MFS® 2024 Net Zero Progress Report

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Executive Summary

MFS is pleased to present our second Net Zero Progress Report. This report highlights our progress towards our net zero commitments.

Because of its importance to achieving global net zero goals, this report also includes a deep dive into the consumer staples sector, offering practical takeaways as well as key learnings from insightful case studies on issuers who we believe are making important progress on decarbonization. This report also shares key learnings from our engagements with companies in the consumer staples sector, culminating in the development of a differentiated materiality framework which has been designed to assess climate risks and transition plan credibility — further enhancing our strategic approach to delivering on our net zero commitments.

MFS' Net Zero Commitments

At MFS, our objective is to create long-term value for our clients by allocating capital responsibly. We do this by 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.[1] As a signatory of NZAM, MFS supports the goal of achieving net zero carbon emissions by 2050 or sooner, in line with the Paris Agreement on climate change. In our view, climate change is a systemic investment risk that cannot be diversified away. Future investment returns are likely to be impacted by climate change, the policies designed to combat it and consumer or other shifts that occur because of society's efforts to mitigate its effects.

Our approach to achieving net zero alignment is based on engagement. By constructively engaging with the companies in which we invest, we can assess and try to manage the overall climate-related financial risks within our clients' investment portfolios while also supporting relevant industries to 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 responsibly.

When we joined NZAM in 2021, we 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. All our targets are set out below:

1. 90% of in-scope assets under management (AUM) considered net zero aligned or aligning by 2030[2]
2. 100% of in-scope AUM considered net zero aligned or achieving by 2040
3. 100% of AUM considered achieving Net zero by 2050

Our in-scope assets currently include all equities and corporate credit, which are approximately 92% of assets under management as of 29 December 2023.

[1] Net zero engagement numbers are as of 29 December 2023.

[2] Our in-scope assets covered by our net zero engagement commitments include all public equities and corporate fixed income assets, approximately 92% of our AUM as of 29 December 2023.

MFS Net Zero Progress Tracker

Below is our Net Zero Progress Tracker, covering all our in-scope holdings (*i.e.*, listed equities and corporate fixed income). Our methodology is based on the Net Zero Investment Framework (NZIF), and the table reflects the degree of issuer alignment based on scope 1 and scope 2 emissions data.

We will continue to assess the data quality and relevance of scope 3 data and will phase this into our reporting as data quality improves in line with the recommendations of the Net Zero Investment Framework.

	NOT ALIGNED[3]	COMMITTED TO ALIGNING[3]	ALIGNING TO NET ZERO[3]	ALIGNED TO NET ZERO[3]	ACHIEVING NET ZERO – MFS 2050 TARGET[3]
	29.43%	28.82%	16.53%	25.22%	0.00%
Total In-scope AUM *	**$516,009,305,236.492**				
Coverage	**94.69%**				
Environmental engagements (Aggregate, from baseline date 1 July 2021)	**216**				

* In-scope AUM includes all listed equity and corporate fixed income holdings as of December 29, 2023.

* Our updated 2023 net zero tracker captures net zero alignment across all our in-scope AUM (*i.e.*, public equities and corporate fixed income). Please refer to Appendix 1 for the 2022 numbers covering only public equities.

[3] The data presented above is aligned with the Net Zero Investment Framework (NZIF) and has been sourced from a third-party data provider. Please refer to Appendix 2 for a summary of the definitions of Committed to Aligning, Aligning, Aligned and Achieving Net Zero under the NZIF.

Our Rationale for an AUM-Focused Target

1. *Focus on issuers (real world emissions), not portfolio emissions.*
   Decarbonizing the global economy requires reduction of greenhouse gas (GHG) emissions across industries and sectors. Decarbonizing portfolios by applying linear GHG reduction targets seems counterintuitive to us, for two reasons:

   - 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 before trending down.
   - Managing portfolios towards a GHG emissions reduction target might lead to the exclusion of sectors vital for transitioning to a decarbonized world, such as steel, cement and industrial gases. Ex ante exclusions, we believe, are not in the best long-term interest of our clients nor in keeping with our duty as responsible fiduciaries.

