believe that these professionals offer a unique perspective and that their inclusion in meetings may serve as a means of encouraging more open communication between issuers and bondholders. In addition to engaging individually with portfolio companies, investors, including bondholders, can participate in industry working groups and organizations that seek to develop thought leadership on emerging issues. When compared to proxy voting and stewardship activities available to holders of equity, opportunities for fixed income instruments and other asset classes are significantly less developed.

At MFS, fixed income strategies represent a large percentage of our assets under management, and so we are continually seeking ways to better assert our rights as owners of an issuer's debt. However, the depth of fixed income markets generally and the nature of the typical instruments that we invest in (*i.e.* larger debt offerings) limit our ability to influence terms or covenants. Our investment team instead focuses on reviewing prospectuses and transactional documents and engaging with management and underwriters prior to investing to understand the risks and terms of a debt offering. Based on this analysis, we determine if the investment is in the best long-term interest of our clients. Occasionally, however, when participating in certain debt offerings (typically smaller offerings), we do have an ability to influence contractual terms. This generally takes the form of engaging with management around a proposed waiver of a covenant or adding additional indebtedness. In all circumstances, we agree only to terms that we believe generate or preserve long-term value for our clients. Finally, in extraordinary circumstances, such as a default, we may have the ability to work with an issuer and other investors to help shape a path to recovery or the responsible disposition of the assets. Even in these circumstances, we seek to achieve, when possible, long-term solutions that we believe benefit our clients and are reflective of the good stewardship of capital.

### Fixed Income Stewardship in Action: New Zealand Sustainable Bonds

In 2023 we had a sub-sovereign engagement meeting with the New Zealand Local Government Funding Agency (NZLGFA). The discussion focused heavily on environmental issues, both climate and non-climate, as well as the balance sheet, both loans and bonds. Overall, we feel developments are moving in a positive direction and, importantly, best practice was being shared and gaining traction in New Zealand's broad local government sector.

NZLGFA specializes in financing the local government sector, the primary purpose being to provide more efficient financing for local authorities and council-controlled organizations. LGFA was established to raise debt on behalf of local authorities on terms that are more favorable to them than if they raised the debt directly. Even though they don't control the use of proceeds from its loans, LGFA is increasingly working with its council members on helping them with their environmental footprint and climate commitments.

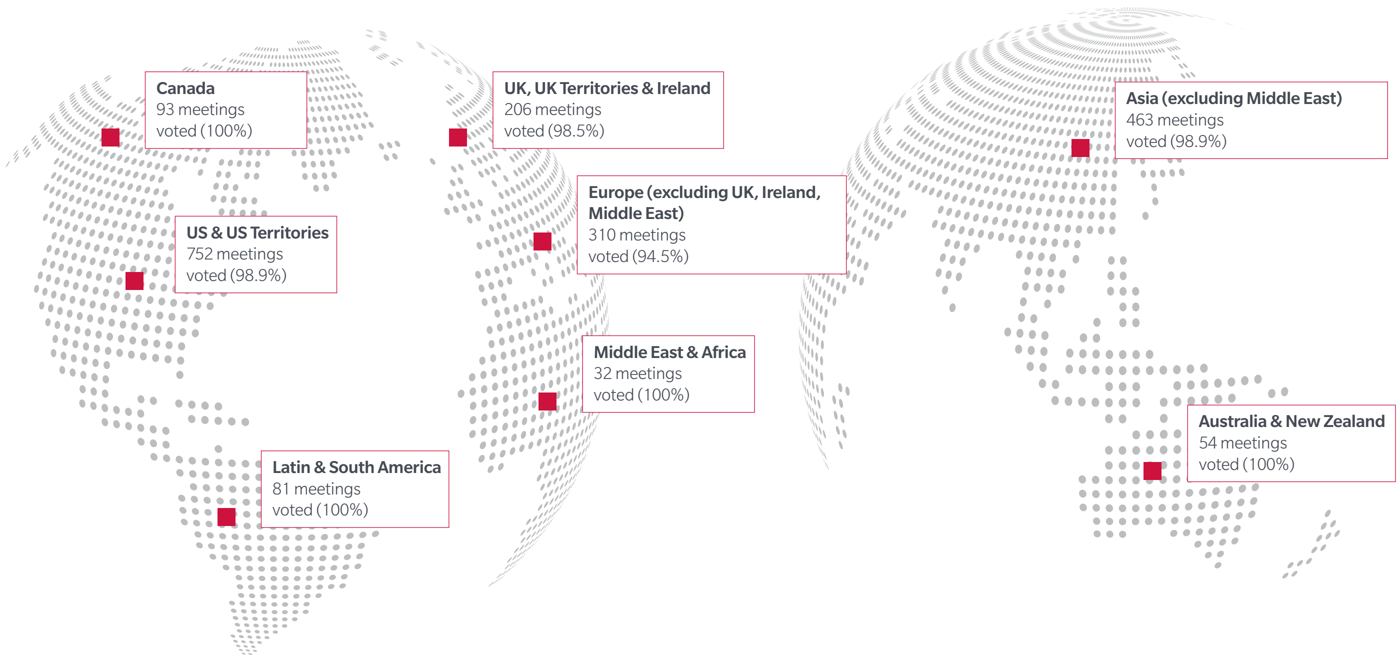
The organization has made progress on its own sustainability commitments with the establishment of a Head of Sustainability and a Sustainability Committee (2021), zero carbon certification through offsets, creation and update of its materiality map, and creation of new lending products such as Green, Social and Sustainable (GSS) loans and Climate Action Loans (CALs). The organization also released various sustainability related policies and frameworks in the first half of 2023.

## 2023 Proxy Voting Year in Review 3 5 12

MFS was eligible to vote on 24,495 ballot items at 1,991 shareholder meetings across 55 markets. The firm voted shares at approximately 99% of these meetings, with the remaining meetings not voted due to share-blocking concerns (nine meetings), government sanctions that legally precluded us from voting (five meetings), or market-specific and other voting impediments (19 meetings).

A full record of MFS' proxy votes cast, including votes withheld and votes against management, is publicly available at [www.mfs.com/sustainability](http://www.mfs.com/sustainability). Simply select location and role to access our records.

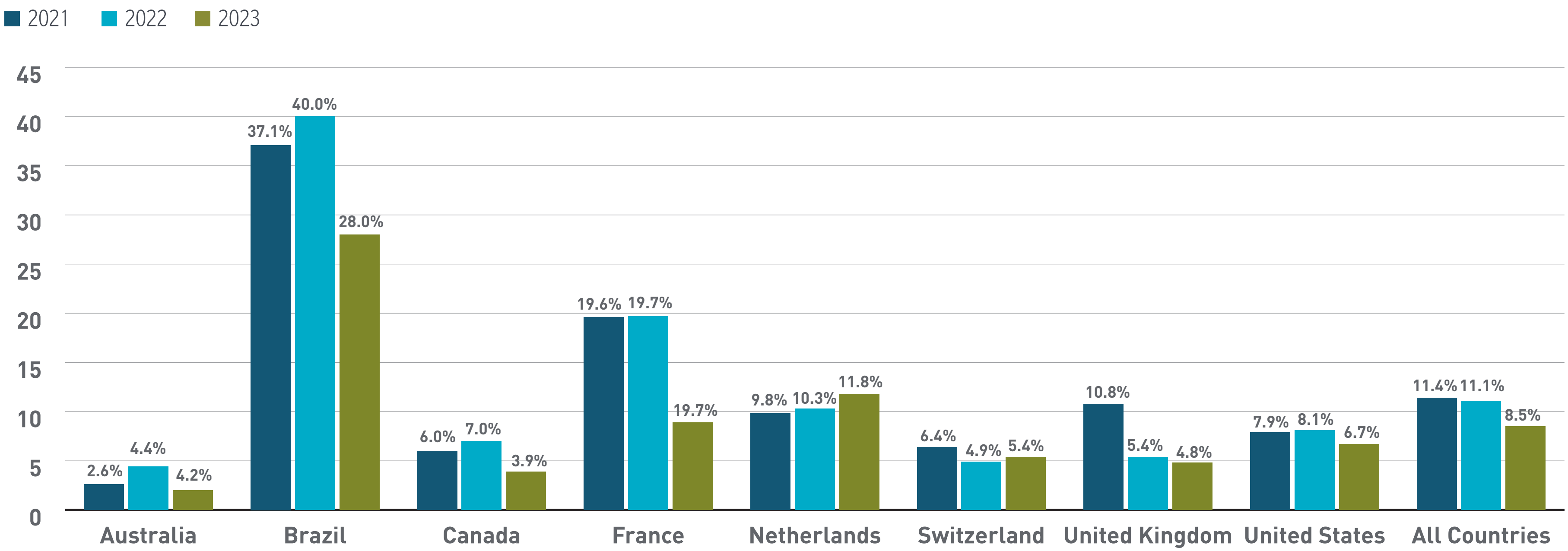
The map below shows the number of meetings voted around the world, along with the percentage of meetings voted within each region.



## Executive pay

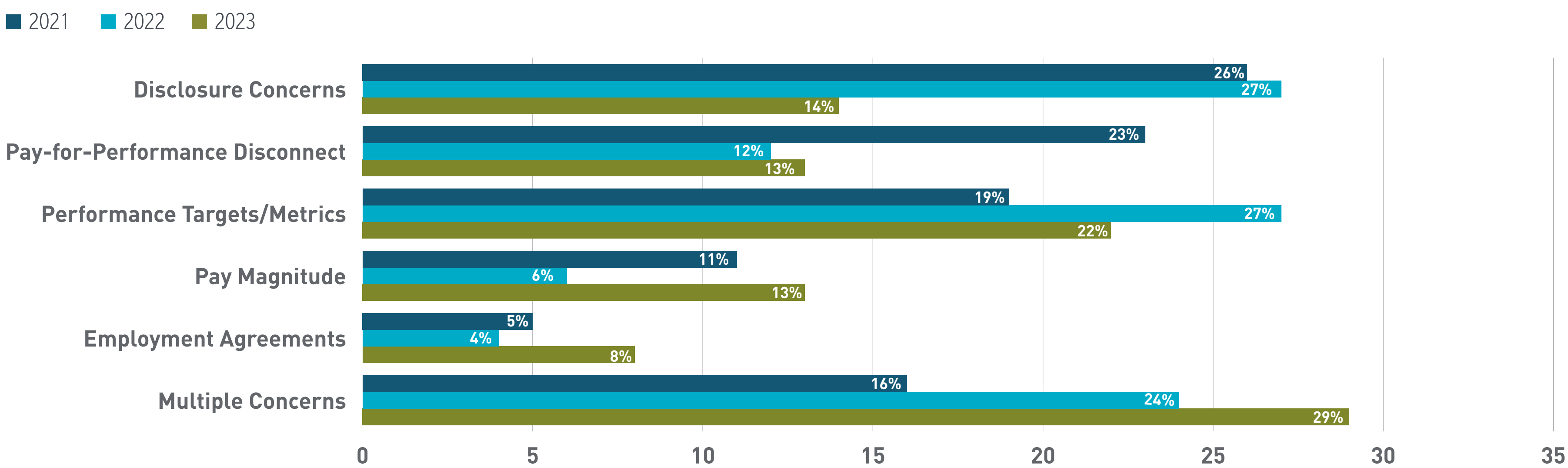
MFS believes that advisory votes on executive compensation (Say on Pay) are an effective mechanism for expressing our view on a company's executive pay practices and can help ensure that they are aligned with shareholder interests and do not incentivize excessive risk taking. While we understand that competitive pay packages are necessary to attract, motivate and retain executives, excessive or short-term-oriented compensation schemes are unlikely to be in the best long-term interests of shareholders.

### How Often MFS Voted Against Executive Pay



MFS voted against or abstained on approximately 8.5% of executive pay proposals globally. As illustrated below, our rationale for voting against executive compensation practices ranged from disconnects between company performance and executive pay to general lack of disclosure by companies as it relates to the performance metrics and targets that underpin the company's short-term or long-term incentive plans. The lack of disclosure of such metrics makes it difficult for shareholders to determine if a reasonable alignment exits between executive pay and company performance.

## Reasons for Deeming Pay Excessive



## Director elections

MFS believes good corporate governance begins with a board committed to accountability to its shareholders. While we generally support director nominees in uncontested elections, we will not support a nominee in certain circumstances (*e.g.* low board independence, excessive outside board service, low attendance). Furthermore, we believe that a well-balanced board with diverse perspectives is the foundation of sound corporate governance, and that gender diversity is one of the many ways corporate boards can enhance the diversity of their views, skill sets and collective expertise.

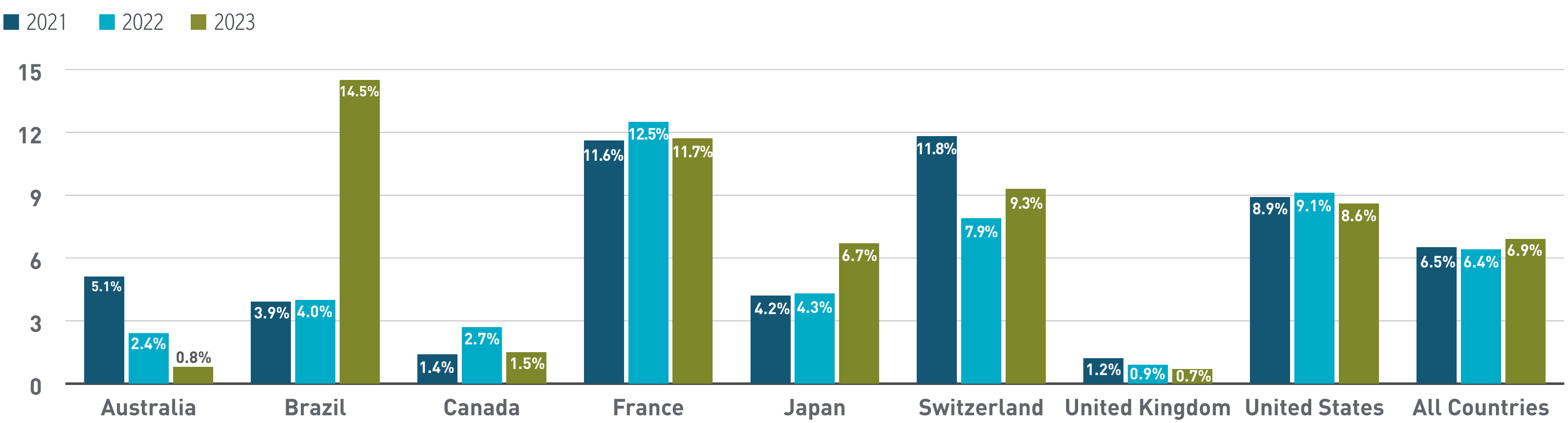
Beginning in the 2018 proxy season, we began voting against the chair of the nominating and governance committee at US companies with less than 10% representation of women on their board. Over the following years, we expanded the scope of the guideline to other markets and increased the percentage requirement for the representation of women on company boards. By 2021, we had expanded the geographical scope to include Australian, Canadian, European and US companies and increased the percentage requirement to 15%. In 2023, we increased the percentage requirement to 22% and added a threshold for Japan at 10%.

For 2024, we are increasing our gender diversity expectations for boards by revising our guidelines to vote against the chair of the nominating and governance committee or other relevant position in cases where (i) there is less than 24% board representation of women at US, European, Canadian, Australian and New Zealand companies; (ii) there is less than 10% board representation of women at Chinese, Hong Kong, Indian, Korean, Chilean and Mexican companies to align with our existing expectations for boards of Japanese companies; and (iii) there is less than 20% board representation of women at Brazilian companies. We also take a holistic view on the dimensions of diversity that can lead to a variety of perspectives and stronger oversight and governance.

The firm may also vote against director nominees if the company board maintains what MFS considers to be shareholder-unfriendly provisions, such as a supermajority vote requirement, or if the board has not responded adequately to major issues of concern to shareholders (*i.e.* majority-supported shareholder proposals or executive pay proposals that have failed or garnered significant shareholder dissent). If many shareholders have expressed dissatisfaction with a company's executive pay program and the board has not addressed the issue, MFS may vote against members of the compensation committee or the full board.

The firm voted against management's recommendation of 6.8% of director nominees globally (compared with 6.4% in 2022). In the 796 director nominations MFS did not support, concerns over four primary issues accounted for over 84% of the votes against management. They were (1) boards' failure to remove shareholder-unfriendly provisions (28.3% of director votes against management); (2) insufficient director or board independence (28.2% of director votes against management); (3) insufficient board gender diversity (19.9% of director votes against management); and (4) overboarding or excessive board service (8.2% of director votes against management). Please note that, as MFS may vote against a nominee for more than one reason, the sum of these figures totals more than 84%.

## How Often MFS Voted Against Directors

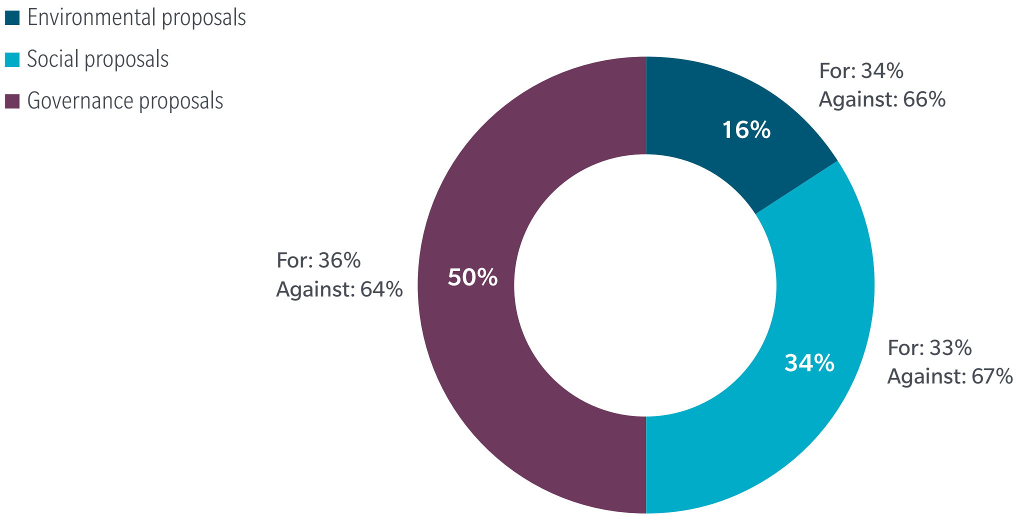


### Shareholder proposals: Gathering insights and looking forward to 2024

While there was an increase of shareholder proposals on the ballots at issuers held by our clients in 2023 as compared to 2022 (668 for 2023 and 645 for 2022), our overall support for shareholder proposals declined from approximately 50% in 2022 to approximately 35% in 2023. Our decrease in support was likely due to a number of factors, including changes in our guidelines for 2023 (*e.g.* increasing the ownership threshold for shareholders to call a special meeting), an increase in proposals with more prescriptive requirements, and an increase in the number of proposals brought by shareholders skeptical of the impact of environmental, social and governance factors on a company's value that we did not believe were in the best long term economic interest of our clients. Our voting record for 2023 reflects broader market voting at US companies where an increase in shareholder proposals on the ballot was accompanied by a decrease in shareholder support and pass rates.

Of the six hundred and sixty-eight shareholder proposals on the ballot at issuers held by our clients during 2023, we voted in favor of two hundred and thirty-two (232) of them. One hundred and twenty-three (123) of these proposals were governance proposals, seventy-three (73) were social proposals, including lobbying, and thirty-six (36) were environmental proposals.

