

MFS Institutional Investor CompassSM Survey – Sustainable Investing

June 2020

"We believe society is shifting away from a shareholder primacy model of managing a business to a stakeholder-centric approach. COVID-19 is likely to accelerate this shift, and it will require investors to better understand the value that companies are creating for and extracting from all stakeholders, including employees, customers, suppliers, the environment, the government and society." ▲

Barnaby Wiener
Head of Sustainability and Stewardship

To create value responsibly for investors, MFS must understand the unique challenges institutional investors face, the objectives they're trying to achieve and the way they think about asset management. Now in its fifth year of publication, the MFS Institutional Investor CompassSM survey continues to provide a lens into the mindset of these institutional decision makers — summarizing their views and sentiment towards asset allocation, the role of active management, product/strategy implementation and a variety of other timely issues. The survey reports on the responses from over 500 of the largest institutional investors in North America, Europe and the Asia-Pacific region.

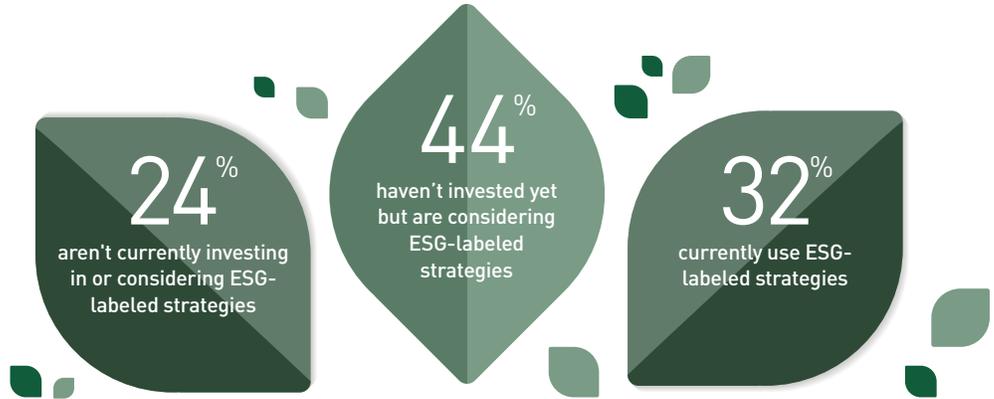
A look into the institutional investor mindset

In the current economic environment, even the strongest companies face challenges from the impact of the COVID-19 pandemic. Perhaps now more than ever, understanding the factors that could have a material impact on a company's sustainability will play a role in investment decision-making. How do institutional investors view sustainable investing? In a recent Compass survey, we took a closer look at how organizations are approaching sustainable investing and what they might expect to get out of it. Here are some of the key findings:

Uptake on sustainable investing is generally higher in regions outside of the US



Institutions have yet to fully embrace ESG-labeled strategies, but interest is growing



Many institutional investors believe sustainable investments can help them meet their objectives



Integration and investment screening are the most common approaches to sustainable investing



"We believe that large, long-term-oriented asset managers who engage companies and issuers on ESG topics can positively influence governance and business practices. In our view, they can accomplish this by encouraging executive teams to view these issues as relevant to an increasingly broad investor base and worthy of further consideration." ▲

Michael T. Cantara

Senior Managing Director,
Global Client Group

While some institutions take a direct engagement approach to stewardship, most rely on their external managers for proxy voting and engagement



Responsible. Sustainable. Creating value through time.

At MFS, focusing on the long term, or what many now see as sustainable investing, has been part of our history for nearly a century. Rather than approach sustainable investing as a separate practice, MFS has kept it at the heart of how we invest and conduct research. This is critical because the way a company behaves, whether it has a diverse workforce or how it treats the environment directly impacts its ability to thrive long term. Understanding the impact of these environmental, social and governance factors on businesses is part of our deep research process, which examines both financial and nonfinancial information. These issues help us understand what could materially affect the future value of businesses, identify sustainable ones and decide where to take risk and find opportunity. This is what investors should expect from their active managers.

KEY TAKEAWAYS:

- Investors are acknowledging the growing importance and complexity of sustainable investing, and we believe long-term fundamental active management with a focus on integration and active ownership is essential to navigating these issues.
- In order for investors to align sustainable investing with their risk and return-related objectives, they need to understand how it factors into an active manager's investment process and engagement with portfolio companies.
- Active managers have an important role to play as stewards of capital, and they can help make the connection between capital markets by helping to deploy capital with sustainability in mind.



Please keep in mind that a sustainable investing approach does not guarantee positive results.

2019 MFS Institutional Investor Compass Methodology

MFS Investment Management partnered with CoreData Research, an independent third-party research provider, to design and field a study among institutional investors in North America, Europe and Asia-Pacific. The sample totaled 540 respondents in a mix of organizations (DB, E&F, SWF, Insurance, Bank, VEBA, charity). To qualify, study participants had to be responsible for investment decisions. In addition, institutions needed the following:

- Min \$100M USD in Institutional Assets
- Min 10% of assets managed by outside asset managers
- Min 33% of assets in active management
- Min 10% of assets allocated to fixed income

Data Collection Period: November 14–December 18, 2019

Total (n=540); North America (n=175), Europe (165), Asia-Pac (200)

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