   An AUM target, using an engagement-based approach, allows us to prioritize in-scope AUM on the path to achieving net zero while remaining true to our investment philosophy and mindful of our fiduciary responsibilities to our clients.

2. *Engagement is our primary tool: 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 fiduciary duty to our clients.

   We believe that long-term-oriented asset managers who engage with companies and issuers can positively influence governance and business practices by supporting executive teams and boards through encouragement to evaluate the climate-related risks and opportunities facing their industries. We have developed a sector-based engagement program to assess the credibility of companies' climate transition plans while factoring in issuer-specific risks and opportunities. While our approach continues to evolve, we currently test these plans against five dimensions:

   1. **Management credibility:** We look at their strategic conviction, whether the board has expertise in climate-related matters, and if the management team is motivated to execute the strategy.
   2. **Financial credibility:** We consider if the strategy can be implemented without negatively affecting long-term shareholder value, and if capital expenditure plans are updated regularly, especially given the current inflationary climate.
   3. **Competitive credibility:** We assess whether the company's competitive advantage is maintained, increased or decreased.
   4. **Technological credibility:** We review if the technologies proposed in transition plans are financially viable, scalable and regularly checked for readiness.
   5. **Stakeholder alignment and credibility:** We check that targets are set with suppliers without unduly increasing risks in the supply chain, that the transition plan aligns with regulatory regimes, and that a 'just transition' is considered when formulating plans.

Importantly, we do not typically apply exclusions or purchase "green" companies solely for the purpose of reducing portfolio carbon emissions.* We may, however, elect to selectively divest from an investee company if we believe it is not making sufficient progress toward addressing the climate risks in their operations and we believe that this lack of progress may impact the value of the investment. We may also elect to invest in companies that aid climate change mitigation and adaptation if we believe this to be in the best interests of our clients and if the security in question offers adequate risk-adjusted return potential.

3. *Every issuer is unique: Contextual analysis is important.*
   For 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 consider 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.

* We do, however, abide by directions from our clients with respect to any restrictions they require to be applied to their particular portfolio, including where that direction is to exclude from their portfolio one or more specific securities, sectors or other investment category.

How Do We Prioritize?

To be efficient in our net zero engagement program, we prioritize engagements with issuers based on several factors. These include:

- Total firm position size across asset classes (AUM)
- Proportion of ownership (in equity)
- Internal conviction
- Sectoral exposure to climate-related transition risks
- GHG emission equivalents
- Status on net zero commitments and interim targets