How MFS Voted on Shareholder Proposals



### Environmental issues

MFS voted on 107 shareholder proposals related to environmental issues during 2023 (similar to the number of proposals voted on 2022) and supported 34% of these proposals (compared with 43% in 2022). Over one-half of the one hundred and seven (107) environmental proposals that we reviewed during the reporting period requested additional reporting on environmental matters, including reports on the impact of climate change on the company's operation, climate lobbying activities and greenhouse emissions.

### Social issues

MFS voted on 224 shareholder proposals relating to social issues (compared with 196 in 2022) and supported 33% of these proposals (compared with 47% in 2022). Of the two hundred and twenty-four (224) social proposals that we reviewed, thirty-seven (37) proposals requested reports on political contributions or lobbying activities. While MFS typically supports proposals requesting additional disclosure regarding a company's political contributions (including lobbying activities), we will vote against proposals if we believe the company has already disclosed sufficient information. Of the nineteen (19) proposals supported by MFS requesting reports on political contributions or lobbying activities, only one proposal received majority shareholder support.

We also generally support reporting with respect to a company's diversity, equity and inclusion efforts. We reviewed six (6) such proposals and voted in favor of five (5) of them. None of the proposals that we supported received majority shareholder support. During 2023, we also reviewed twenty-three (23) proposals requesting that the company obtain a third-party racial equity or civil rights audit and supported seven (7) of these proposals as, in our view, these companies would benefit from an independent perspective on how its services will better serve underrepresented communities. None of the proposals requesting a third-party racial equity or civil rights audit received majority shareholder support.

We also reviewed eleven (11) proposals requesting reporting on gender and racial pay gaps and supported five (5) of these proposals, as we felt shareholders would benefit from additional reporting by the company especially in instances where the companies either do not publicly disclose quantitative pay equity or pay gap statistics, or generally lag their industry peers in that regard.

### Governance issues

Corporate governance continues to be the most common focus of shareholder proposals we review each year. MFS voted on 337 such proposals (compared with 342 in 2022) and supported 36.5% (compared with 54% in 2022). Fifty-eight (58) of the three hundred thirty-seven (337) governance shareholder proposals related to compensation matters.

The number of Independent Chair Proposals more than doubled in 2023 (63 proposals) when compared to 2022 (30 proposals). MFS supported 10 out of 63 proposals in 2023.

Compensation-related proposals also saw a sharp increase in 2023 to 58 proposals, compared to 37 in 2022. Twenty-five (25) of the compensation-related proposals requested that the company submit severance agreements to shareholder vote. MFS supported eight of these proposals as we believe shareholders should have the ability to ratify any executive severance agreement that provides benefits exceeding 2.99 times salary and bonus or benefits not in line with market norms.

## Proxy Voting Policy update

On an annual basis we review our MFS Proxy Voting Policies and Procedures, which includes proxy voting guidelines that govern how we consider votes on specific matters, and update the Policy with two core objectives in mind: (i) to make clear our expectations on good governance to both clients that have delegated us with voting authority and companies in which we invest; and (ii) to organize our voting guidelines by subject matter as opposed to markets, reflecting our view that key principles of good governance apply globally.

A summary of the more substantive changes to certain voting guidelines effective January 1, 2024 is as follows:

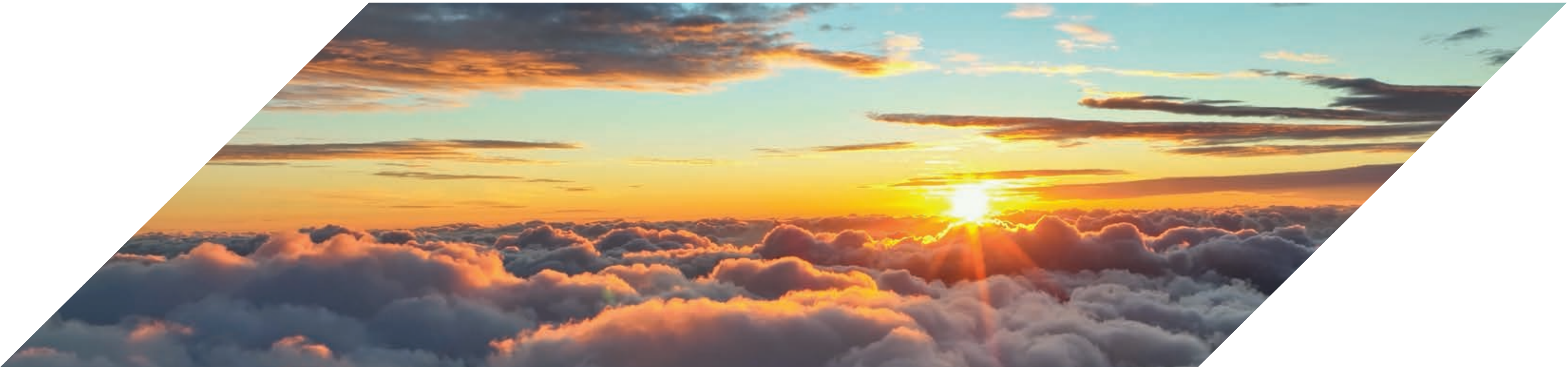
A. Communicating our expectation for (i) fully independent audit and compensation committees for companies in Australia, Benelux, Ireland and New Zealand to align with our existing expectations for Canadian, UK, US and Swiss companies, and (ii) fully independent audit committees for companies in South Korea.

B. Increasing our gender diversity expectations for boards by revising our guidelines to vote against the chair of the nominating and governance committee or other relevant position in cases where (i) there is less than 24% board representation of women at US, European, Canadian, Australian and New Zealand companies; (ii) there is less than 10% board representation of women at Chinese, Hong Kong, Indian, Korean, Chilean and Mexican companies to align with our existing expectations for boards of Japanese companies; and (iii) there is less than 20% board representation of women at Brazilian companies.

C. Clarifying our view with respect to shareholders' right to call a special meeting or act by written consent. Specifically, we believe that thresholds of 15% to 25% are an appropriate balance of shareholder and company interests, with a preferred threshold of 15% for large and widely held companies. As a result, for 2024, we will generally support shareholder proposals adjusting existing rights within these thresholds, and shareholder proposals establishing thresholds of 10% or above in cases where no such rights already exist and management has not presented a proposal within these thresholds.

D. Revising our executive compensation voting guideline to add (i) more information about the factors that we consider when determining whether a plan is geared towards durable long-term value creation and aligned with shareholder interests; (ii) a description of our two-step process in analyzing compensation practices; and (iii) more information about the drivers for a vote against a board's compensation committee for compensation practices.

It is important to note that our overall approach has not changed. We remain guided by the overall principle that voting decisions are made in what we believe to be in the best long-term economic interests of our clients.



### Use of Proxy Advisory Firms

We analyze all proxy voting issues within the context of the MFS Proxy Policies and Procedures, which are developed internally and independent of third-party proxy advisory firms. We use third-party proxy advisory firms to perform various administrative services related to proxy voting, such as vote processing and recordkeeping. We also receive research reports and vote recommendations from multiple proxy advisory firms. However, these reports are only one input among many in our comprehensive analysis, which includes other sources of information such as proxy materials, company engagement discussions, other third-party research and data. These sources of information help us in our effort to vote in the best long-term economic interest of our clients.

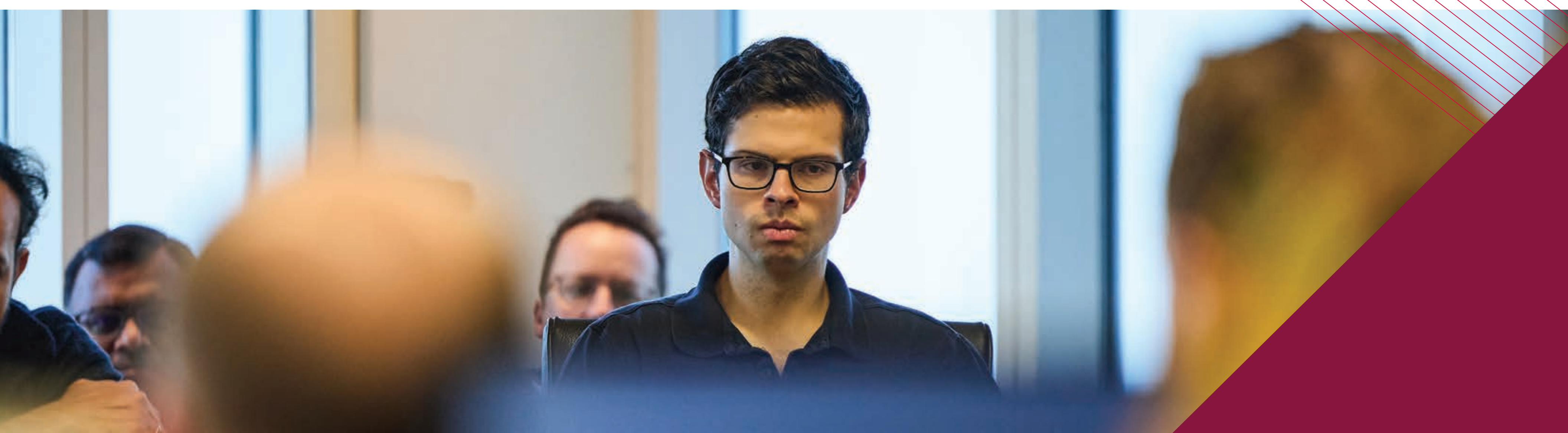
MFS has due diligence procedures in place to help ensure that the research we receive from our proxy advisory firms is accurate and that we address any material conflicts of interest involving them. This due diligence includes an analysis of the adequacy and quality of the advisory firm staff, its conflict-of-interest policies and procedures and its independent audit reports. MFS also reviews the proxy policies, methodologies and peer-group-composition methodology of our proxy advisory firms at least annually

Additionally, the firm requests quarterly reports from our proxy advisory firms that include the disclosure of any violations or changes to conflict-of-interest procedures.

MFS requests

# QUARTERLY REPORTS

from our proxy advisory firms that include the disclosure of any violations or changes to conflicts of interest procedures.



## / RISK MANAGEMENT / 2 4

### MFS Investment Risk Management Framework

Our cultural emphasis on risk management is incorporated into all facets of our investment process. At MFS, the goal is not to minimize risk but rather to understand its sources and effectively manage it. The risk management process strives to ensure that each strategy takes an appropriate level of risk that is disciplined and consistent with the investment philosophies of its mandate while also meeting long-term investment objectives. Risks impacting each strategy may come in the form of either systemic or issuer specific factors. As a result, we take a collaborative approach to assessing and managing portfolio risk to ensure all types of risk are identified and managed.

### SECURITY LEVEL

On a day-to-day basis, risk analysis occurs at the security level through our fundamental and equity quantitative research efforts. The fundamental analysts assess the operational, financial and evaluation risk characteristics of each issuer they follow, and quantitative models use factors based on earnings momentum, price momentum, valuation and earnings quality. Careful consideration is also given not only to the evaluation of each security's appreciation potential but also to the level of downside support the team can reasonably expect when things do not develop as anticipated.

Each investment team engages in a comprehensive evaluation of the risk characteristics of all investment ideas as a consideration for inclusion within their portion of the portfolio.

### PORTFOLIO LEVEL

The portfolio management team uses daily exposure reports and monthly attribution reports to review the portfolio's industry and sector weightings versus the benchmark to confirm that the portfolio's positioning is consistent with the team's investment convictions and theses that result from its bottom-up fundamental research. The Investment Management Committee (IMC) reviews the portfolio risk reports monthly to ensure that our investment policies are carried out by the team. Semiannually, portfolio management team members meet with the CIO and the co-director of Quantitative Solutions/chief investment risk officer to review various portfolio characteristics and risks inherent within the strategy to ensure they are consistent with the strategy. We have also developed a comprehensive periodic portfolio evaluation that measures sustainability characteristics across a wide array of ESG metrics. These reviews are attended by the portfolio manager(s) of the strategy, at least one sustainability-dedicated member of our investment team and the firm's CIO.

## / PERIODIC PORTFOLIO SUSTAINABILITY REVIEWS / 1 9 10

We consider both risks and opportunities when evaluating factors and trends, and we have implemented systematic processes designed to help our investment team manage material risks at the security and portfolio levels. As part of our systematic approach to understanding these risks and opportunities, MFS investment strategies are subject to periodic sustainability reviews. These reviews were designed by senior members of our sustainability team to provide portfolio managers with a comprehensive view of all the material risks and opportunities in their portfolios based on MFS' own internal research and viewpoints. These reviews are designed around the following general practices:

1. Consider fund type and strategy
2. In service of the investment process, look across all key ESG areas
3. Focus on active positioning (sector, region and stock active weights)
4. Remain action oriented. Unless no issues are identified, it should lead to further research, engagement, voting or other investment action

These reviews cover a wide variety of company-reported data points while also providing an opportunity for the portfolio manager to ask questions regarding a portfolio, changes in the relevant industry or broad MFS initiatives. These reviews complement the bottom-up research being conducted across the firm.

Separately, the firm's chief risk officer and respective asset class CIOs perform a broader semiannual portfolio review of each portfolio covering a wide variety of topics, including investment risk exposures, investment philosophy and current portfolio positioning. These reviews also incorporate third-party sustainability ratings and perspectives such that each portfolio's sustainability profile is evaluated against that of its benchmark and sustainability rating changes since the last review. Both periodic portfolio sustainability reviews and semiannual reviews are intended to prompt additional research and collaboration among the investment team.

### Case Study: Suncor and the Oil Sands

One notable result to come from a portfolio review this year was discourse around Suncor, which lead to a presentation by one of our ESG analysts and the covering analysts at an energy meeting around oil sands. The objective of the presentation was to facilitate a more advanced discussion around owning oil sands, and potential implications from a climate standpoint.

We engaged with Suncor multiple times during the year. Suncor is part of the Pathways Alliance (PA) — an alliance of Canada's six largest oil sands companies committed to reducing the environmental impact of oil sands development by collaborating to drive innovations and technologies through collaborative action.

The foundational project of the PA is Carbon Capture and Storage (CCS), a plan to reduce carbon dioxide emissions from oil sands operations. CCS captures carbon dioxide, CO2, before it is emitted from a facility and transports the CO2 to a secure location and stores it safely and permanently more underground. Our engagement was focused on investigating the progress of its Pathways CCS project and we were assured it was moving forward, still targeting Phase 1 in 2030. Suncor continues to build a clearer estimate of the costs of the first phase of Pathways, but no additional detail provided at this stage. We raised concerns over low transparency by the initiative and encouraged greater reporting going forward, which should cover activities, progress and estimated costs. We also encouraged Suncor to set a clearer target for its own operational emissions.

Oil sands are a material component of Suncor's business, so understanding its undertaking of the Pathways CCS project, in our view, could have a material impact on its capex. This led to a broader conversation around owning Canadian oil sands. Over the past 20 years, Canadian oil sands companies have significantly reduced their upstream emissions, which shows progress in the right direction. As it stands, we believe Canada will support their decarbonization goals as these industries are a large source of the economy for the region and we will remain vigilant of the industry in case these companies start losing momentum on their aspirations.

## / MARKET-WIDE AND SYSTEMIC RISKS / 1 4

This section provides an overview of many of the specific market-wide and systemic risks that our investment team focused on in 2023 and describes how these risks have influenced our investment and engagement processes. The consideration of these risks is additionally reflected throughout this report in the discussion of our investment, engagement and collective initiative activities. Many of the risks are discussed in further detail throughout the report.

### Climate change

We believe that climate change will be a defining investment topic in the decades ahead, creating risks and opportunities for all businesses and society in general. As long-term investors seeking to allocate capital responsibly, MFS is carefully analyzing the impact that climate change is having on all companies held in our clients' portfolios, as well as on those companies being considered for future investment. We participated in many climate-related engagements throughout the year, both collectively and as an owner. We are a member of the Net Zero Asset Managers initiative as well as Climate Action 100+. We invite you to read the firm's report aligned with the Task Force for Climate-Related Financial Disclosures (TCFD) framework.

For more information on our approach to integrating the consideration of climate risk into our investment practices and our TCFD-aligned report, the MFS Strategic Climate Action Plan, see Appendix 1.

### Human rights and modern slavery

Human rights–related issues continued to reflect a market-wide risk that is significant to us as investors. We believe this issue is of growing concern and continue to monitor issues in this area and play an active role in collective industry initiatives to further our analysis as we seek to shape issuer practices.

As part of our investment approach, MFS researches and evaluates a broad range of topics across security, asset class, industry, geography and other areas. These topics may include diversity and racial justice, modern slavery and child labor, income and wage inequality, supply chain labor management, health and safety (in both owned operations and supply chains), technology ethics and privacy, Indigenous and local community rights, living standards, educational access and levels and the rule of law.

In conducting this research, we rely on a variety of data sources. Corporate disclosures, controversy analysis, sovereign country–level data and direct engagement with management teams and others (*e.g.*, suppliers and sovereign issuer representatives) form the basis for much of our research; however, additional data points are also available to our investment teams to evaluate these topics. Most notably, we have evaluated data and analysis from Know the Chain, Ranking Digital Rights, Transparency International and the World Bank Governance Indicators. An issuer's exposure to human rights risks and opportunities varies substantially by issuer, industry and geography. For example, companies in certain industries may have higher modern slavery risks due to their use of temporary or seasonal labor or outsourcing.

Separately, some countries exhibit a higher risk of modern slavery due to weak rule of law or other socioeconomic factors, which can impact both sovereign and sub-sovereign issues and the equities of companies that operate in those countries. Given these complexities, MFS aims to integrate social factors including human rights risks and opportunities, alongside all other fundamental risks and opportunities, into our investment process. Actions that MFS may take to better evaluate human rights risks and opportunities include

- leveraging proprietary research produced by the firm's internal equity- and fixed income– focused sustainability experts
- determining which issuers are likely to face modern slavery issues using in-depth security- and sector-level expertise
- evaluating company filings, including sustainability reports, of potentially impacted companies to evaluate the strength of their efforts to manage these risks
- incorporating the views of outside organizations with expertise in this area (*e.g.* Know the Chain)
- engaging with company management teams and fixed income issuer representatives about human rights–related risks and opportunities engaging with other investors through collaborative initiatives focused on human rights (*e.g.* the PRI and Investors Against Slavery and Trafficking)
- modeling and valuing human rights risks identified as material to the business

### Corporate culture and diversity

Corporate culture is an established and important research topic for MFS investment professionals, as we believe strong culture supports operational quality, innovative capacity and many other aspects that are critical to a company's long-term success.

We have seen circumstances in which culture has clearly helped a company, but also situations in which culture has apparently led to negative outcomes for a company, its employees and, ultimately, its security price. We firmly believe an organization's culture is critical to its long-term success or failure. Analysis is an important part of our evaluation of corporate culture at any organization, considering factors such as employee engagement, turnover, pay, composition, diversity, gender, race and cognitive and other measures of diversity such as gender pay gap. Over the past several years, our investment team has spent a great deal of time discussing the importance and potential impact of corporate culture on sustainability. As investors, we believe enhanced transparency and disclosure is critical and can have a material impact on our investment decisions. We feel strongly that we should be willing to disclose the same data we expect our portfolio companies to disclose.

Importantly, we believe this area is an ongoing journey for both MFS and our industry and though we have taken critical steps toward operating with DEI as a core priority, we recognize there is still work to be done.

### Gender diversity and board effectiveness

In the last year, our team has been exploring discourse around the contribution of gender diversity to board effectiveness. Our stewardship analyst attended a webinar by board evaluation firm Lintstock on a study on the *Contribution of Gender Balance to Board Effectiveness*. The study looked at the contributions of directors to board evaluations and highlights how diversity in approaches to oversight across men and women directors helps build more rounded and robust oversight by a board. We've also explored other studies on this topic.

As it stands today, we feel that these studies increasingly build a case that gender diversity can strengthen board oversight, performance on corporate governance and conduct in particular. Ultimately, we feel there remains potential governance value to be unlocked across the markets and companies in which we invest through increasing board gender (and other) diversity.

### *Japanese companies where we voted against nomination chair*

Historically, the governance structures and capital allocation priorities of many Japanese companies have failed to meet modern developed market standards. Investors would often flag concerns around the maintenance of excessive cash balances, cross-shareholding and a severe lack of independence and diversity on Japanese boards. Years ago, considering these circumstances, we developed an assessment framework to help us:

- Evaluate company governance practices within the context of the Japanese market, including trends, receptivity to shareholder concerns and improvements
- Evaluate a company's capital allocation and transparency in oversight structures
- Identify potential topics for engagement and areas where we could leverage proxy voting to improve overall governance practices

In 2023, as part of our annual review for the MFS Proxy Voting Policies and Procedures, we also introduced gender diversity expectations for Japanese boards by revising our guidelines to vote against the chair of the nominating and governance committee, or other relevant position, in cases where there is less than 10% board representation of women. With this new guideline in place, we voted against the election of 35 Japanese directors during the year. Overall, 4.55% of all votes cast against directors in 2023 were due to Japanese board diversity concerns.

Over many years, our investors have used consistent engagement to encourage the slow, steady and positive trend of reformed governance practices at Japanese companies. Concurrently, the impact of shareholder engagement has increased at these companies, particularly since the introduction of the Japanese Stewardship Code in 2014. These reforms have led to the appointment of more independent directors on boards, better company risk management, greater transparency and accountability, and a heightened focus on shareholder rights. For investors, these advancements signal a commitment to governance practices that help to mitigate risks associated with opaque decision making and elevate confidence in the Japanese market. These shifts have not only helped to attract foreign capital but also fostered a business environment that suggests promising long-term growth and return prospects.

As an active asset manager, we embrace our role as stewards of capital with a responsibility to promote long-term value creation. As such, we strive to conduct constructive engagements by leveraging our influence to better align corporate governance structures with shareholder interests and promote robust and independent oversight within Japanese firms.

### Corporate tax practices and transparency

Our sustainability-dedicated analysts continued to work with industry groups, particularly through the PRI, and government representatives to emphasize the importance of transparency and fairness in global corporate tax practices. Specifically, because of substantial changes at a national and supranational level, as well as greater scrutiny by civil society more broadly, we have spent considerable time researching and evaluating corporate tax practices over the past decade. We believe a company's tax practices offer an important signal regarding a management team's and board's risk tolerance. Examples of our work in this area are outlined earlier in this report.

## Client and Industry Alignment

As important as our investment approach is our steadfast focus on creating value responsibly for our clients. This section illuminates the ways in which we have sought to service, empower and align with the needs of our clients to help them fulfill their fiduciary duties.

# Client and Industry Alignment

# Client and Industry Alignment 4 10

## / INDUSTRY INITIATIVES: HEALTH CHECK /

In 2023 the Sustainability Strategy Team conducted a health check on the industry collaboratives in which MFS is currently enrolled. This survey aimed to evaluate the relevance and effectiveness of these initiatives for our organization and help inform decisions about our continued participation. We do this to ensure that our resources are focused on the most relevant initiatives and that we are adding and creating value both for the initiative and our firm as a participant in the initiative.

Our methodology involved evaluating each initiative by assessing its degree of alignment to the following key pillars:

1. Alignment with MFS' philosophy
2. Effectiveness in supporting MFS' sustainability work
3. Enhancing the quality and effectiveness of client reporting
4. Likelihood of retaining industry credibility for the medium term
5. Adequate internal dedicated resources to be effective members

After carefully analyzing the responses and considering the input from various teams within our organization, we identified a range of scores that reflect the performance and relevance of each collaborative. The survey highlighted a discrepancy in the perceived value and impact of several collaboratives.

Following the feedback received from survey respondents and the regional teams, we have decided to reconsider our membership of the following collaboratives given their limited relevance to effective client reporting and availability of better aligned collaboratives in the industry:

- Interfaith Center on Corporate Responsibility (ICCR)
- Swiss Sustainable Finance (SSF)

It is not that we feel that these initiatives are not value additive for its participants, but they were either not adding value to our firm or were not necessarily aligned with our organization. As mentioned in our industry initiatives section, MFS conducts an annual review of the collaborative initiatives we participate in as part of our internal review process.  We assess them to ensure they continue to align with our investment philosophy and support our sustainability efforts on behalf of our clients. This was reported to our Corporate Sustainability Committee and we intend to maintain this practice of conducting annual health checks on industry collaborations and initiatives.

## / MEETING CLIENT EXPECTATIONS AND INCORPORATING INDUSTRY FEEDBACK / 6

In managing our clients' assets, we believe it is critical to understand and incorporate their views to deliver on their expectations as they relate to investment outcomes and stewardship. Our approach, however, ultimately depends on the type of client. As reflected in the tables included in Appendix 7, we have both institutional and retail clients. For our institutional clients, we are generally able to engage in a more in-depth dialogue about expectations through assigned relationship managers and regular and ad hoc meetings to discuss our progress toward achieving goals. Additionally, clients' investment objectives, restrictions and reporting expectations are reflected in a tailored written agreement, which is updated as necessary to ensure we are meeting client needs.

To understand and satisfy the needs of retail clients investing in our retail mutual funds and other pooled vehicles, we rely on a continual dialogue with external distribution partners. These partners are ultimately the client-facing entities for investors in our retail funds, and therefore we have assigned relationship managers for each distributor, engage in regular due diligence and conduct product discussions to elicit feedback to ensure we are meeting client needs. We organize and host events for both retail and institutional client bases regularly to communicate our investment capabilities and approach and to further engage with our distribution partners that provide services to these investors.

Additionally, we believe client surveys are highly effective. We use them from time to time to gather information on our clients' views and needs. Surveys are also an effective way to educate our clients on our investment and stewardship process. For example, we surveyed over four thousand retirement plan participants across the US, the UK, Canada and Australia, gaining valuable insight into current demand and expectations regarding the performance of investment products in their portfolios that incorporate the consideration of sustainability factors. We also put out a new survey in 2023, "Building Toward Better Outcomes – 2023 MFS DC Plan Sponsor Survey", which is intended to be recurring in future years. It was created largely in response to client feedback and partner demand as sponsor clients have expressed that they would love to better understand what their peers are doing with respect to market and retirement issues. During the creation of the survey, we participated in a few client conversations and "tested" some of the thematic areas to better understand if clients would be interested in the topics we were considering.

Surveys such as these, in addition to information gathered through both institutional and retail communication channels, help to inform our decisions on what products we should offer and how portfolios are managed to meet our clients' expectations. We believe our approach in this area continues to be effective and helps us further improve our client communications and stewardship processes generally.

## / ACADEMIC PARTNERSHIPS / 10

### Oxford: Rethinking Performance

In 2023, MFS embarked on an innovative research partnership with Oxford University, as part of the "Oxford Rethinking Performance" program. Our specific research partnership with leading academics in the sustainability arena aimed to better understand and assess the parameters of meaningful engagement, especially on challenging yet crucial concepts like climate change. Central to our quest was the development of framework for measuring constructive engagement, with a spotlight on climate issues.

The first phase of the project unfolded over the first half of 2023, featuring in-depth interviews between Oxford researchers, key MFS portfolio managers and analysts and members of the Stewardship, IPM and ESG integration teams.

This collaboration birthed a comprehensive research report, shedding light on MFS's intrinsic qualities that bolster our effectiveness as climate engagers. The insights garnered delineated MFS's positioning as a high-performing constructivist engager. It underscored the essential capabilities required and confronted the nuanced challenges to effective stewardship. These challenges include navigating agency limits, optimizing organizational approaches, and reflecting an understanding of fiduciary duties amidst evolving regional contexts. This partnership not only enriched our understanding but also affirmed MFS's commitment to pioneering constructive dialogues on topics important to our clients.

The second phase of the project, due to commence in early 2024, will be focused on the theme of culture. We look forward to working with the researchers and sharing our learnings with our partners in due course.

### MIT Aggregate Confusion Project

In 2023, we continued our academic research partnership with the Massachusetts Institute of Technology's Aggregate Confusion Project (ACP). Spearheaded by researchers at the MIT Sloan School of Management in Cambridge, Massachusetts, the ACP aims to clarify and improve approaches to incorporating ESG data into investment decision making. The project was developed in response to the problem of inconsistency and unreliability in ESG data, which can lead to "aggregate confusion" among investors who rely on this information to help generate positive long-term financial returns in a socially responsible way. Since beginning this partnership, MIT's researchers have met with relevant stakeholders at MFS on a regular basis to share key findings and conclusions from the ACP's research. Beyond these conversations, our groups have strategized around the application of ACP findings to our firm's investment philosophy.

Over the years, our academic partnership with MIT has helped us maintain intellectual honesty in our materiality and stewardship-based investment approach, and it has strengthened our view that ESG analysis is currently best applied through a qualitative lens. Funding this research aimed at improving the investment industry's use of sustainability data has been immensely valuable in checking our own narrative traps around the applications of quantitative ESG data to our investment process. Our engagement with MIT at the executive level has also helped to ensure that we do not become too stuck in any single way of thinking as the world, and quantitative ESG data, continues to change around us. We believe that our investment in alternative lines of inquiry exposes us to different viewpoints, challenges our biases and allows for a kind of intellectual cross-pollination that drives better innovations and outcomes for our clients.

## / FIRM- AND CLIENT-WIDE REPORTING / 1 6

### Portfolio Specific Sustainability Related Reporting Project

Sustainability-related reporting is increasingly important, but far from easy. Faced with challenges such as data availability, data quality, lack of clear guidance and concerns over agency, our team has been working hard to produce best-in-class sustainability-related reporting that is authentic, transparent and comprehensive.

To achieve this, we launched a new reporting project in mid-2022. Our goal was to provide portfolio-specific reporting that clearly shows how we integrate sustainability into the investment process. We wanted to demonstrate some of the ways we assess financially material ESG factors, engage with investees, and vote proxies in a way that creates the most value for our clients.

We already offer extensive sustainability-related reporting at the platform level, but after hearing from our clients, we realized they would also appreciate a portfolio-specific report. It took a great deal of careful deliberation and collaboration amongst our client-facing sustainability team, ESG and Stewardship specialists, and investors to develop such a report. We are pleased to announce that we expect to deliver the first prototype of these in 2024, and we are keen to hear your feedback.

Our team brainstormed the principles of such a report, including veracity, decision-utility, comprehensibility, balance and consistency, to ensure that the report is authentic, transparent and comprehensive. We gathered the metrics, ratings, engagement data, and framework, and proxy voting data that we believed best reflected these principles. Our team then worked closely together to refine the report's contents and messaging over many months.

Although initially, reports will only be available for our larger equity strategies, we plan to offer such reports for other equity and fixed-income portfolios in the future. We are excited to share this with you and to continue to improve our sustainability-related reporting to meet your needs.

## / ASSESSING EFFECTIVENESS /

One of the benefits of a long-term sustainability and stewardship program is that it gives us the ability to continually assess and evolve our processes to better serve the interests of our clients. Maintaining a dialogue allows us to ensure we stay apprised of, and respond appropriately to, our clients' needs.

One way to assess our effectiveness in serving the interests of our clients is to reflect on the enhancements we have made throughout the year. Many of these are discussed at length in this report, but we feel two are particularly helpful:

**Investing heavily in sustainability data and tools** — Expanding our relationships with existing external data providers and investing in new ones, as well as developing proprietary tools in-house, has enriched our research capabilities, which could lead to more thoughtful investment decisions for our clients.

**Broadening our reporting capabilities** — We have been developing our reporting capabilities for our clients to be more transparent in our investment activities.

Another effective assessment tool is client feedback. We regularly attend meetings with clients and strive to be available to them whenever they need us. We are also receptive to ad hoc client feedback and questions.

More broadly, we have welcomed the demand from industries and clients for greater transparency and disclosure surrounding sustainability topics. This is an area we continue to focus on, and we recognize the growing need for asset managers to be authentic and transparent in their business activity. As a result, many of our actions taken this year have been with this consideration top of mind. Examples include our reporting initiative, our participation in WDI and our Proxy Voting Policy update, which are all detailed in this report.

## / CLIENT ALIGNMENT / 6

As active managers, we are expected to ensure our investment decisions align with the long-term interests of our clients. As we have mentioned, we believe thoughtful engagement alongside robust, in-depth research is the most effective way to achieve this goal. An important part of this commitment is ensuring that our process is aligned with our clients' investment and stewardship policies. The failure to do so would render our services useless.

As discussed above, in addition to frequently discussing issues with our clients, we have put comprehensive compliance and risk review systems in place to ensure that we adhere to our clients' expectations. Because we take meeting our clients' expectations seriously, we did not, as far as we know, intentionally deviate from any client's stewardship and investment policies during the year. With respect to our investment activities, we do not typically use investment screens in managing our strategies unless asked to do so by a client or required to do so by a regulation. Any investment restrictions we do put in place, however, are monitored and tracked through our centralized investment compliance platform. With respect to our proxy voting activities, we vote according to the MFS Proxy Voting Policies and Procedures or vote proxies not in accordance with our policies only if we receive written instructions from our clients. Whenever a client's expectation is not satisfied, we do whatever we can to remedy the issue.

## / LONG-TERM INVESTMENT HORIZON / 1 6

As we stated at the beginning of this report, we invest our clients' assets with a long-term view and do not generally focus on or chase short-term investment performance. We focus instead on the long term because we believe that this approach reflects what it means to be good stewards of our clients' capital. While we do not set specific investment horizons, our investment team generally views a full market cycle as at least a seven-year holding period. Ultimately, our investment horizon depends on several factors, including, but not limited to, a client's stated expectations and goals, the asset class and overall market conditions.

## Corporate Sustainability at MFS

We aim to hold ourselves to the same standard we hold the businesses owned in our portfolios. As a result, we recognize the importance of implementing our sustainability philosophy in our own operations. In this section of the report, we illustrate our efforts to better serve our employees, our communities, the environment and other stakeholders as we seek to foster a workplace reflective of our core values.

# Corporate Sustainability

# Corporate Sustainability at MFS

1 2

MFS is a majority-owned subsidiary of Sun Life of Canada (US) Financial Services Holdings, Inc., which in turn is an indirect majority-owned subsidiary of Sun Life Financial, Inc. (a diversified financial services organization). MFS has been a subsidiary of Sun Life since 1982. While the firm operates with considerable autonomy, this partnership provides significant resources, stability and structure.

The firm currently operates from offices located in 20 countries around the globe, including eight investment centers — Boston, Hong Kong, London, São Paulo, Singapore, Sydney, Tokyo and Toronto. In everything we do, we believe that harnessing the power of diverse, collective intelligence is an important determinant of better outcomes. Collaboration, discussion and debate are therefore a significant part of how committees operate at MFS. Our senior leadership comprises the MFS Management Committee, which oversees the firm. This committee is responsible for setting strategic direction, determining the annual operating and capital budgets, establishing priorities for key investments in the business, recommending major policy decisions to the company's board of directors, developing new projects and performing corporate planning for the firm and its subsidiaries.

Under the MFS Management Committee sit four supervisory committees: the Investment Management Committee, the Enterprise Risk Management Committee, the Employee Conduct Oversight Committee and the Internal Compliance Controls Committee. There are over 20 other committees helping the firm in areas like strategy, risk management and technology. The committees span departments and geographic locations and play a crucial role in guiding and protecting the firm. Governance is an important function, but the committees also gather input. They seek consensus when it comes to strategic decisions. The committees play an important role in the culture we strive to maintain and in ensuring the transparency of the firm's decision-making process.

### Our Impact on the Environment

MFS has long been committed to improving the environmental outcomes of its business operations. This focus has resulted in a variety of initiatives aimed at reducing our impact on the environment. Since 2012, MFS's headquarters in Boston, Massachusetts has met LEED Gold standards, and when possible, we have applied similar measures and standards across our global footprint when renovating existing offices or building out new space. Over the past decade, we have also implemented a wide variety of programs such as server consolidation, low-energy lighting and appliance use, expanded recycling and pull-printing to help reduce waste and energy consumption.

In 2020, to accelerate this work, we established a global, cross-functional environmental impact working group to improve our ability to understand, measure and reduce our overall environmental footprint. The working group continues to examine all aspects of MFS business operations to identify where improvements can be made in measuring and further reducing emissions and resource consumption, including better data administration, waste management and energy efficiency, and working with our suppliers and vendors on the same. You can read more about our efforts here in our TCFD-aligned report, which you can find in Appendix 1.

## / ARTIFICIAL INTELLIGENCE AND GENERATIVE AI AT MFS: AN OVERVIEW / 2

MFS has used, and continues to develop, Artificial Intelligence (AI) capabilities across the organization. Our efforts have utilized models built in-house that leverage, among other capabilities, natural language processing, predictive analytics and look-a-like capabilities. Currently, we are applying advanced analytics techniques:

- To study client engagement and gain insights from the data, aiming to better align with our clients, improve efficiencies and identify challenges and opportunities
- To achieve efficiencies using automation intelligence capabilities for both the middle and back-office operations
- To cull employee insights to better measure our culture, people analytics and compliance

As the AI landscape changes and AI technologies evolve, our technology and security teams are working closely with dedicated resources across the firm to develop our advanced analytics capabilities. We are currently engaged in a series of early and exploratory AI use cases across various parts of our business.

### Generative AI

When it comes to the use of generative AI within our organization, we understand that generative AI has huge potential to present business advantages, and we expect our applications of AI to evolve over time as parameters for secure and acceptable usage are developed. MFS has always responded to change with a thoughtful, long-term approach and this situation is no different. We have been researching the opportunities related to AI and generative AI for quite some time, and in recent years have engaged with academic, consulting and fintech partners as well as clients on the topic. We are actively assessing strategic use cases to embrace this new technology and identify any risks associated with doing so. We aim to capture all perspectives (internal/external, academic/business, investor/client, etc.) to best understand the long-term risks and opportunities associated with the application of AI across our firm.

From an investment perspective, AI has the potential to fundamentally change the way our issuers conduct business, and that the discovery of novel AI capabilities will continue to have major global market implications. Currently, we are exploring opportunities to leverage generative AI on our investment team to help enhance our existing data pool, assist in improving our proprietary research capabilities, and streamline workflows. As a firm, we are measured and intentional about our risk management in investment, technology and analytics. As such, we are approaching the implementation of generative AI with the foremost priority of maintaining data privacy for our clients and business, while continuing to closely monitor developments related to AI and the financial services industry.