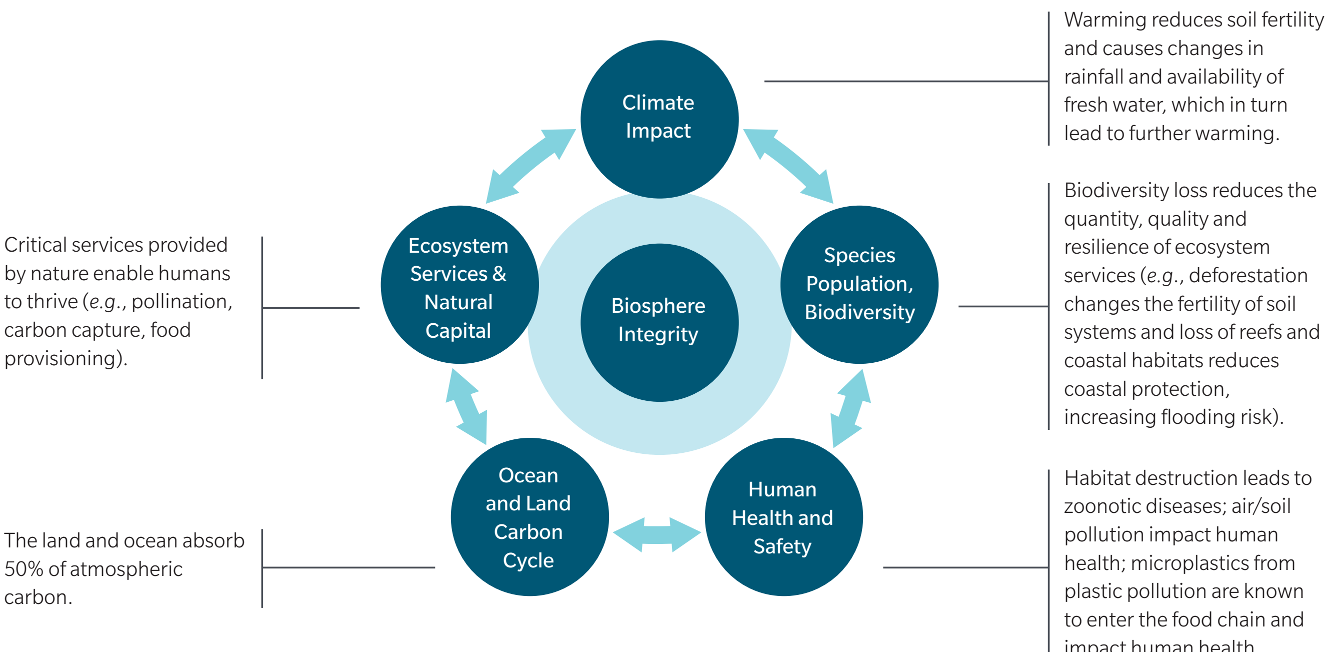
Sector Focus: Consumer Staples

Exposure of consumer staples sector to emissions and climate change

The global food system accounts for approximately one-third of all anthropogenic GHG emissions. This includes an estimated 7.1 to 8.0 billion tons of CO_2 from human agricultural and aquaculture and 3.2 to 5.7 billion tons of CO_2 from land use changes, particularly deforestation.[4]

Challenges of addressing forestry land use and agriculture (FLAG) GHG emissions

Emissions in the food sector are deeply interconnected with the loss of natural capital resources that food companies depend on to generate their revenue. In addition to the regulatory costs of carbon, these systemic natural capital risks can result in supply chain shocks that impact the availability of the commodities that companies need to produce their goods and services.



Source: MFS Research.

Further, emissions caused by nature loss differ by commodity and region of production in addition to other factors that are highly localized and difficult to measure. This creates a need for bottom-up research of individual companies, covering their revenue dependencies and commodity exposure, and supply chain mapping of high-risk commodities to high-risk geographies. As a result of these complexities, we generally prioritize and focus on the emissions sources that are the most financially material for each company. For example, the chart below highlights our analysis of the various nature-related risks associated with different commodities.

[4] Source: Global Sector Strategies Food & Beverage, Ceres PRI, 2021.

MFS Commodity Risk Matrix

	SOIL DEGRADATION	POLLUTION	WATER SCARCITY/ SALINIZATION	BIODIVERSITY LOSS	EMISSIONS FROM LAND USE
Beef	High	High	High	High	High
Rice	High	High	High	High	High
Maize	High	High	High	Medium	Low
Sugarcane	High	High	High	Medium	High
Palm oil	High	Medium	Low	High	High
Coffee	High	Low	High	Medium	Low
Cocoa	Medium	High	Low	Medium	Low
Pork	Low	High	Low	Low	High

Consumer Staples Sector Specific Issues: Deforestation, Nature and Plastic Pollution

Effective transition plans, as recommended by the Task Force on Climate-Related Financial Disclosures, are crucial for companies in the consumer staples sector. Ideally, transition plans are integrated into a company's overall strategy, focusing on decarbonization across operations, products and business models. Engaging stakeholders and aligning incentives along the value chain are vital for successful implementation of decarbonization roadmaps, ensuring that efforts are comprehensive and supported across the business and its supply chain.