## / DIVERSITY, EQUITY AND INCLUSION AT MFS / 2

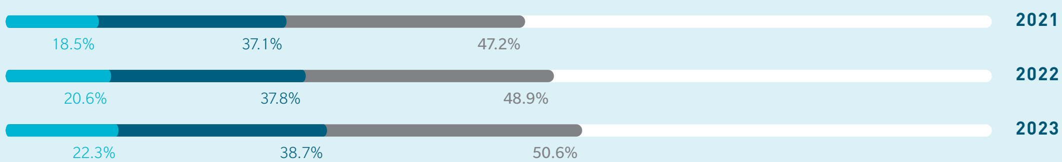
Diversity, Equity and Inclusion (DEI) is among our most important endeavors. Not only does DEI shape the way we operate as an organization and align with our clients, but it also drives us to support social justice pursuits, both in our communities and globally. Importantly, our progress on this journey starts with transparency and accountability.

HIGHLIGHTS

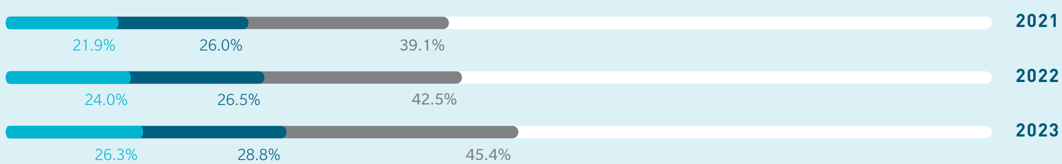
# US Snapshot and Firm Metrics

As we continue shaping our workforce to represent the world around us, self-awareness, accountability and transparency will allow us to evolve our firm accordingly. The efforts we make are focused on inclusion and impact.

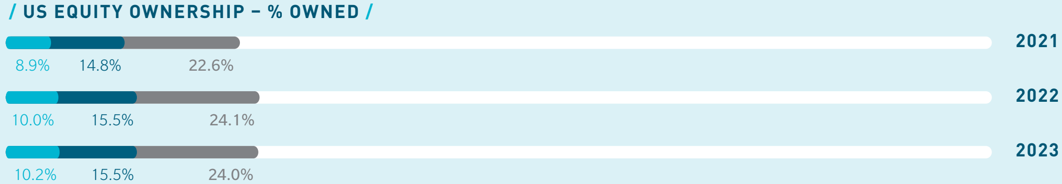
### / US TOTAL FIRM HEADCOUNT DIVERSITY /



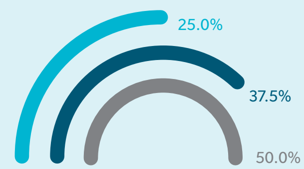

### / US INVESTMENT PROFESSIONAL HEADCOUNT DIVERSITY /




### / US EQUITY OWNERSHIP – % OWNED /




### / MANAGEMENT COMMITTEE DIVERSITY /




MFS is committed to increasing the representation of women and underrepresented minorities at all levels of the organization, and as we continue to do so, we expect the percentage of the firm owned by diverse populations to grow.

RACIALLY AND ETHNICALLY DIVERSE
WOMEN
WOMEN OR RACIALLY AND ETHNICALLY DIVERSE

HIGHLIGHTS

# Our DEI Philosophy – Culture, Talent, Community

To drive greater diversity, elevate equity, increase inclusion and build belonging, we focus on culture, talent and community both inside MFS and externally with our clients, industry peers and partners. Our aim is to create an inclusive workplace where people of all identities and backgrounds can thrive and grow.

## DEI Philosophy At-a-Glance

### Culture:
#### Celebrate all differences

- Foster inclusion to empower employees as individuals and connect them to a shared commitment to deliver our best results for clients
- Work collectively to reduce risk, mitigate bias and get to better outcomes
- Promote accountability through inclusive leadership and employee ownership

### Talent:
#### Combine unique strengths

- Create development opportunities tailored to under-represented groups and implement more equitable career paths for all employees
- Fortify external partnerships to build strong diverse candidate pipelines
- Operate on a data-driven DEI recruiting strategy and increase transparency through expanded people analytics team

### Community:
#### Support to drive change

- Help drive cultural change and better corporate DEI practices through participation in the CFA's DEI code, CEO Pledge for Action and ShareAction's Workforce Disclosure initiative (WDI)
- Drive industry DEI progress by collaborating with other asset managers through our membership in Nicsa's Diversity Project, North America, membership in the Diversity Project UK and partnering with Asset Owners Diversity Charter in the UK
- Build and sustain long-term relationships with charitable partners to support underserved communities

## / INTERNAL ESG TRAINING AND EDUCATION / 2

We conduct regular sustainability training sessions for our investment teams and the firm more broadly. Training is also provided through expert-led training sessions as well as through the dissemination of third-party research. Our sustainability-dedicated investment professionals present thematic research regularly, through their "Sustainability in Depth" research series. The series delves into sustainability topics currently viewed as material or potentially material to the work of our broader investment team. The team also publishes research materials and presentations on an adhoc basis. In 2021, we launched a monthly Sustainability Speaker Series aimed at broadening the investment team's perspective on ESG topics. Throughout its run, the program has featured a wide range of external presenters, including academics, Chief Sustainability Officers from investee companies, representatives of industry initiatives, and think tanks covering topics including but not limited to remuneration, culture, climate, long-term ownership and universal ownership. We also host a monthly internal seminar series for our client-facing employees called "Strategic to Tactical". This series hosts subject matter experts from across MFS, and members of our investment team to demystify sustainability-related topics, as well as give practical examples of how we integrate sustainability into our investment processes and decision-making for our global distribution team.

MFS regularly hosts client and industry events focused on sustainability topics. For example, we have hosted a US-based responsible investing group in our offices four times in the past several years with discussion topics ranging from Indigenous peoples' rights and tax avoidance by multinationals to income inequality. These kinds of events enable MFS personnel to engage with other investors and stakeholders and to expand their understanding of sustainability topics.

Ultimately, the most important training our investment team receives is through their own research efforts and their collaboration with our sustainability-dedicated research staff as they seek to identify the material risks and opportunities facing the companies and issuers we invest with on behalf of our clients.

More broadly, in 2020, members of our sustainability strategy team launched a sustainability training program that offers all MFS employees the opportunity to deepen their understanding of sustainability-related topics. The course is continuously reviewed and updated to ensure that the content remains current and relevant. The goal of this program is to raise the level of expertise on sustainability-related topics across the firm and empower all MFS employees to incorporate sustainability practices into their work and their discussions with clients, vendors and other stakeholders. The course includes both introductory and advanced learning tracks covering the history and current state of sustainable investing, detailed information about MFS' approach to sustainability through ESG integration and stewardship and discussions about evolving sustainability topics, trends and research. Since its launch in 2020, every member of our distribution team has participated in the curriculum, which takes between 8 and 10 hours to complete.

As a part of our 2023 curriculum review and re-release, we onboarded an external learning partner to supplement our internal sustainability curriculum for some of our key client-facing teams. We piloted around 300 user licenses at MFS, granting access to in-depth, video-based sustainability content for ad-hoc and supplementary topical learning. During this pilot phase, it is our belief that the platform will be value-additive to license holders, we plan to assess and re-evaluate our relationship with the provider in 2024 during our next periodic sustainability curriculum review.

### Sustainability Speaker Series

As part of our ongoing collaboration efforts, we have continued our program of monthly sustainability seminars for the entire investment team. The program was launched in early 2021 and has featured a wide range of external presenters, including asset owners and managers, academics and other industry stakeholders who have an interesting perspective on sustainability-related issues. The speakers included:

**March** – the COO of a leading private equity investor in health care (spoke about assessing corporate culture and leadership)

**May** – the CEO of a company that provides rigorous and affordable soil carbon testing at scale throughout the UK and Europe

**June** – the Global Head of Investment Content at large investment consultant (sustainable investing from consultant/client viewpoint)

**August** – Climate change specialist at a large metals and mining company

## / CORPORATE CITIZENSHIP /

### Supporting Diverse and Underserved Communities

MFS launched the first US open-end the mutual fund in 1924 to make investing accessible for everyone. Giving back has been in our DNA for 100 years. Our culture reflects our founders' democratic values and egalitarian mindset. As a firm committed to a culture of giving, MFS supports many organizations working in underserved communities — both financially and through the generous volunteerism of our employees. We participate in programs that empower our communities in key areas including health, education, civic engagement, the environment and social justice.

Many of the organizations we support have been our partners for years. We believe that if we are going to support underserved populations, it is important both to have long-term partnerships and to forge new ones when we see an opportunity to make a difference.

As we look ahead, our corporate citizenship director envisions continuing these undertakings:

**Fortifying Partnerships —** Strengthening partnerships with organizations that tie directly back to our purpose and engaging our employees in volunteer opportunities that are meaningful to them

**Expanding Our Outreach —** Working with our recruiting team to extend our outreach to a more diverse field of candidates, focusing on underserved communities

**Leveraging Employee Resource Group (ERG) Partnerships —**Supporting community organizations through our ERGs, potentially helping to generate more support for causes that employees' support

**Responding to Global Crises —** Helping out with humanitarian needs arising from crisis situations by taking such actions as donating $100,000 to the Red Cross in 2021 to help fight the COVID-19 crisis in India, $100,000 in 2022 to aid in relief efforts and provide assistance on the ground in Ukraine and $100,000 in 2023 to assist with relief efforts in the wake of the recent earthquake in Turkey and Syria. In 2024, in response to the humanitarian crisis across Israel and Gaza, we made donations totaling $100,000 to the following organizations: World Central Kitchen, UNICEF and American Friends of NATAL.

**SUSTAIN AND ENHANCE AN INCLUSIVE WORKPLACE**

## Appendix



# Appendix

MFS® Investment Management



# 2023 MFS® Strategic Climate Action Plan

## In line with the Task Force on Climate-Related Financial Disclosures (TCFD)

RESPONSIBLY ACTIVE FOR A CENTURY

> At MFS, our purpose is to create long-term value by allocating capital responsibly.

Mike Roberge
Chair and CEO

# Allocating capital responsibly

Click on the content headers below or in the tabs above to take you directly to the section.

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# Overview

Given recent and proposed regulatory changes and other factors, climate change is likely to be a defining investment topic for the decades ahead, creating financially material risks and opportunities for most issuers. For example, we recognize that the Paris Agreement, which has been signed by 195 parties, has had, and likely will continue to have, an influence on policy development. This in turn will impact financial outcomes for many corporate and sovereign and subsovereign issuers. As long-term stewards of capital, we aim to evaluate and manage these material climate-related risks and opportunities in our portfolios.

Asset managers play a critical role in encouraging the issuers that we invest in to mitigate risks and properly address opportunities, including those related to the transition to a lower-carbon economy. As long-term investors seeking to allocate capital responsibly, we can use a variety of tools to increase the rate of change, which we believe will improve investment results and create value for our clients.

Our journey with the TCFD began in 2019 when we first became a user signatory. However, researching climate risks and opportunities — for example, incorporating carbon data into certain investment analyses — has been a part of our investment process for many years. To bolster our understanding of this topic, we joined the Carbon Disclosure Project (CDP) in 2010, and we have joined numerous other industry initiatives over the years, such as the Climate Action 100+, the CDP and the Net Zero Asset Managers Initiative.

Separate from our investment activity, MFS has reduced our own carbon footprint, and we achieved carbon neutrality in 2021 using what we believe to be high-quality offsets. We appreciate the limitations of carbon offsets, though, and will continue to focus on decarbonizing our footprint further.

In this report, we share our process for integrating into our investment process what we believe to be financially material climate-related risks and opportunities. We also provide additional information regarding our corporate activities in this area.

# Governance

The MFS Sustainability Executive Group (SEG) oversees MFS' overall sustainability strategy. The SEG includes our chief executive officer, president, chief investment officer, global head of investment solutions, director of global ESG integration, general counsel and other senior leaders responsible for the integration of sustainability issues across MFS. The SEG typically meets monthly to

- develop long-term sustainability corporate strategy, including on climate change related issues
- oversee the implementation of that strategy
- resolve any issues of prioritization and resource allocation for sustainability-related projects

The firm has also established committees, subcommittees and working groups dedicated to the implementation of our sustainability strategy.

Currently, there are three governing bodies that oversee this: the Investment Sustainability Committee (ISC), the Corporate Sustainability Committee (CSC) (formerly the Responsible Investing Committee) and the Proxy Voting Committee.

The ISC, formed in 2021 and chartered on February 17, 2022, includes the firm's CIO, director of global ESG integration, director of global stewardship, CIO – global fixed income, research analysts and other senior investors. Its primary purpose is to guide and accelerate the implementation of sustainable investing practices across the firm. Specifically, the committee is accountable for defining and verifying execution and implementation of MFS' ESG investment strategy and policies related to engagement, the integration of ESG considerations into investment decision making, and our adherence to stewardship codes, as well as maintaining the MFS Policy on Responsible Investing and Engagement.

The MFS Corporate Sustainability Committee, formerly known as the MFS Responsible Investing Committee, was established in 2009 and chartered on January 1, 2022. Its members come from across MFS and include the firm's president, chief diversity equity and inclusion officer, global head of sustainability strategy, head of global enterprise risk and chief compliance officer, along with senior investment officers and legal personnel. The committee is responsible for creating and implementing MFS' sustainability client and corporate strategy and policies, including those related to climate and diversity, equity and inclusion matters, membership in groups that have client or corporate implications, and client and regulatory expectations regarding disclosure and reporting on sustainability-related matters. Additionally, the committee monitors the firm's adherence to sustainability-related regulatory matters and external commitments, such as the Principles for Responsible Investment (PRI).

The MFS Proxy Voting Committee, established in 2005, includes senior leaders from our Investment, Legal and Global Investment Operations departments, including the director of global stewardship. Its purpose is to establish proxy voting engagement goals and priorities and to oversee the administration of the MFS Proxy Voting Policies and Procedures. It is also responsible for promoting engagement with investees on proxy voting topics, including ESG-related proposals.

## / CSO RESPONSIBILITIES FOLDING INTO CIO ROLE /

To date, Barnaby Wiener has served as our chief sustainability officer. Given Barnaby's retirement later this year, though, we have decided to fold the CSO's responsibilities into those of the CIO. We believe this move will increase accountability and efficiency and reinforce the message that our Investment Department is responsible for integrating what they believe to be financially material ESG risks and opportunities, leading engagements, and voting proxies in a way we think generates the most value for our clients.

# Strategy – Investments

Climate change and regulations related to it are materially impacting many businesses' revenue growth, margins and returns, cash flows, capital expenditures and valuation. These impacts are arising due to regional and national regulations (*e.g.*, carbon prices and taxes); changing consumer expectations and increased demand for lower-impact products and services; physical disruptions caused by a changing climate; and increased divestment or investment by various investors (other than MFS) based on factors like sector or industry or the companies' perceived impact on and preparedness for climate change. As long-term investors seeking to understand the duration and stability of financial returns, we are assessing and managing this topic at both the issuer (company, sovereign and subsovereign) and portfolio level.

## / ISSUER AND INDUSTRY ANALYSIS /

As with all risks and opportunities, our assessment of environmental issues such as climate change begins with in-depth fundamental issuer and industry analysis. Our investment team has conducted a substantial amount of climate research, which has been shared in sector team discussions, regional investment meetings, our global and international investment roundtables, thematic presentations and one-on-one interactions. The research has covered a wide range of industries, from those in the highly affected energy, utility and industrials sectors to other industries increasingly impacted by climate change (*e.g.*, real estate, insurance, consumer staples).

Our work has focused on understanding risk in the four areas shown in the illustration to the right.

**Risks**
- Rising sea levels
- Storm frequency

**Opportunities**
- Mitigation and Adaptation

**Risks**
- Technological/Regulatory
- Asset stranding

**Opportunities**
- Direct
- Indirect


**Risks**
- Legal liability regarding climate impacts

**Risks**
- Consumer/Investor stigmatization of certain industries

**Opportunities**
- Innovators gain share

Our investment staff uses both proprietary and third-party tools to monitor data on ESG factors relevant to each security. Over the past several years, our efforts to enhance our ESG data integration strategy have advanced substantially. We have increased the amount of issuer-reported data available to the team and improved the entire team's access to that data. We have also enhanced our systems for capturing and escalating insights generated during our engagements, which form an important part of our climate research and investment decision making process.

To house our proprietary ESG analysis and relevant issuer-reported and third party data, MFS maintains easily accessible ESG hubs for each issuer in our investment research system. Notes written by our analysts and portfolio managers tagged as containing ESG or engagement content are automatically linked, enabling the broader team to quickly identify and evaluate internal viewpoints on material ESG factors impacting the issuers they cover or hold in a portfolio. Each issuer's ESG hub also includes our proprietary ESG "sector maps" for the industry most relevant to its business. MFS' sector maps outline the key environmental and social issues we believe are most material to the industry in which an issuer operates. They include an overview of the topic (including key data points to analyze), a heat map indicating the magnitude of the risk or opportunity and guidance on addressing the issue during company engagements.

Our investment team has also developed proprietary ESG dashboards that display a wide variety of reported data and other insights for any relevant issuer, including data associated with sustainability topics such as climate commitments, emissions, water usage, diversity, injury rates, employee attrition, data security practices, bribery and corruption controls, executive compensation and governance information, audit quality and controversies.

## / CLIMATE RELATED SCENARIO ANALYSIS – SECTOR, ISSUER AND PORTFOLIO SPECIFIC /

Although we believe that climate regulations and other related factors are likely to materially impact many of the issuers we own, there is substantial uncertainty as to the magnitude and timing of changes, particularly regarding how fast industries and regions of the world are implementing the changes. As a result, our investment team has sought to evaluate on a bottom-up basis how different climate outcomes might impact the issuers they cover or own.

Historically, this process of evaluating potential outcomes, often referred to as scenario analysis, has been issuer-specific in nature, taking different factors into account based on the issuer being researched. Our view is that this bottom-up process of considering different future states for the issuers we own should always be the primary way in which we evaluate climate risk and opportunity.

While scenarios can provide context for future states, we recognize they are not forecasts. Nevertheless, we use scenario assumptions produced by external organizations on certain matters — such as potential commodity supply and demand and potential pricing of carbon or carbon budgets for the harder-to-abate sectors — as inputs in developing a rounded view on issuers' climate transition plans. When assessing the credibility of climate transition plans, we believe it is important to know what the greenhouse gas emission intensity of a barrel of oil or a ton of steel in a net zero scenario should look like. Our aim is to connect transition risks and opportunity across sectors to understand the impacts that topics such as hydrogen and battery storage, carbon pricing and carbon offsetting and fossil fuel demand and supply may have over the long term on the issuers that we hold. Furthermore, our views are informed by increasing governmental regulation as well as changes to countries' climate change blueprints, also called National Determined Contributions (NDC), with a particular focus on sovereign bond assessments.

As noted in last year's report, many third-party tools are available that purportedly allow an investor to evaluate the impact of different climate scenarios on issuers or portfolios. We are not yet convinced that these tools offer sufficient and repeatable insights beyond what our team is already generating based on our bottom-up research process that incorporates the insights generated by our investment team, which comprises more than 300 people around the world. Our concerns with these tools include the following:

- **Transparency—**Although each provider offers a certain amount of detail on its model, there are many assumptions that need to be built into the tool. It is often unclear how these assumptions influence the outcomes presented. For example, our trial of one tool lead to two possible outcomes for a single company: one in which carbon targets were not included in the analysis, one in which they were. When the targets were not included, the tool predicted a 50% decline in the value of the company. When they were, it predicted a 50% increase in the value of the company. This increase was based on various unclear assumptions, such as the rate of private company failure in the industry.
- **Illusion of specificity—**Investing is a complex process that requires a great deal of subjective decision making. The process requires data as an input, and company-reported data is often valuable in that decision making. As the data used by an investor strays further from company-reported data and moves further out into the future, we need to keep in mind the limitations of that data as a quality input. As noted above, climate scenario analyses are highly complex and require many forecasts, including, but not limited to, commodity prices, mix shifts in various types of energy, market share changes at the industry and company level and costs related to carbon taxes and regulations. Each of these individual forecasts must be generated not just over years but over decades. Despite that, these tools generate value impacts to two decimal places, which we believe creates an illusion of specificity that would be imprudent to rely on.
- **Highly generalized assumptions—**As would be expected based on the amount of research being conducted by our global team, we have detailed viewpoints on many climate-related factors. For example, we have views regarding the elasticity of demand for various company's products and services, which will influence a company's ability to pass on climate-related costs that may arise from regulation. Most of the third party climate scenario tools allow the user to "flex" only a few variables, generating an output insufficiently tailored to the likely outcomes for specific issuers.
- **Simplification—**Although we want to avoid the illusion of specificity when considering the long-term impacts of climate change, we also want to avoid the excessive simplification that we have often found these models employ. For instance, one provider we have recently reviewed uses a single, business-as-usual forecast revenue growth assumption of 3% for all companies. This kind of simplification is as concerning as the overly specific forecasts that are integrated elsewhere.
- **Training requirements—**These third party models and tools are incredibly complex for all the reasons noted above. The time required to train our global analyst team to not only use them, but to use them properly, would be enormous. Given the lack of value we see in the output today, we do not believe our clients would benefit from our team taking its focus off the ongoing, high-value proprietary climate and other research being done across MFS to learn a tool with limited value-add for the detail-oriented, bottom-up investor.

We continue two courses of action in regards to scenario analysis:

First, we are evaluating ways in which we can use changes in established climate scenarios produced by the International Energy Agency (IEA) and Network for Greening the Financial System (NGFS) or others to inform the investment team of potential changes in key variables and tipping points .

Some of our current data providers (*e.g.*, Bloomberg) have increased outputs in relation to issuer alignment with climate benchmarks (such as the Paris-aligned benchmark) and climate scenarios (NGFS) which we make available to our global investment team for our bottom-up research and incorporate into our sustainability portfolio reviews. These outputs typically plot an issuer's climate-related short- or medium-term targets on pathways as laid out in the high-level scenario and also assess whether an issuer is likely to align with the pathways in the future.

The second course of action on climate change we continue to undertake is to evaluate third party scenario analysis tools. If and when we believe external analysis tools aimed at portfolio analysis have progressed to the point where they offer high-quality, repeatable insights, we will integrate them into our global investment process.

## PORTFOLIO ANALYSIS

In addition to the company-specific research outlined above, MFS has used carbon intensity analysis and otherwise sought to determine the strength of individual company carbon reduction targets in order to assess the climate risk of various portfolios relative to their benchmarks. We have also developed tools that allow our portfolio managers to know the percentage of companies in their portfolio that disclose carbon emissions data and have implemented a net zero or science-based target. Our portfolio managers' evaluation of their portfolios' climate risks are generally formed based on the detailed, bottom-up research and engagement being conducted by both our analysts and portfolio managers.

Additionally, climate-related risks and opportunities feature in our periodic portfolio sustainability risk reviews. These reviews provide the team with an opportunity to discuss sustainability risks and opportunities based on internal research, emerging viewpoints and external events.

## SOVEREIGN ANALYSIS

Climate change can pose material risks to sovereign debt due to its impact on national expenditures associated with disaster recovery from extreme weather events or preparedness through climate change mitigation and adaptation projects. Emerging market countries are particularly vulnerable since they often lack capital or have higher funding costs — risks added to the numerous risks they already face. Many of these countries could face food insecurity due to the impact of climate change on their agricultural production and the price of imports. Our investment team members are increasingly focused on better understanding environmental risk in sovereigns and its complex association with fiscal and monetary conditions, which in turn affects bond yields and credit ratings.

The ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) project was established in mid-2021 to create a framework and accompanying tool to provide investors and other stakeholders with a common understanding of sovereign exposure to climate risk and how sovereign issuers plan to mitigate and adapt to it. The research is being led by the Transition Pathway Initiative team at the Grantham Research Institute on Climate Change and the Environment (at the London School of Economics). We are a founding member and part of the advisory committee and continue to help shape the project and its outcomes.

## GREEN AND THEMATIC BONDS

We are seeing more issuers such as companies, countries and subsovereigns come to the market with green bonds. The proceeds of many of these bonds are earmarked for environmental projects to combat climate change across categories such as alternative energy, green buildings and infrastructure, water and waste management and environmental remediation. We purchase green bonds along with traditional bonds from issuers in our fixed income portfolios based solely on our analysis of the risk and return potential of these instruments, and we continue to account for the benefits of holding them.

## ENGAGEMENT

MFS regularly engages with our investees to inform our understanding of the materiality of the risks and opportunities arising from climate change and to advocate for improvements in governance and disclosure. Over the past several years, we have seen an increase in shareholder resolutions seeking increased disclosure around the financial impact of climate change and the long-term implications of a transition to a low-carbon economy. MFS will support these resolutions on behalf of our clients if we believe the requested disclosure is necessary to understand the financial materiality of the various climate risks and opportunities facing the issuer.

As a means of enhancing our investment decision making process, we actively participate in industry initiatives, organizations and working groups that seek to improve and provide guidance on corporate and investor best practices, ESG integration and proxy voting issues. MFS has joined a variety of organizations and initiatives that promote and coordinate collaborative engagement on climate change, including the Principles for Responsible Investment (PRI), the CDP and others.

MFS is an active participant in four CA100+ company engagements, and we are encouraging our portfolio companies to enhance climate disclosures to aid in our analysis and to develop and carry out a science-based emissions reduction plan to help mitigate investment risk.

# Net Zero Commitment, Target and Approach

In July of 2021, MFS joined the Net Zero Asset Managers initiative (NZAM). As a signatory to NZAM, the firm is committed to supporting the goal of achieving net zero carbon emissions by 2050 or sooner.

Our approach to achieving net zero alignment is founded on engagement, not exclusion. It is our belief that alignment can be effectively and constructively achieved by engaging with companies we invest in across relevant industries and sectors to help them transition in line with the decarbonization efforts of the global economy in order to reduce the climate-related financial risks that can be found in our clients' investment portfolios. Therefore, we believe that it is in the best interest of our clients and aligned with our purpose of creating long-term value responsibly. In alignment with our investment approach, we announced these targets in June 2022:

1. 90% of in-scope assets under management considered net zero aligned or aligning by 2030
2. 100% of in-scope assets under management considered aligned or achieving net zero by 2040
3. 100% of assets under management considered "achieving net zero" by 2050

Our in-scope assets include all listed equities and corporate credit, the value of which, at the time of committing, represented about 90% of assets under management. We are planning to ratchet up our in-scope assets over time to include sovereign and municipal bonds.

We have developed a sectoral engagement program that will focus on evaluating the credibility of companies' climate transition plans and issuer-specific risks and opportunities.

Our net zero engagements are prioritized based on indicators of the materiality of the issuer to MFS' NZAM targets. These include total firm position size across asset class, latest analyst rating, proportion of ownership (in equity), sector, exposure to transition risk, emissions and current status of net zero commitments and interim targets.

We also publish an annual Net Zero Progress Report that you can read more about here.

90%

*of in scope assets under management considered net zero aligned or aligning by 2030*

100%

*of in-scope assets under management considered aligned or achieving net-zero by 2040*

100%

*of assets under management considered 'achieving net zero' by 2050*

# Strategy – Business Operations

MFS has long been committed to improving the environmental outcomes of its own business operations. This focus has resulted in a variety of initiatives to reduce our impact on the environment.

In 2008, MFS launched "A Green MFS," a program aimed at reducing our environmental footprint. The initiative included an employee outreach program that gave all MFS employees a forum to suggest actions that would help us become a more environmentally sound company. Since 2012, MFS' headquarters location in Boston, Massachusetts has met LEED Gold standards, and when possible we have applied similar measures and standards across our global footprint as we renovate existing offices or build out new space. Also, over the past decade we have implemented a wide variety of programs such as server consolidation, low-energy lighting and appliance use, expanded recycling and "pull printing" to help reduce waste and save energy.

These and other actions resulting from this initiative include the following:

## / REAL ESTATE AND ENERGY CONSUMPTION /

- Used modular interior materials to reduce costs and waste
- Installed high-efficiency light fixtures, Energy Star appliances and low-flow plumbing fixtures wherever possible
- Implemented auto-shutoff for lighting in corporate office and auto-sleep mode for all computers
- Consolidated and upgraded servers that achieved 40% greater energy efficiency
- Contracted with custodial vendor that uses 100% biodegradable cleaning products
- Used highly efficient data center partners to minimize electricity use and cooling needs

## / TRAVEL /

- Implemented video conferencing for all employees to reduce nonessential travel and enhanced work-from-home capabilities
- Installed commuter bike racks and showers in corporate headquarters and most global offices to promote carbon-free commuting

## / PAPER AND PLASTIC /

- Eliminated 90% of file cabinets by making almost all processes paperless
- Inventoried and recycled unnecessary historical paper documents
- Implemented pull printing and default two-sided printing in offices to reduce print waste
- Offered paperless web and app access for client reports, shareholder and proxy statements, marketing materials and fund documents
- Offered paperless web and app access for client reports, shareholder and proxy statements, marketing materials and fund documents
- Stopped using plastic in marketing materials
- Provided employees with reusable mugs and eliminated disposable cups from offices
- Eliminated single-use bottled water

## / WASTE /

- Working with an industry-recognized (ISO- and R2-certified) firm to remarket and recycle legacy computing assets
- Implemented single-stream recycling wherever possible along with alkaloid and lithium ion battery recycling
- Implemented a new waste measuring and reduction initiative focused on composting, recycling and educating employees on how to reduce their waste in our corporate headquarters, with plans to expand in our global offices

In 2020, we established a global, crossfunctional Environmental Impact Working Group (currently overseen by the MFS Corporate Sustainability Committee) to improve our ability to measure and minimize our overall environmental footprint. This group engages with our employees on our corporate waste program, educational series and local resources to help employees reduce their footprint.

In partnership with our parent organization, Sun Life, we have adopted a carbon neutrality plan. As part of this plan, MFS, along with the entire Sun Life global group, has met its goal of achieving net zero carbon emissions as of the end of 2021. We have chosen three carbon offset projects to invest in over the next two years to achieve net zero carbon emissions in our operations:

- Darkwoods Forest Conservation — Canada
- Mississippi Valley Reforestation — United States
- Rural Clean Cooking — India

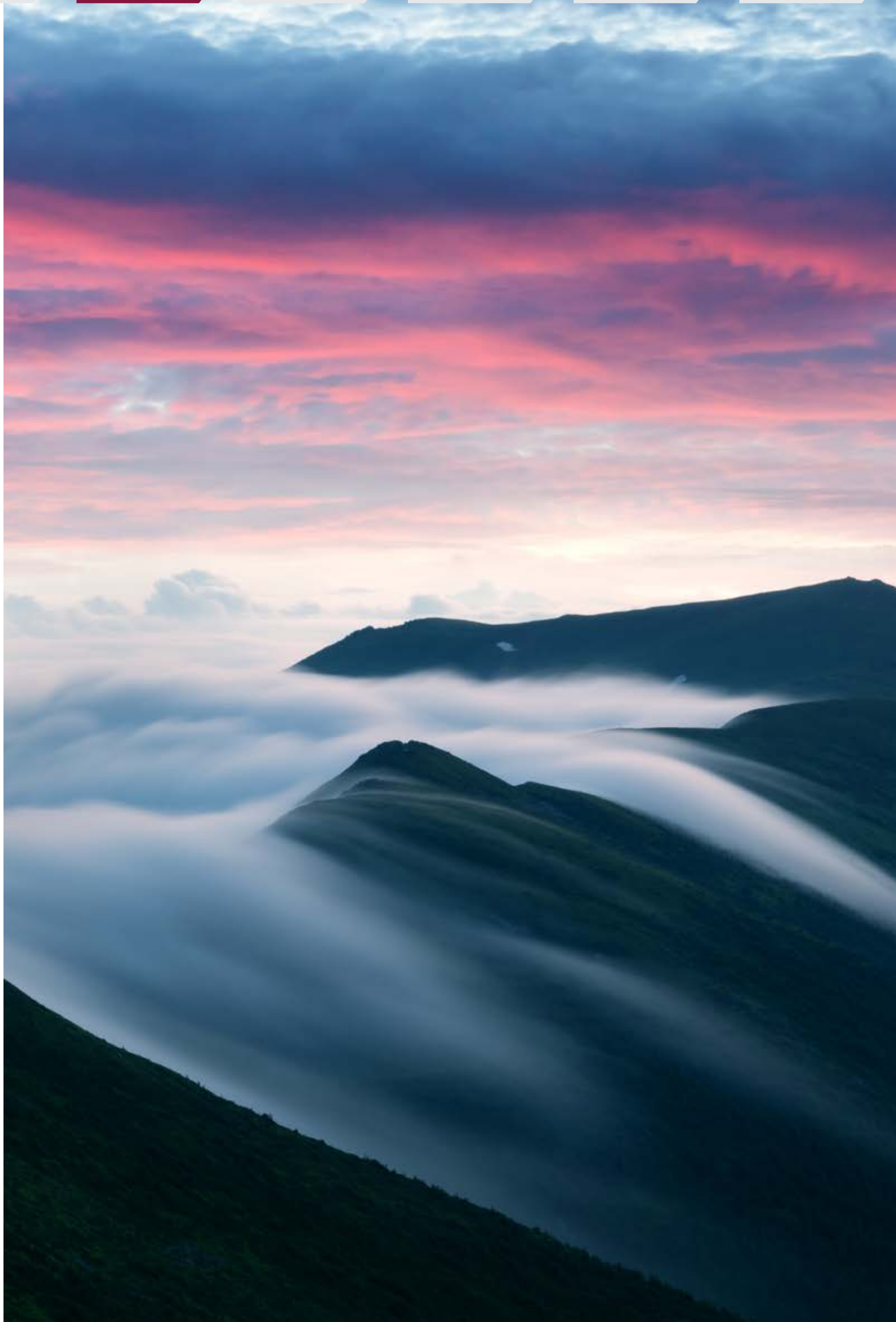
We continue to assess our operations and their impact on a changing climate in order to further our goal of creating more sustainable practices around business travel, paper and waste management in our operations while seeking to further engage with the owners or property management companies of the buildings we occupy to promote more sustainable practices and energy sources. Additionally, we perform due diligence on our materials suppliers to determine their approach to climate change.

# Risk Management

Our cultural emphasis on risk management is incorporated into all facets of our investment process. At MFS, the goal is not to minimize risk per se, but rather to understand its sources and effectively manage it. The risk management process is designed to ensure each strategy takes on the level of risk appropriate to the investment philosophy of its mandate while also meeting long-term investment objectives.

We consider both risks and opportunities when evaluating ESG factors and trends, and we have implemented systematic processes to help our investment team manage ESG-related risks at the security and portfolio levels. As part of this systematic approach to ESG risk management, all MFS strategies are subject to periodic sustainability reviews focused exclusively on sustainability-related topics.

> The goal is not to minimize risk, but rather to understand its sources and effectively manage it



# Metrics and Targets–Investments

We rely on a wide range of data and analysis when monitoring climate risk at the security and portfolio levels. This includes the level and quality of climate risk disclosure (*e.g.*, CDP reporting), the adoption and quality of issuer carbon reduction targets (*e.g.*, net zero targets, science-based targets, etc.) and progress toward these targets, such as rolling three- and five-year emissions trends. Given the role many companies in high-emitting sectors might play in facilitating the transition to a low-carbon economy, simply measuring portfolio exposure to such sectors may not provide enough information on important climate opportunities and cooling potential.

Other important metrics we use to monitor climate risk include these:

## / SECURITY-LEVEL /

- Physical risk indicators
- Carbon intensity Scope 1, 2 and relevant Scope 3
- Absolute emission reduction and reduction trend
- Sector specific metrics (*e.g.*, GHG intensity of barrel of oil, ton of steel/cement etc)
- Water intensity
- Industry carbon intensity (global and by region)
- Forward-looking carbon reduction targets
  - Is there an action plan?
  - Is it focused on absolute reduction, or does it rely heavily on offsets?
- Are climate metrics included in executive compensation?
- Strength of management/governance climate oversight

## / PORTFOLIO-LEVEL /

- Portfolio carbon intensity vs. benchmark
- Rolling three- and five-year emissions trends
- Percentage of the portfolio with science-based or net zero targets
- Periodic portfolio sustainability reviews include discussion of high emitters and the risk/reward they represent

# Metrics and Targets– Business Operations

Going forward, our Environmental Impact Working Group will examine all aspects of MFS' business operations to understand where we as an organization can establish goals to reduce our absolute emissions. This will allow us to determine where improvements can be made to help achieve those goals and reduce our total resource consumption.

## / MEASURING OUR EMISSIONS /

- **Real estate/building emissions:** We do not own any of our current building occupancy; however, as part of this initiative, we are conducting an inventory of each of our locations, looking at issues such as lighting efficiency, water consumption, sources of electricity and renewable alternatives and waste practices. We will also try to collaborate with our landlords to understand their climate strategy and find ways to partner with them in order to reduce emissions.
- **Travel:** We are working with clients to engage with them virtually for more routine meetings and otherwise reduce the number of in-person meetings. We are also determining where we can consolidate trips, seek alternative modes of transportation and make fewer layovers. Additionally, we are looking at our preferred airlines to understand their climate action plans. We continue to improve our ability to assess and report the emissions produced from travel.
- **Educating employees:** We are engaging our own employees not just to create awareness of the impacts of climate change but also to educate them and provide tools that can help them have an impact by making small but meaningful changes in their lifestyles. We maintain an internal portal to collect employee suggestions on how to make the firm more environmentally friendly.

# Roadmap for 2024

As we look forward to the rest of 2024, we will continue to engage with our issuers, encouraging them to set net zero goals in line with the Science-Based Targets initiative (SBTi) and monitoring overall alignment with sectoral decarbonization pathways. We do not intend to use divestment or to purchase "green" companies solely for the purpose of achieving a portfolio net zero goal as this approach does not contribute to reducing real world emissions. We expect all covered assets to be "aligned to a net zero pathway" by 2040 and "achieving net zero" by 2050, as defined by the Net Zero Investment Framework (NZIF) methodology.