Food companies within the consumer staples value chain consist of several hard-to-abate emission sources. Based on contribution of emissions sources to issuers that we own, we have focused our research and engagement on:

- **Deforestation:** Forest loss and land degradation present material physical and transition risks for businesses, both in their operations and supply chains, which in turn can create financial risks for investors. Commodity-driven deforestation comprises a significant proportion of scope 3 emissions for packaged food and beverage companies. In order to eliminate deforestation from their value chains, we believe companies need to work with stakeholders, including agricultural trading companies, to establish supply chain traceability to the farm level, create financial incentives for the supply chain to stop sourcing commodities from deforested land and support public policy aimed at strengthening global and local deforestation laws. We have focused on addressing commodities like palm oil, soy and cocoa, which pose a high risk of causing deforestation.

- **Emissions from plastics and plastic pollution:** Continuing demand for fossil fuel–based plastics is a material contributor to the scope 3 purchased goods and services emissions for consumer staples companies. Single use packaging in the food sector is particularly emissions intensive due to its dependence on flexible packaging, which is very difficult to recycle. Further, single use plastic pollution in water bodies releases microplastics that do not breakdown easily and can contribute to the warming of oceans, damage to marine life, etc. Companies are committing to reducing their consumption of virgin plastics, *i.e.* new, unused plastic material created from resin produced from natural gas or crude oil. Key engagement areas include strategies to secure recycled feedstock,[5] replacement of virgin plastic with alternative packaging materials and participation in industry-wide support of plastic waste management and disposal.
- **Dairy- and methane-related emissions:** Enteric (gut-related) emissions and methane emissions from the dairy sector are an important focus area for packaged food companies relying on dairy as an input and whose business models are highly reliant on dairy. Companies attempting to reduce dairy- and methane-related emissions are trying to improve the productivity of dairy cows, change their diets to alternative feeds which result in lower enteric emissions, scaling regenerative agricultural solutions and introducing more plant-based alternatives to their product portfolios. Our engagements have centered around measuring the emissions savings from regenerative agriculture, scalability of these agricultural practices, changes to capital investments and required operating costs, and technological progress.

In conclusion, achieving significant GHG emission reductions, setting ambitious FLAG targets, managing deforestation, rethinking modern agricultural methods and plastic pollution are steps we are starting to see discussed and addressed by companies in the consumer staples sector. These efforts require a concerted approach to successfully support a sustainable and low-carbon future.

Below we present case studies of companies within the sector who we believe are getting some important things right.

[5] Feedstock is a raw material that is used in an industrial process to create a product. In this context, recycled feedstock refers to recycled materials that are used in the production process, often to reduce waste and increase sustainability.

Case Studies

Although we cannot attribute all progress solely to our efforts, we are delighted to share a few key examples that demonstrate positive change. These instances involve our collaborative work with our portfolio companies, marking significant strides towards achieving our goal of net zero emissions.

Diageo

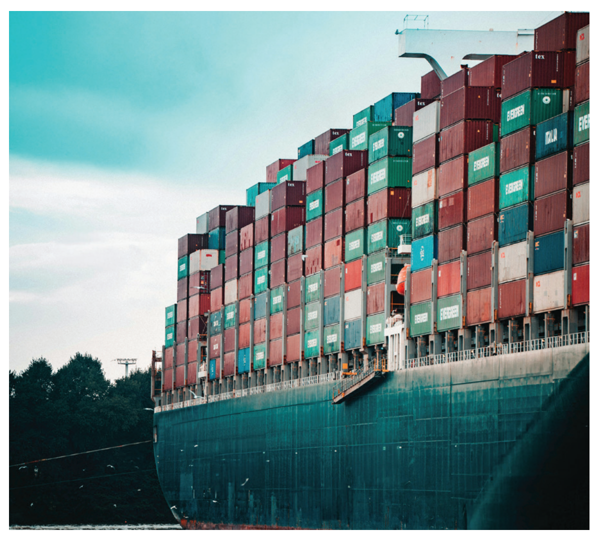
Industry: Alcoholic Beverages

MFS' Holding (USD): $4.8B[6]

Market Capitalization (USD): $81.7B[6]

Diageo PLC is an international manufacturer and distributor of premium drinks. The company has a portfolio of approximately 200 brands and sales in 180 countries spanning North America, Europe, Asia Pacific, Latin America, the Caribbean and Africa. The company's principal products include scotch whisky, other whisky, vodka, tequila, gin, rum, liqueurs, beer, wine and alcohol free and low alcohol. Notable brands under Diageo's umbrella include Johnnie Walker, Tanqueray, Smirnoff, Guinness and Baileys, among others.