In order to execute our engagement commitments for NZAM and for our portfolios governed by the Sustainable Finance Disclosure Regulation (SFDR), we need to develop a view regarding the transition plan credibility of our most impactful holdings. By *impactful* we mean the companies we consider high priority engagements. This could be due to factors such as the relative importance of the issue, company assets under management or where we hold a significant amount of outstanding shares. We are also taking into account the NZIF definition of companies facing substantial climate-related risk. In most industries, this credibility assessment will be built on an understanding of technical credibility, financial credibility, competitive credibility, management credibility and stakeholder alignment with generating value for our clients.

| TCFD PILLARS | ACTIVITIES AND OBJECTIVES ACHIEVED IN 2023 | ACTIVITIES AND TARGETS FOR 2024 | ACTIVITIES IN 2025 AND BEYOND |
|---|---|---|---|
| **Governance** | Enhanced climate-related voting and escalation policies, increasing clarity for issuers on proposal types we will typically support<br>Onboarded and actively participated in new climate initiatives such as Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) and Asia Investor Group on Climate Change (AIGCC) | Continue to roll out company initiatives to reduce waste in our offices<br>Continue to increase clarity for issuers on our voting activity surrounding climate risks | Evaluate new collaborative bodies and revise stewardship policies as necessary |
| **Strategy** | Rolled out portfolio-level TCFD reports for UK-managed accounts<br>Developed sector-specific frameworks to assess corporate transition plans to support our forward-looking assessment of risk and alignment with NZAM and MFS' SFDR criteria | Roll out additional internal research on climate technologies and other pathway dependencies to enable investment team to monitor changing trajectories in climate-related expectations | Develop processes to engage with issuers in the two lowest priority tiers (our internal priority framework includes 4 tiers — one being the highest priority and 4 the lowest — under our NZAM engagement framework) to ensure broad management of climate risks across our portfolio<br>Formulate vote escalation framework on climate issues |
| **Risk Management** | Enhanced MFS' ESG data dashboards (which includes climate and related target data) by adding more portfolio-level metrics and trend data<br>Produced portfolio level analyses that includes the review of climate-related data<br>Evaluated new forms of climate-related financial data (*e.g.*, scenario data) for use in research and engagement programs<br>Enhanced the integration of engagement data and NZAM outcomes in our strategy level sustainability reviews | Engage with most companies designated as Tier 1 or Tier 2 in our NZAM process framework<br>Continue to evaluate new forms of climate-related financial data (*e.g.*, scenario and physical risk data) for use in our research and engagement programs<br>Continue to enhance the integration of growing availability of engagement and climate data and NZAM outcomes in our strategy level sustainability reviews | Continue to monitor the two highest priority tiers under our NZAM engagement framework<br>Further integrate growing availability of climate and engagement data and NZAM outcomes in our sustainability reviews and MFS' broader investment process<br>Develop internal research on climate technologies and other pathway dependencies to enable investment team to monitor changing trajectories in climate-related expectations |
| **Metrics** | Developed a front end tool for capturing NZAM-related insights on company alignment for higher impact companies in our portfolio<br>Developed GHG inventory for our corporate operations to measure our emissions<br>Launched a net zero progress report, showing examples and developments on sectoral thinking, engagement successes and hurdles and provide quantitative data on milestones reached. Expanded MFS' climate data to cover our sovereign entities | Continue to enhance our net zero progress report, showing examples and developments on sectoral thinking, engagement successes and hurdles and provide quantitative data on milestones reached<br>Identify climate-related data gaps, including assessing how scenario analysis may or may not improve our analysis of individual company and portfolio level outcomes over the long term<br>Create ongoing measurement for our corporate emissions. | Develop process to monitor progress against net zero commitments and the alignment of portfolios |

# Conclusion

MFS supports the Paris Agreement and the goal of achieving net zero by 2050. We are focused on improving our understanding of climate risks and opportunities in both our investment process and our business operations. We will continue to engage with our clients, investees and industry peers to help build effective and resilient carbon-reduction plans, and we will continue to encourage practices that facilitate an effective transition to a low-carbon economy.

## / REPRESENTATIVE STRATEGIES CARBON INTENSITY[1] /

| | 2022 | | 2023 | |
|---|---|---|---|---|
| Equity - Global | WACI | Coverage (%) | WACI | Coverage (%) |
| MFS Global Equity | 100 | 100 | 100 | 99 |
| MFS Global Value Equity | 78 | 95 | 71 | 98 |
| MFS Global Growth Equity | 65 | 98 | 71 | 98 |
| MFS Low Volatility Global Equity | 262 | 100 | 171 | 99 |
| Equity - Global ex-US | | | | |
| MFS International Equity | 127 | 100 | 132 | 99 |
| MFS International Intrinsic Value Equity | 42 | 100 | 73 | 96 |
| MFS International Growth Equity | 134 | 99 | 103 | 97 |
| Equity - US | | | | |
| MFS Large Cap Value Equity | 274 | 100 | 220 | 98 |
| MFS Large Cap Growth Equity | 54 | 100 | 63 | 98 |
| MFS Mid Cap Value Equity | 247 | 100 | 178 | 97 |
| MFS Mid Cap Growth Equity | 46 | 96 | 55 | 97 |
| MFS Low Volatility US Equity | 240 | 100 | 178 | 99 |
| Equity - Regional | | | | |
| MFS European Research | 102 | 98 | 99 | 100 |
| MFS Japan Equity | 43 | 100 | 50 | 99 |
| MFS U.K. Equity | 70 | 98 | 69 | 97 |
| MFS Canadian Research Equity | 348 | 97 | 218 | 99 |
| MFS Asia Pacific ex-Japan | 170 | 96 | 217 | 97 |
| Equity - Emerging Markets | | | | |
| MFS Emerging Markets Equity | 88 | 98 | 146 | 97 |
| MFS Latin American Equity | 250 | 96 | 206 | 92 |
| Equity - Sector | | | | |
| MFS Utilities Equity | 1620 | 98 | 1416 | 99 |
| MFS Global Real Estate Equity | 56 | 98 | 77 | 99 |
| Fixed Income | | | | |
| MFS Global Credit | 249 | 80 | 190 | 79 |
| MFS US Credit | 377 | 83 | 281 | 83 |
| MFS Euro Credit | 308 | 79 | 195 | 82 |

[1] Weighted Average Carbon Intensity (Scope 1+2) (tonnes $CO_2e$/$revenues). Source: S&P/Trucost, FactSet, and Clarity AI. trademark and service mark.
The information set forth above is dependent on the accuracy and availability of emissions data for which MFS relies on issuers and third-party data providers. Lower portfolio data coverage will yield less reliable carbon intensity metrics. 2022 fixed income strategies WACI have been recalculated using S&P/Trucost.

## / MFS ENTITY LEVEL REPORTING /

Four TCFD recommended metrics are included below. These are based on Scope 1 + Scope 2 emissions.
Only equities and corporate bonds are included at this time.

### CARBON FOOTPRINT

| | Companies | Portfolio weight | Carbon footprint |
|---|---|---|---|
| Weighted Average Carbon Intensity<br>tons $CO_2e$ / USD M revenue | 8,304 / 10,648 | 86% | 140.03 |
| Portfolio Financed Emissions<br>tons $CO_2e$ | 8,273 / 10,648 | 85% | 22.03 M |
| Portfolio Financed Emissions / USD M Invested<br>tons $CO_2e$ / USD M invested | 8,273 / 10,648 | 85% | 43.87 |
| Portfolio Carbon Intensity<br>tons $CO_2e$ / USD M revenue | 8,283 / 10,648 | 85% | 123.27 |

### GHG EMISSIONS

| | Total | Data coverage |
|---|---|---|
| Total GHG emissions (companies only)<br>tons $CO_2e$ | 201,700,480 | 96% |
| Scope 1 GHG emissions<br>tons $CO_2e$ | 18,654,890 | 97% |
| Scope 2 GHG emissions<br>tons $CO_2e$ | 3,908,472 | 97% |
| Scope 3 GHG emissions<br>tons $CO_2e$ | 172,123,420 | 96% |

Weighted Average Carbon Intensity (Scope 1+2) (tonnes CO2e/$revenues).
Source: S&P/Trucost for representative accounts and Clarity AI for in-scope entity level figures, trademark and service mark.
The information set forth above is dependent on the accuracy and availability of emissions data for which MFS relies on issuers and third-party data providers.
Please note that different sources may have been used in previous years and therefore could affect the change in figures over time.
Lower portfolio data coverage will yield less reliable carbon intensity metrics.

## / APPENDIX 2: KEY STAFF / 2

At MFS, it is our firm belief that a successful approach to sustainability requires the participation of our entire firm. Sustainability describes our fundamental investment process; it is not a separate discipline with different inputs or outcomes. All our investment professionals are actively engaged in, and responsible for, its success. In order to facilitate the adoption, implementation and enhancement of sustainability practices across the firm, we employ a number of people that are positioned to provide strategic leadership and support the effective integration of sustainability considerations across teams and disciplines. They are listed below.

### Investments

#### Barnaby Wiener – Chief Sustainability Officer*

Barnaby Wiener is an investment officer and equity portfolio manager and the Chief Sustainability Officer for MFS. Barnaby joined MFS in 1998 as a research analyst. He became a portfolio manager in 2003 and currently manages the firm's Prudent Wealth, Prudent Capital and Prudent Investor strategies. He previously held the role of director of European Research and was co-portfolio manager of MFS International Value and Global Value equity strategies. He is also responsible for continuing to integrate sustainability across our investment platform.

Prior to joining MFS, he was an equity research analyst for both Merrill Lynch and Crédit Lyonnais. He also served as a captain in the British Army.

Barnaby is a graduate of Oxford University and the Royal Military Academy, Sandhurst. He is based in London.

*It was announced on March 2, 2023, that Barnaby Wiener will retire from MFS and from his responsibilities as the firm's chief sustainability officer, effective April 30, 2024.

#### Robert M. Wilson – Director, Global ESG Integration

Robert M. Wilson, Jr. is the global director of ESG integration at MFS. As the first ESG analyst at MFS, he was responsible for the initial development and execution of our global equity and fixed income ESG investment integration strategy. Working with analysts and portfolio managers, Rob spends most of his time developing bottom-up, security-specific research aimed at modeling and valuing ESG risks and opportunities. He also produces action oriented thematic research covering topics such as corporate taxation, income inequality, fixed income governance analysis and technology ethics. He currently chairs the MFS Investment Sustainability Committee.

Rob was named director of global ESG integration in 2022. He joined MFS in 2013 after six years with American Century, where he most recently served as a senior equity analyst. Previously, he spent five years at Bain & Company, working as a manager in the Financial Planning and Analysis group.

### Pooja Daftary – Research Analyst

Pooja Daftary is a research analyst at MFS. Her primary role involves working with the firm's analysts and portfolio managers to integrate ESG issues into the investment decision-making process. She is also responsible for developing thought leadership regarding the role that ESG integration plays in a long-term investment process.

Pooja joined MFS in 2009 as an investment research associate. In 2012, she left the firm to complete her Master of Business Administration degree before returning in 2014 as a global equity research analyst. She served in that role until 2018, when she assumed her current position.

Pooja earned a BA from Mount Holyoke College and an MBA from Harvard Business School. She is based in Singapore.

### Mahesh Jayakumar, CFA, FRM – Research Analyst

Mahesh Jayakumar, CFA, FRM, is a fixed income research analyst focusing on ESG issues at MFS. In this role, he works collaboratively across the investment department to integrate ESG considerations into MFS' overall fixed income research process, working with analysts and portfolio managers to broaden and deepen their understanding of the impact sustainability factors may have on investment outcomes. He is a member of the working groups that guide the firm's ESG investment strategy and assess global collaborative initiatives and partnerships.

Mahesh joined MFS in 2019 in his current role following a year as a senior portfolio manager at Oppenheimer Funds. He previously worked for State Street Global Advisors for ten years, serving as a senior portfolio manager for the first nine, before transitioning to a senior ESG investment strategist role for his final year with the firm.

Mahesh began his career in the financial services industry in 2008. He earned a BS in Information Systems from Purdue University, an MS in Computer Science from Boston University and an MBA from the MIT Sloan School of Management. He is based in Boston.

### Gabrielle Johnson – Fixed Income Research Associate

Gabrielle Johnson is a fixed income research associate with MFS. In her role, she is responsible for assisting analysts and portfolio managers with their investment processes by gathering and analyzing data with a focus on environmental, social and governance industry factors.

Gabrielle joined MFS in 2021 in her current role. She was previously a senior client account manager with Brown Brothers Harriman for three years.

Gabrielle earned a Bachelor of Arts degree in economics and environmental studies from Hobart and William Smith Colleges.

## Stewardship

### Franziska Jahn-Madell – Director, Global Stewardship

Franziska Jahn-Madell is director of global stewardship at MFS. In this role, she is responsible for creating a companywide global stewardship strategy, incorporating sustainability, engagement and proxy voting. She currently co-chairs the MFS Proxy Voting Committee. She is based in London.

Franziska joined MFS in 2021 in her current role. Prior to joining the firm, she worked at Frankfurt University as an academic assistant. She also spent ten years as a principal research analyst at EIRIS in London, and most recently spent seven years at Ruffer as head of responsible investment.

Franziska earned two Masters of Administration degrees from Frankfurt University, with honors. She studied Catholic Theology and German Literature.

### Andrew Jones, CFA – Stewardship Analyst

Andy Jones, CFA, is a stewardship analyst with MFS. In this role, he is responsible for working across the full portfolio of MFS holdings to deliver our internal stewardship strategy and external stewardship commitments. He is based in London.

Andy joined MFS in 2021 in his current role. He was previously a director and stewardship lead for Europe in Federated Hermes EOS for more than three years. Prior to that, he was a sustainability consultant with PwC for ten years and before that a strategy and risk consultant with Deloitte. He began his career in financial services in 2004.

Andy earned a Bachelor of Science degree in physics from the University of Warwick. He holds the chartered financial analyst designation.

### Herald Nikollara – Senior Stewardship Associate

Herald Nikollara is a senior stewardship associate with MFS. He is responsible for proxy voting and corporate governance related research and analysis and day-to-day proxy voting operations, as well as assisting with reporting and engagement activities.

Herald joined MFS in 2018 as a proxy voting analyst before being named to his current position in 2021. He was previously a paralegal at the Boston law firm Holland & Knight LLP for two years.

He earned a Bachelor of Science degree in criminal justice from the University of Massachusetts Boston.

### Alexandra Schoepke – Stewardship Coordinator

Alexandra Schoepke is a stewardship coordinator with MFS. She will assist the broader team in various ways, including scheduling engagement meetings, performing certain voting decisions and participating in special analytical projects.

Alexandra received a Bachelor of Arts degree from Northeastern University with an environmental studies major and a minor in economics, graduating summa cum laude. She later received a Master of Science degree in Environmental Science and Policy from Northeastern University.

## Client Sustainability Strategy

### Vishal Hindocha, CFA – Senior Managing Director, Global Head of Investment Solutions

Vishal Hindocha, CFA, is a senior managing director and global head of Investment Solutions for MFS. In this role, he leads a global team dedicated to working with clients to develop solutions, asset allocation strategy and portfolio construction, as well as to provide views on capital markets, sustainability, industry trends and MFS investment platform insights. He is also responsible for MFS' thought leadership efforts globally. He serves on the Global Distribution Management Committee and a member of multiple sustainability governance committees.

Vishal joined MFS in 2016 as a director on the Client Relations and Consultant Relations teams. He previously served as a senior investment consultant and team leader at Willis Towers Watson.

Vishal earned a Bachelor of Science degree in economics from University College London. He holds the chartered financial analyst (CFA) designation. He is based in London.

### Bess Joffe – Managing Director, Global Head of Sustainability Strategy

Bess Joffe is a managing director and global head of sustainability strategy at MFS. In this role, she works with clients and other stakeholders globally to develop solutions and provide insights on sustainable investment trends and best practices. She is focused on ensuring that sustainability is integrated across investment, client and corporate pillars. She currently serves as the co-chair of the MFS Corporate Sustainability Committee.

Bess was previously the Head of Responsible Investment at the Church Commissioners for England for several years. She has held numerous other positions in the industry including Associate Director – Americas at Hermes Equity Ownership Services, Head of Stewardship & Corporate Governance at TIAA and Vice President of Investor Relations at Goldman Sachs.

Bess earned a Bachelor of Arts degree in economics from McGill University in North American Studies. She also earned a Law degree from the University of Toronto. She is based in London.

## George Beesley, CFA – Senior Strategist, Client Sustainability Strategy

George Beesley, CFA, is a senior strategist on the Sustainability Strategy Team at MFS. In this role, he is responsible for working with clients to develop solutions, communicating investment strategy, and providing insights on ESG and sustainability. He works closely with members of the firm's investors to identify and prioritize research topics most relevant to the investment process. He is based in Madrid.

George joined MFS in 2021 as a strategist. Prior to this, he spent one year at Plan for Life Wealth Management and four years in investment consulting with Willis Towers Watson. He began his career in the financial services industry in 2013.

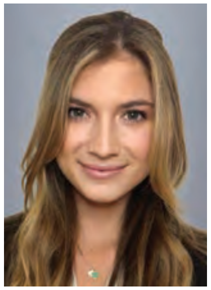
George received a Bachelor of Arts degree from The University of Manchester with a concentration in economics and social sciences. He later received a Master of Science degree in international business and management from The University of Manchester with honors. He holds the chartered financial analyst designation and is a member of the U.K. CFA Society.

## Daniel Popielarski – Strategist, Client Sustainability Strategy

Daniel Popielarski is a strategist on the Client Sustainability Strategy Team at MFS. With a focus on sustainability, he is responsible for conducting research, developing MFS' views and delivering in-depth analysis, insight and thought leadership. He works closely with other technical experts to create and deliver content, as well as contribute towards MFS' thought leadership via client ready presentations and response to client inquiries. Along with the rest of the team, he is also accountable for developing and delivering on a strategic plan to ensure that MFS is adopting and promoting best practices in our marketplace.

Dan joined MFS in 2012 as a client service representative. He became a senior relationship management coordinator in 2015 and an analyst in the firm's Investment Solutions Group in 2019. He assumed his current role in 2023.

Dan earned a Bachelor of Science in business administration from the University of Vermont. He also served as a microfinance development volunteer in the Peace Corps for two years.



## Tessa Fitzgerald– Client Sustainability Strategy Lead Analyst

Tessa Fitzgerald is a lead analyst on the Sustainability Strategy team with MFS. With a focus on sustainability, she is responsible for conducting research, developing MFS' views and delivering in-depth analysis, insight and thought leadership. She works closely with subject matter experts across the firm to develop and maintain content and she contributes to the firm's sustainability thought leadership via client-ready presentations, white papers, conference presentations and client responses. She is based in London.

Tessa joined MFS in 2019 as a request-for-proposal analyst and was named to her current role in 2023. She began her career in financial services with the Bank of Montreal as a service representative in 2018.

Tessa earned a Bachelor of Arts degree in political studies from Queen's University, and she has earned the CFA Institute Certificate in ESG Investing.

## Pelumi Olawale, CFA – Strategist, Client Sustainability Strategy

Pelumi Olawale, CFA, is a client sustainability strategy strategist at MFS. In this role, he is responsible for working with clients, investors and our distribution teams to develop, evolve and effectively communicate MFS' sustainability strategy. This includes thought leadership, in-depth research and publishing whitepapers on sustainability and sustainable investing–related topics. In addition, he takes the lead on engagements with regulators and industry bodies with a specific focus on Net Zero initiatives.

Pelumi joined MFS in 2022. He was previously a fixed income and currencies trader and investment banking analyst at Rand Merchant Bank.

Pelumi earned a Bachelor of Science degree in accounting and finance from the University of Lagos and holds a Master of Business Administration degree with a concentration in sustainability from the University of Oxford. He is a CFA charter holder and holds the Associated Chartered Account qualification.

### Yasmeen Wirth– Client Sustainability Strategy Analyst

Yasmeen Wirth is a client sustainability strategy analyst with MFS. In this role, she communicates MFS philosophy and approaches regarding sustainability, generates ESG-related topical research, works closely with the investment team and other subject matter experts to produce client-ready content such as reports, presentations, query responses and whitepapers.

Yas joined MFS in 2022 in her current role. During her collegiate career, she worked as an investment banking operations analyst at UBS and in legal and neuroscience research roles.

Yas earned a Bachelor of Arts degree from Bowdoin College, with majors in neuroscience, government and policy.

## Legal and Compliance

### Susan A. Pereira – Vice President, Managing Counsel

Susan Pereira is a vice president and managing counsel at MFS. Prior to March 1, 2024, she managed the team that provides day-to-day legal support to the firm's US investment funds, including funds registered under the US Investment Company Act of 1940, and also provided legal support with respect to the firm's proxy voting activities. On March 1, 2024, she assumed responsibility for coordinating legal support for the firm's global sustainability efforts, including the integration of material ESG factors into its investment process and its stewardship activities as well as its corporate sustainability practices. She currently serves as the co-chair of both the MFS Proxy Voting Committee and the MFS Corporate Sustainability Committee.

Susan originally joined MFS in June 2004 as a counsel. Before that, she was an associate at the law firms of Bingham McCutchen LLP in Boston and Preti, Flaherty & Pachios LLP in Portland, Maine.

Susan earned a Bachelor of Arts degree in history and humanities from Providence College and a Juris Doctor from the University of Maine School of Law.

### Nick Pirrotta – Regulatory Senior Specialist

Nicholas M. Pirrotta is a regulatory senior specialist with MFS, focusing on stewardship and sustainability matters. In this role, he is responsible for assisting in the implementation of regulations and requirements applicable to MFS' stewardship activities and the integration of ESG factors into its investment process.

Nicholas joined MFS in 2013 as a regulatory analyst. He was named to current position in 2021. He previously served as a senior associate and paralegal at State Street Bank & Trust Company. He began his career in financial services in 2011.

Nicholas earned a Bachelor of Science degree from Westfield State College and holds a Master of Business Administration degree from the New England College of Business.

### Justin McGuffee – Asst. Vice President, Compliance Officer

Justin McGuffee is a compliance officer with MFS. In this role, he is responsible for developing and maintaining the global ESG compliance program relating MFS' investment, distribution and corporate activities. The ESG compliance program is in place to identify and monitor adherence to global regulations relating to ESG, principles or guidelines arising from ESG groups MFS has joined, and internal ESG standards.

Justin joined the firm in 2007 as a compliance specialist on the firm's Sales Literature and Advertising Review team.

During his tenure at the firm, he has held multiple roles in the Compliance Department, serving as a compliance manager for both its Global Sales Practices and Marketing Communications functions. He was named to his current role in 2021. He began his career in financial services in 2005 as a compliance analyst with MetLife.

Justin attended Louisiana State University and earned a Bachelor of Science degree in business administration from New England College of Business and Finance. He holds Series 6, 7, 26 and 51 licenses from the Financial Industry Regulatory Authority (FINRA). He is also a certified securities compliance professional (CSCP).

### Corey Bradley – Compliance Lead Specialist

Corey Bradley is a compliance lead specialist at MFS. In this role, she is responsible for the oversight and monitoring of the ESG and Records Management programs. She supports procedures related to both programs using knowledge of the securities markets and advanced project management skills. Corey also serves as the co-chair of MFS' Young Professionals Network employee resource group.

Corey joined MFS in 2017 as a regulatory analyst and was named an independent risk senior analyst in 2021. She was named to her current position in 2023. Prior to joining MFS, Corey was a securities litigation paralegal with Mintz, Levin, Colin, Ferris, Glovsky and Popeo, P.C. She began her career in 2015.

Corey earned a Bachelor of Arts in English from Fairfield University and holds a Master of Business Administration from Boston College.

## / APPENDIX 3: MFS' COLLABORATIVE ORGANIZATIONS AND INITIATIVES / 4 10

MFS believes that collaborative engagement can generate positive impacts for industries, individual companies and a wide range of stakeholders, including shareholders. We participate in a number of industry initiatives, organizations and working groups that seek to improve, and provide guidance on, corporate and investor best practices, sustainability and proxy voting issues. We typically join an industry initiative or other collaborative group for one of two reasons: (1) The work or objective of the group or initiative aligns with our investment philosophy on a specific topic or (2) the initiative or group provides access to research or data that enhance our investment process and that is in the long-term best interests of our clients.

The table on the following pages lists the collaborative initiatives and organizations that MFS is affiliated with and shows our role.

| COLLABORATIVE INITIATIVE/ORGANIZATION MEMBERSHIPS | DESCRIPTION | MFS' ROLE | YEAR JOINED |
|---|---|---|---|
| Asian Corporate Governance Association (ACGA) | Organization dedicated to working with companies, regulators and investors on the implementation of effective corporate governance practices throughout Asia | Signatory | 2019 |
| Asia Investor Group on Climate Change (AIGCC) | An initiative to create awareness and encourage action among Asia's asset owners and asset managers about the risks and opportunities associated with climate change | Member | 2023 |
| ASCOR Project (Assessing Sovereign Climate-related Opportunities and Risk) | Project to support investors in their assessment of sovereign climate-related risks and opportunities; will develop an assessment framework that enables the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared | Advisory Committee Member | 2021 |
| Carbon Disclosure Project (CDP) | Nonprofit that runs a global disclosure system for investors, companies and governments to manage their environmental impact | Signatory | 2010 |
| Ceres Investor Network on Climate Risk and Sustainability (Ceres) | Nonprofit organization focused on working with capital market leaders to solve the world's most pressing sustainability challenges | Signatory | 2021 |
| Climate Action 100+ | Investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change | Signatory | 2020 |
| Farm Animal Investment Risk & Return (FAIRR) Initiative | Investor network focusing on ESG risks in the global food sector. | Signatory | 2021 |
| Focusing Capital on Long Term (FCLT Global) | Nonprofit that works to encourage a longer-term focus in business and investment decision-making by developing practical tools and approaches to support long-term behaviors across the investment value chain | Signatory | 2018 |
| GRESB | Investor-led organization that provides actionable and transparent ESG data to financial markets relating to the real estate and infrastructure industries | Signatory | 2021 |
| Institutional Investors Group on Climate Change (IIGCC) | Europe-centric investor collaboration on climate change and investors taking action to drive real progress toward a low carbon future | Signatory | 2021 |
| Investor Stewardship Group (ISG) | Collective of some of the largest US-based institutional investors and global asset managers, along with several of its international counterparts; formed to establish a framework of basic standards for investment stewardship and corporate governance for US institutional investors and corporations | Founding Member | 2017 |
| Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) | Investor-led initiative convened to promote effective action among investee companies in the APAC region in order to find, fix and prevent modern slavery, labor exploitation and human trafficking in their value chains | Signatory | 2020 |

| | | | |
|---|---|---|---|
| Net Zero Asset Managers (NZAM) Initiative | Collective group of asset managers committed to supporting investing aligned with net zero emissions by 2050 or sooner | Signatory | 2021 |
| Principles of Responsible Investing (PRI) | UN-supported network of investors that works to promote sustainable investment through the incorporation of ESG issues | Signatory | 2010 |
| Science-Based Targets Initiative (SBTi) | Calls on high-emitting companies to set science-based emission reduction targets | Supporter | 2020 |
| Share Action Workforce Disclosure Initiative (WDI) | Collaborative engagement program of ShareAction, a UK-based charity that promotes responsible investment and improvement in corporate behavior with the goal of improving corporate transparency and accountability on workforce issues, providing companies and investors with comprehensive and comparable data and helping to increase the provision of good jobs worldwide | Signatory | 2020 |
| Thinking Ahead Institute (TAI) | Global nonprofit whose aim is to influence change for the better in the investment world by improving the provision of savings; comprises asset owners, investment managers and other groups motivated to influence the industry for the good of savers worldwide | Signatory | 2017 |
| Task Force on Climate-Related Financial Disclosures (TCFD) | Organization that has developed a framework of climate-related financial risk disclosures for companies to report on with the goal of enhancing the ability of financial markets to respond to climate change by encouraging broad and consistent information sharing across industries | Signatory (supporter) | 2019 |
| UK Sustainable Investment and Financial Association (UK SIF) | Brings together the UK's sustainable finance and investment community and supports members' efforts to expand, enhance and promote this key sector; drives growth and new opportunities for members, who are global leaders in the sustainable finance industry | Signatory | 2021 |
| United Nations Global Compact (UNGC) | A non-binding United Nations pact to get businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation | Signatory | 2023 |

## / APPENDIX 4: STEWARDSHIP CONFLICTS OF INTEREST IDENTIFICATION/OVERSIGHT / 3

MFS has adopted a firm-wide policy on managing conflicts of interests (the "Conflicts Policy"), which is grounded in the core principle that we act in our clients' best interests by treating our clients fairly and equitably at all times. The Conflicts Policy establishes a framework for managing conflicts of interest across MFS and requires that MFS take reasonable steps to identify, prevent, and manage our conflicts of interest. Pursuant to the Conflicts Policy, MFS may take a variety of actions based on the facts and circumstances of an identified conflict, including, but not limited to: avoidance (where possible); disclosure; implementing tailored policies and procedures for a specific conflict; establishing informational/physical/operational barriers (ethical walls); and segregation of duties. To deliver on this commitment, MFS has established a network of policies and procedures that incorporate considerations related to or are specifically designed to address and mitigate applicable conflicts of interest that arise in the ordinary course of providing services to our clients (*e.g.*, the allocation of investment opportunities or trades, voting proxies, or outside business activities). Additionally, MFS has implemented the following to support its conflicts of interest program:

- **Conflicts of Interest Inventory** – MFS maintains an inventory of actual and potential conflicts of interest relating to firm and client activities. This inventory is updated as necessary to reflect any new conflicts or changes to already identified conflicts arising from MFS' business activities. Additionally, on an annual basis, the inventory is reviewed by each relevant business unit to help ensure the inventory continues to reflect any known or potential conflicts.
- **Employee Code of Conduct** – The MFS Code of Business Conduct requires that conflicts relating to employee activities are required to be disclosed to an individual's manager and/or the MFS Compliance Department. MFS' Compliance Department reviews any disclosed conflicts and, if deemed necessary, puts in place measures to remove, mitigate or manage the conflict.
- **Conflict Officers** – MFS has designated specific individuals within its Compliance Department to serve as conflict officers in each jurisdiction in which MFS conducts business operations. These conflict officers serve as local contact points for employees to report, discuss or otherwise escalate an actual or potential conflict of interest.
- **Organizational Structure** – MFS maintains an organizational structure that further mitigates the potential for conflicts through establishing various committees, each of which oversees one or more business activities and either directly or indirectly reports violations to a central compliance oversight committee.

### Conflicts Related to MFS' Stewardship Activities

Below are conflicts that we have identified related to our stewardship activities and the steps we have taken to mitigate the conflict. While these conflicts of interest exist in our business activities, we believe the conflicts have been sufficiently mitigated, that the conflicts have not materially influenced MFS' activities, and there have been no instances where we have violated the Conflicts Policy during the reporting period.

| CONFLICT | HOW WE MANAGE THE CONFLICT |
|---|---|
| MFS' OWNERSHIP STRUCTURE | |
| MFS is owned by a public company, Sun Life Financial, Inc., and therefore if the firm were to invest in Sun Life's securities, we might have an incentive to vote in the interests of Sun Life or members of the Sun Life Board of Directors and against the interests of MFS' clients. | To address this conflict, and for other reasons, MFS generally does not invest in shares of Sun Life on behalf of our clients. However, if an MFS client has the right to vote on a matter submitted to shareholders by Sun Life, we will cast the vote as such client instructs or in the event that a client instruction is unavailable pursuant to the recommendations of the relevant proxy advisory firm's benchmark policy, or as required by law. |
| MFS' investment, engagement or proxy voting activities may be in conflict with the activities or views of our parent company, Sun Life, which could seek to influence our activities. | MFS maintains an MFS-SLF Ethical Wall Policy which outlines that no employee, officer or director of Sun Life may be involved in voting or investment decisions for securities or derivatives owned or managed by MFS or provide direction or information to individuals at MFS with the intent of influencing voting or investment decisions. |

| CONFLICT | HOW WE MANAGE THE CONFLICT |
|---|---|
| **MANAGING CLIENT ACCOUNTS** | |
| As MFS manages both fixed income and equity portfolios there may be instances where conflicts arise between equity and credit holders in the same company. | MFS has a fiduciary obligation to each of our clients and every investment in a client's account must be made based on the financial interests of the specific client. While we expect that there may be instances of conflicting priorities between our different asset classes, we expect portfolio managers to make decisions with respect to such securities that are in the best interests of the applicable client without regard to the interests of other MFS clients. Likewise, we vote in what we believe to be the best, long-term economic interest of our clients entitled to vote at the shareholder meeting, regardless of whether other MFS clients hold "short" positions in the same issuer or whether MFS clients hold an interest in the company that is not entitled to vote at the shareholder meeting (*e.g.*, bond holder).<br>Additionally, MFS has adopted the MFS Policy Concerning Conflicts Arising from Clients Holding Investments in Certain Parts of a Distressed Issuer's Capital Structure to address when two or more clients of MFS are invested in certain parts of the same issuer's capital structure and the issuer will not perform its obligations in accordance with the terms of the securities held. The policy requires, among other things, that the portfolio manager assigned to a particular security of a distressed issuer shall make decisions with respect to such security that are in the best interests of the holder of the security without regard to the interests of any other MFS client. |
| MFS may have incentives to limit or not conduct engagement and stewardship activities where the portfolio company is also a client of MFS, or a key vendor of products/ services utilized by MFS. | MFS believes that its active engagement practices have a positive impact on a portfolio company by identifying issues, risks, or challenges that may impact the company's long- term performance. Given this belief and our incentives to ensure that our clients are well positioned for the long-term, we conduct any engagement activities for these portfolio companies in line with our Policy on Responsible Investing and Engagement. For information about how we address this potential conflict of interest with respect to our proxy voting activities, please see below under "Other Potential Conflicts Matters related to MFS' Proxy Voting Activities". |

| CONFLICT | HOW WE MANAGE THE CONFLICT |
|---|---|
| **MANAGING CLIENT ACCOUNTS** | |
| MFS may have an incentive to over-state or under-state our stewardship activities to present our activities favorably to clients with differing views on the value of integration. | MFS' Policy on Responsible Investing and Engagement and various marketing related procedures establish guidelines to accurately depict the role stewardship integration within MFS investment management processes. Additionally, annually MFS publishes a Sustainability Annual Report that is available to the public outlining our approach to integration. |
| MFS may have incentives to limit or not conduct engagement and stewardship activities where the portfolio company is also a client of MFS, or a key vendor of products/ services utilized by MFS. | MFS believes that its active engagement practices have a positive impact on a portfolio company by identifying issues, risks, or challenges that may impact the company's long- term performance. Given this belief and our incentives to ensure that our clients are well positioned for the long-term, we conduct any engagement activities for these portfolio companies in line with our Policy on Responsible Investing and Engagement. For information about how we address this potential conflict of interest with respect to our proxy voting activities, please see below under "Other Potential Conflicts Matters related to MFS' Proxy Voting Activities". |
| **INDUSTRY ORGANIZATIONS AND INITIATIVES** | |
| MFS may join an ESG or stewardship focused industry group or collaboration initiative that neither adds value to the investment management process nor is in line with MFS' strategy but provides greater potential to increase sales and distribution opportunities. | MFS' maintains oversight committees covering different areas of its stewardship program, which are responsible for reviewing and approving MFS joining applicable ESG or stewardship related industry groups or collaborative initiatives. As part of the approval process each committee reviews a standardized form outlining responses to questions relating to alignment of the group to MFS' purpose/values, potential for conflicts of interest, legal/compliance issues, among others. Each organization or initiative is evaluated on an annual basis for suitability. |

### Other Conflicts Matters Related to MFS Proxy Voting Activities

Proxy voting may present unique challenges concerning conflicts of interests and as such, our proxy voting policies and procedures include a description of how we manage potential, material conflicts of interest in regard 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 for which we have been delegated with the authority to vote on their behalf, 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) identify and evaluate a potentially concerning executive compensation issue related to an advisory pay or severance package vote, or (iv) consider a matter that requires consultation with members of the investment team (other than members of our stewardship team) for proposals relating to a merger, an acquisition, a sale of company assets or other similar transactions, we will check to see whether the matter involves an issuer that has a significant relationship with MFS or if the matter is proposed by a shareholder (if identified in the proxy materials) that has a significant relationship with MFS. Where we identify a potential conflict, the Proxy Voting Committee (with participation of an MFS Conflicts Officer) 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.

Moreover, in instances where we are evaluating a director nominee who also serves as a director of the MFS Funds (*i.e.*, pooled investment vehicles sponsored by MFS), then the Proxy Voting Committee will adhere to the process described in the previous sentence regardless of whether MFS has a significant relationship with the issuer. Likewise, if a client has the right to vote on a matter submitted to shareholders by a public company for which an MFS Fund director/trustee serves as an executive officer, we will cast the vote as such client instructs or in the event that client instruction is unavailable pursuant to the recommendations of the proxy advisory firm or as required by law.

Moreover, certain funds sponsored by MFS (each a "top tier fund") from time to time may own shares of other funds sponsored by MFS (each an "underlying fund"). If an underlying fund submits a matter to a shareholder vote, the top tier fund will generally vote its shares in the same proportion as the other shareholders of the underlying fund. If there are no other shareholders in the underlying fund, the top tier fund will vote in what we believe to be in the top tier fund's best long-term economic interest. If a client has the right to vote on a matter submitted to shareholders by a fund sponsored by MFS, we will cast a vote on behalf of such client in the same proportion as the other shareholders of the fund.

## / APPENDIX 5: STEWARDSHIP POLICIES AND POLICY OVERSIGHT PROGRAM / 5

All policies are overseen through the MFS committee governance structure. Four internal supervisory committees, the Internal Compliance Controls Committee, the Enterprise Risk Management Committee, the Employee Conduct Oversight Committee, and the Investment Management Committee, oversee compliance activities, risk management functions, investment management and operational processes. Supporting the supervisory committees is a group of key business process or functional committees that offer a forum for the discussion of any issues that arise with respect to a given committee's charge, including any relevant policies or procedures.

MFS policies are reviewed by their owner and the assigned functional committee at least annually. This review is focused on determining whether revisions or updates are necessary to respond to developments of a business, operational, legal or regulatory nature. The MFS Legal and Compliance departments assist policy owners in their review. Changes to policies are approved by the applicable functional committee. Material changes are ratified on a quarterly basis by the MFS Internal Compliance Controls Committee before becoming effective.

As part of its our stewardship program and oversight of ESG integration, engagement and proxy-voting processes, MFS has established the following functional committees: the Investment Sustainability Committee, the Corporate Sustainability Committee and the Proxy Voting Committee. These committees are responsible for overseeing and updating the following policies and procedures related to stewardship:

| MFS COMMITTEE | MFS POLICY/PROCEDURE |
|---|---|
| Investment Sustainability Committee | Policy on Responsible Investing and Engagement<br>Policy on Cluster Munitions |
| Corporate Sustainability Committee | MFS Supplier Code of Conduct<br>Modern Slavery Policy<br>Human Rights Policy |
| Proxy Voting Committee | MFS Proxy Voting Policies and Procedures |

### Policy enhancements and changes during the 2023 reporting period

As discussed above, all policies, including those related to stewardship, are reviewed by MFS at least annually to ensure they accurately reflect current practices and requirements. This policy review framework also provides an opportunity to consider enhancements of the firm's practices based on client, market or internal expectations. We view this process as critical to ensuring appropriate oversight by senior staff and relevant MFS committees. During the most recent annual policy review, the following material changes were incorporated into the above policies and procedures:

| | |
|---|---|
| Policy on Responsible Investing and Engagement | No material changes. We did, however, add a new section on the use of ESG-related data and data systems development given the importance of data in our integration approach. |
| Policy on Cluster Munitions | No material changes |
| MFS Supplier Code of Conduct | No material changes |
| Modern Slavery Policy | No material changes |
| Proxy Voting Policies and Procedures | • Communicating our expectation for (i) fully independent audit and compensation committees for companies in Australia, Benelux, Ireland and New Zealand to align with our existing expectations for Canada, U.K., U.S. and Swiss companies, and (ii) fully independent audit committees for companies in South Korea.<br>• Increasing our gender diversity expectations for boards by revising our guidelines to vote against the chair of the nominating and governance committee or other relevant position in cases where (i) there is less than 24% board representation of women at U.S., European, Canadian, Australian and New Zealand companies; (ii) there is less than 10% board representation of women at Chinese, Hong Kong, Indian, Korean, Chilean and Mexican companies to align with our existing expectations for boards of Japanese companies; and (iii) there is less than 20% board representation of women at Brazilian companies.<br>• Clarifying our view with respect to shareholders' right to call a special meeting or act by written consent. Specifically, we believe that thresholds of 15% to 25% are an appropriate balance of shareholder and company interests, with a preferred threshold of 15% for large and widely held companies. As a result, for 2024, we will generally support shareholder proposals adjusting existing rights within these thresholds, and shareholder proposals establishing thresholds of 10% or above in cases where no such rights already exist and management has not presented a proposal within these thresholds.<br>• Revising our executive compensation voting guideline to add (i) more information about the factors that we consider when determining whether a plan is geared towards durable long-term value creation and aligned with shareholder interests; (ii) a description of our two-step process in analyzing compensation practices; and (iii) more information about the drivers for a vote against a board's compensation committee for compensation practices. |

### Internal and external assurances in relation to MFS' stewardship

As discussed above, MFS has established an extensive internal committee structure to oversee its various policies and procedures, including those related to our stewardship program. Our investment team has also implemented regular risk reviews — including semiannual general investment risk reviews and more targeted periodic "deep dive" sustainability reviews — that provide valuable input on each strategy's integration of ESG factors. Additionally, in 2023 we continued to develop our compliance oversight of our sustainability and stewardship activities, in part by adding dedicated Compliance staff.

The MFS Internal Audit Department conducts routine and targeted audits based on internal risk assessments. While these reviews do not occur every calendar year, the firm's stewardship activities, including, but not limited to, its proxy voting practices and sustainability practices, are subject to these audits. As a matter of company policy, we do not disclose the results of internal audits publicly, but we do view these reviews as an essential component of our oversight program in that they provide a mechanism for ensuring MFS is continually reviewing and improving the activities that represent the cornerstones of our stewardship program.

We believe that overall, the above approach offers a robust and consistent framework of assurance that leverages both senior management and subject matter experts in the review of each component of the firm's stewardship program.

### Clear, fair and balanced reporting of stewardship

Our stewardship reporting and client communications take several forms, ranging from bespoke individual/client reporting to webinars and stewardship reports intended for public audiences. Regardless of the type of report or client communication, we use a collaborative approach, which includes input from subject matter experts but also checks and balances. Our client services and investor solutions teams continually work with our clients to assess reporting expectations and with our investment, proxy voting and marketing team members to determine the type, frequency and content of reporting that most effectively satisfies our clients' expectations and meets their needs. As a result of this work, we publicly provide this report and quarterly stewardship reports and research insights on targeted sustainability topics. All these materials are available at [www.mfs.com/sustainability](http://www.mfs.com/sustainability).

All external communications are subject to a review by Legal or Compliance team members prior to being published to ensure the accuracy of the content and its compliance with local regulatory standards. Additionally, to ensure clarity and consistency in our communications, all public reporting is reviewed by dedicated members of our Editorial Standards team prior to being published. For nonpublic client-specific reporting, we rely on relationship managers assigned to each client to ensure (1) our clients are receiving the necessary information from us, (2) all reporting expectations are communicated to the relevant business units within MFS and (3) any reporting expectations are codified in client agreements or other written instructions. As with our public communications, all materials are subject to review by subject matter experts and the appropriate checks and balances.

## / APPENDIX 6: STEWARDSHIP VENDOR MANAGEMENT PROGRAM / 8

MFS utilizes the following third-party service providers in implementing its ESG integration and proxy voting programs.

| PROXY ADVISORY FIRMS | |
|---|---|
| Institutional Shareholder Services, Inc. (ISS) | Glass, Lewis, & Co., Inc. |

| ESG RESEARCH AND DATA PROVIDERS | | | | | | | |
|---|---|---|---|---|---|---|---|
| MSCI ESG Research | S&P/Trucost | RepRisk | Bloomberg | ISS | RisQ | Equilar | Clarity AI |

All our selected third-party service providers receive clear and actionable criteria to support the integration of ESG into our investment and proxy voting processes. During onboarding of third parties as well as ongoing oversight of existing third parties, the MFS Supplier Code of Conduct is provided which describes MFS' expectations of how its third-party services providers conduct business, inclusive of ESG practices. All third-party service providers are expected to adopt policies and practices consistent with the spirit of the code. We hire these third-party service providers for a specific purpose or to fill an existing data or research need. Each provider is evaluated through multiple channels. As described further below, MFS has implemented a robust vendor management program, which includes a due diligence framework driven by a risk analysis of each service provider. We also have a vendor contract process, which ensures material terms are considered and clear expectations are reflected and achieved. Finally, on a more informal basis, members of our investment team regularly communicate with these service providers to provide feedback on the quality of research and data received. These meetings help ensure our data providers understand our needs.

MFS monitors all its service providers, including the proxy advisory firms and ESG research and data providers listed in the above tables, through a centrally organized vendor management program. This program provides a framework management can use to identify, measure, monitor and control the risks associated with outsourced vendors and other vendor services. Our vendor selection and monitoring process employs a risk-based approach utilizing tools and techniques detailed in the program. MFS expects its third-party service providers to adopt policies and practices consistent with the spirit of this Code. Third parties are expected to evaluate their own operations and their supply chain on a periodic basis to assess alignment with the Code. MFS performs ongoing monitoring of third parties through publicly available information. To the extent, MFS identifies that third party practices are not consistent with the Code; MFS may require a formal response and mitigation plan from the third party or may cease to do business with the third party. The program is administered through the MFS Vendor Management Policy and Procedures, which are under the oversight of the firm's Enterprise Risk Management Department.

Our policy also provides a framework for vendor selection and ongoing due diligence. Specifically, a vendor relationship manager is assigned to each service provider, is ultimately responsible for the management and oversight of the relationship and serves as the primary point of contact between MFS and the provider. Each provider is assigned a materiality risk rating, which determines the type of oversight and monitoring that is performed. Providers that have access to nonpublic information regarding MFS' portfolio holdings or other confidential information, such as proxy advisory firms and ESG research and data providers, are considered "critical vendors" and therefore (1) subject to due diligence reviews every 12 to 18 months and (2) required to provide the results of independent audits on their operations where applicable. Service providers that are not considered critical are subject to the same due diligence reviews but less frequently, typically every 18 to 24 months, or, in the case of service providers that provide products solely for MFS' consumption, subject only to the ongoing monitoring of deficiencies and other red flags.

Other key monitoring techniques employed in the program include the following:

- Ad hoc or informal feedback
- Site visits
- Identification of fourth-party sub-service providers
- Periodic meetings
- Establishment and monitoring of service levels

When appropriate, service providers are evaluated by the MFS Business Continuity and Information Technology and Security groups to ensure their compliance with MFS standards.

Written agreements are in place with each service provider. These agreements generally include contractual assurances appropriate to the nature of the services being performed. Contractual terms are maintained in accordance with MFS standards that are developed in partnership with the firm's subject matter experts. For example, our Information Security team and privacy officer are responsible for the contractual terms governing data protection and information security terms. Service provider invoices are evaluated for accuracy upon receipt and prior to payment.

During 2023, MFS conducted due diligence reviews of both proxy advisory firms, Glass Lewis and ISS, along with MSCI, Bloomberg and Clarity AI. These reviews involved an analysis of each firm's (1) adequacy and quality of staff, (2) conflict of interest procedures, (3) independent audit reports, (4) data security, (5) business continuity planning and (6) the voting guidelines and methodologies, where applicable. Additionally, the firm required quarterly reports from these service providers concerning any violations or changes to their conflict-of-interest procedures. Other ESG data and research providers used by MFS in 2022, namely TruCost, RisQ, Equilar and RepRisk, were classified as lower risk and therefore were not subject to a due diligence review this year.

Based on the reviews conducted of each ESG research and data provider and proxy advisory firms used by MFS in accordance with the above process, there were no material deficiencies or issues or violations of the relevant written agreements to report for 2023. MFS believes that all ESG research and data providers and proxy voting advisory firms used by the firm in 20232 met the firm's expectations and added value to our stewardship program.

## / APPENDIX 7: MFS AUM BREAKDOWN BY CATEGORY / 6

We actively manage assets globally for institutional and retail clients in both equity and fixed income strategies. These are available through a variety of account types, including separate accounts and pooled vehicles. The defining feature of our active investment approach is our centralized global research platform through which we manage our clients' assets without regard to geography, client type or account type. We believe this centralized strategy gives us a competitive advantage, allowing us to potentially provide long-term investment performance for our clients by focusing our resources, encouraging global collaboration and maintaining consistency in our decision making.

MFS' assets under management (AUM) as of December 31, 2023, were $598.1 billion. The following tables breaks down the numbers by asset class and geography.

## / MFS AUM AND CLIENT BASE /

### Assets Managed by Asset Class

| ASSET CLASS | ASSETS (US BILLIONS) | PERCENTAGE OF TOTAL |
|---|---|---|
| Equity | $500.2 | 83.6% |
| Fixed Income | $72.5 | 12.1% |
| Balanced | $25.5 | 4.3% |
| Total | $598.1 | - |

### Geographic Breakdown of Assets Managed

| GEOGRAPHY | ASSETS (US BILLIONS) | PERCENTAGE OF TOTAL |
|---|---|---|
| Americas | $496.7 | 83.0% |
| Europe/ME/Africa (EMEA) | $57.8 | 9.7% |
| United Kingdom* | $5.7 | 1.0% |
| Asia Pacific (APAC) | $43.6 | 7.3% |
| Total | $598.1 | - |

* Included with EMEA total for purposes of calculating MFS' total AUM.

The table below provides a further breakdown of the firm's global client by client type and geographic region as of December 31, 2023.

### Accounts by Type

| ACCOUNT TYPE | # OF ACCOUNTS | PERCENTAGE OF TOTAL |
|---|---|---|
| Retail Accounts | 4537 | 14.4% |
| Institutional Accounts | 735 | 88.7% |
| Total | **5113** | **100%** |

### Accounts by Geography

| REGION | # OF CLIENTS | PERCENTAGE OF TOTAL |
|---|---|---|
| Asia ex Japan | 46 | 0.9% |
| Australia/NZ | 83 | 1.6% |
| Canada | 95 | 1.9% |
| Central America/Caribbean | 239 | 4.9% |
| EMEA | 516 | 10.1% |
| Japan | 65 | 1.3% |
| United States | 4054 | 72.3% |
| Total | **5113** | **100%** |

## / APPENDIX 8: PROXY VOTING / 12

### MFS Proxy Voting Policies and Procedures

MFS has adopted a clear and robust policy on voting securities owned by clients in relation to which the firm has been delegated voting authority. In summary, proxy voting decisions are made in what MFS believes to be the best long-term economic interest of our clients, for which we have been delegated with the authority to vote on their behalf. In addition to this overriding principle, MFS' Proxy Voting Policies and Procedures set forth in the firm's voting policy and approach with respect to specific issues, including but not limited to the election and independence of directors, classified boards (*i.e.* a board in which only one-third of board members are elected each year), proxy access (*i.e.* the ability of shareholders to nominate directors on an issuer's proxy statement), advisory votes on executive compensation, and shareholder proposals on executive compensation, as well as proposals relating to ESG matters.

Generally, across shareholder meetings, MFS aims to vote consistently on proxy voting proposals that are similar to each other. However, certain proposals, such as those the firm feels could result in excessive executive compensation or that involve ESG considerations, are analyzed on a case-by-case basis by looking at the relevant facts and circumstances. Such proposals are considered by MFS' dedicated stewardship professionals in collaboration with the relevant investment professionals. They seek to ensure that when the votes are cast, it is in the long-term economic interests of the applicable clients. MFS may therefore vote similar proposals differently based on the company, the circumstances or the terms of the proposal. We seek to vote all shares held by our clients, except when subject to cross-border voting impediments such as "share-blocking" requirements.

While the firm generally votes consistently when the securities of an issuer are held across multiple client portfolios, certain MFS separate account clients may retain or reserve voting authority in relation to voting rights attached to securities acquired by MFS on their behalf. Additionally, certain clients may override the firm's intended voting decision by explicitly instructing us to vote differently on behalf of their portfolio. Moreover, MFS may vote differently if the portfolio management team responsible for a particular client account believes that a different voting instruction are in the best long-term economic interest of such account. When it comes to MFS' pooled accounts and vehicles, such as its mutual funds, individual shareholders do not have the ability to direct MFS' voting due to the collective nature of the products.

MFS' proxy voting activities are overseen by the MFS Proxy Voting Committee (which includes senior personnel from the Investment and Legal teams), with the day-to-day management of proxy voting and engagement activity managed and performed by our stewardship professionals. The committee's responsibilities include maintaining and updating the procedures as necessary, monitoring and resolving potential conflicts of interest that arise in our proxy voting activities, considering any special proxy voting issues that come up and determining engagement priorities and strategies with respect to the firm's proxy voting activities. The committee does not include MFS personnel whose primary duties relate to client relationship management, marketing or sales. A copy of the current procedures, which include guidelines that govern how MFS generally votes on specific matters, is available here: [www.mfs.com/sustainability.](www.mfs.com/sustainability)

### Monitoring Our Voting Rights

As discussed in the Proxy Voting Policies and Procedures, we work with our proxy advisory firms to monitor and track the shares and voting rights we have. Depending on the client, we use one of two proxy advisory firms, ISS and Glass Lewis, who (1) receive proxy statements and proxy ballots directly or indirectly from our clients' custodian banks, (2) log these materials into a database and (3) match upcoming meetings with client portfolio holdings, which are entered into the proxy advisory firm's system by an MFS holdings data-feed. Through the use of the relevant proxy advisory firm's system, ballots and proxy material summaries for upcoming shareholders' meetings are available online to certain employees and members of the Proxy Voting Committee.

The relevant proxy advisory firm reconciles a list of all MFS client accounts that hold shares of a company's stock and the number of shares held on the record date by these accounts with the proxy advisory firm's list of any upcoming shareholders' meeting of that company. If a proxy ballot has not been received, the proxy advisory firm or MFS contacts the relevant custodian bank to determine why a ballot has not been received.

## Securities Lending

As further discussed in MFS' Proxy Voting Policies and Procedures, some MFS-sponsored pooled investment vehicles, such as the firm's US-registered mutual funds, may participate in a securities lending program. For these vehicles, MFS will attempt to recall US securities on loan if the firm or its agent receive timely notice of a shareholder meeting before the relevant record date. There may be instances in which the firm is unable to recall in a timely manner US securities on loan to vote these shares. MFS does not generally recall non-US securities on loan because there may be insufficient advanced notice of proxy materials, record dates or vote cutoff dates to allow the firm to recall the shares in a timely manner in certain markets on an automated basis. As a result, non-US securities that are on loan will generally not be voted. If MFS receives timely notice of what the firm determines to be an unusual, significant vote for a non-US security on loan and the firm determines that voting is in the best long-term economic interest of its shareholders, then we will attempt to recall the loaned shares in a timely manner.

## / APPENDIX 9: COMPANIES ENGAGED / 9

We believe that open communication with our portfolio companies is an important part of our ownership responsibilities. Thus, members of the investment team regularly engage with our portfolio companies on a variety of topics, including sustainability matters. During 2023, our investment team (including our stewardship team) conducted notable and focused engagements on material topics with the following 120 portfolio companies.

Abu Dhabi National Energy Co PJSC
Agnico Eagle Mines Ltd
Alphabet Inc
Amadeus IT Group SA
Ambev SA
Ameren Corp
American Express Co
Anglo American PLC
Antofagasta PLC
APA Group
ArcelorMittal
Aristocrat Leisure Ltd
AUB Group Ltd
Bank of America Corp
Bank of Ireland Group PLC
Bayer AG
Becton Dickinson & Co
Brookline Bancorp Inc
Cable One Inc
Cargill Inc
Carnival Corp
Cboe Global Markets Inc
Cellnex Telecom SA
Charter Communications Inc
Citigroup Inc
CME Group Inc
CNX Resources Corp
ConocoPhillips
Credit Acceptance Corp
Danaher Corp
Danone SA
DFI Retail Group Holdings Ltd
Diageo PLC
Douglas Emmett Inc REIT
Duke Energy Corp
E.ON SE
Engie SA
Eni SpA
EOG Resources Inc
Equifax Inc
Erste Group Bank AG
Essentra PLC
Essex Property Trust Inc REIT
Euronext NV
Experian PLC
Forterra PLC
Fujitec Co Ltd
Glencore PLC
Goldman Sachs Group Inc
Graphic Packaging Holding Co
Gree Electric Appliances Inc of Zhuhai
Hypera SA
Iberdrola SA
ICON PLC
IG Group Holdings PLC
Intertek Group PLC
JPMorgan Chase & Co
Koito Manufacturing Co Ltd
London Stock Exchange Group PLC
Lowe's Cos Inc
Mahindra & Mahindra Ltd
Mastercard Inc
Meituan
Microsoft Corp
Morgan Stanley
National Grid PLC
New Zealand Local Government Funding Agency
NS Solutions Corp
Omnicom Group Inc
Omron Corp
Parkland Corp
Philip Morris International Inc
Playtech Plc
POSCO Holdings Inc
Prudential PLC
QinetiQ Group PLC
RAC Bond Co PLC
Rayonier Inc REIT
Rio Tinto PLC
Rolls-Royce Holdings PLC
RS GROUP PLC
Salesforce Inc
Samsung Electronics Co Ltd
Sasol Ltd
Saudi Arabian Oil Co
Schneider Electric SE
Seek Ltd
Segro PLC REIT
Sempra Energy
Serco Group PLC
Shenzhou International Group Holdings Ltd
Sika AG
Simon Property Group Inc REIT
Southern Co
Sugi Holdings Co Ltd
Suncor Energy Inc
TAG Immobilien AG
Target Corp
Tech Mahindra Ltd
Telefonaktiebolaget LM Ericsson
Thermo Fisher Scientific Inc
Toll Brothers Inc
Toronto-Dominion Bank
Toyota Industries Corp
UBS Group AG
Union Pacific Corp
United Parcel Service Inc
United States Steel Corp
Valero Energy Corp
VICI Properties Inc REIT
Vonovia SE
Vulcan Materials Co
Walt Disney Co
Weir Group PLC
Westinghouse Air Brake Technologies Corp
WisdomTree Inc
Woodside Energy Group Ltd
Xcel Energy Inc
Yum China Holdings Inc
Zalando SE

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