Most of Diageo's emissions are within its upstream supply chain (scope 3), particularly in raw materials sourcing and the purchase of packaging for its products.[7] Its decarbonization strategy focuses on direct abatement in its own operations as well as engaging with players along its supply chain.



[6] Numbers are as of 29 December 2023.

[7] Diageo Net Zero Strategy, 2022.

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Current Data and Historic Progress

Scope 1/2 GHG Intensity	Industry Avg. Scope 1/2 GHG Intensity	Scope 3 GHG Intensity	Scope 1/2 GHG Absolute	
28.9 ▼ -15.86% vs 1 yr ago ▼ -28.92% vs 3 yrs ago	**40.7** ▼ -13.99% vs 1 yr ago ▼ -19.35% vs 3 yrs ago	**127.4** Upstream **19.1** Downstream	**594.3K** ▲ 1.11% vs 1 yr ago ▼ -12.20% vs 3 yrs ago	Discloses GHG Emissions √ Evidence of Net Zero Plan √ Science-Based Targets √ Climate Action 100+ X
Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	

Source: MFS ESG – Climate Dashboard 2024.

NZIF ALIGNING Criteria (MFS' 2030 Commitment)

NET-ZERO TARGET	GHG EMISSION REDUCTION	SHORT- OR MEDIUM-TERM TARGET	GHG EMISSION DISCLOSURE	TRANSITION PLAN
Scope 1 and 2 by 2030 Scope 1, 2, 3: committed to achieve net zero across the entire business and value chain by 2050 or sooner	Downward 5Y trend – 38%	Yes, absolute reduction target in place. Plans to reduce absolute scope 1 and 2 GHG emissions 100% (including offsets) by FY2030 from a FY2020 base year. Plans to reduce absolute scope 3 GHG emissions 50% within the same timeframe. Target to increase annual sourcing of renewable electricity from 66% in FY2020 to 100% by FY2030. *The target boundary includes biogenic emissions and removals from bioenergy feedstocks.	Yes, scope 1,2, relevant 3	See assessment below

Diageo's transition plan assessment

Management credibility: The company has been focused on decarbonizing its business since 2007 and has positioned itself as a first mover. The CEO is responsible and accountable for climate-related issues and performance delivery on Diageo's climate strategy, including delivering on its science-based target commitments and overall decarbonization strategy. The CEO reports directly to the board and has decision authority on expenditures directed towards climate change issues and oversight of performance. Transition plan targets are linked to senior leadership compensation.

Financial credibility: The company shares specific spending and capital expenditure plans for individual projects.

Engagement focus: We need to better understand how feasible the company's overall spending is on climate-related projects.

Technological credibility: Diageo has made notable investments in initiatives such as the Carbon Neutral Distillery in the US, biomass facilities in Uganda and Kenya, heat recovery projects at distilling operations focused on process energy efficiency across production locations in Mexico, Turkey and India. However, the varying maturity of renewable infrastructure across its markets, and the time it takes to build and commission large decarbonization assets, means that acceleration will be needed to meet its 2030 targets.

Further engagement is needed to understand hurdles in decarbonizing its direct emissions.

Competitive credibility: Diageo's decarbonization strategy leans heavily on engagement with its supply chain and research.

Stakeholder alignment: Diageo's target of reducing scope 3 emissions by 50% by 2030 and achieving a net zero value chain by 2050 or sooner triggered a comprehensive review (by Diageo) of its total value chain footprint and associated emissions. The company is committed to accelerating progress on reducing total value chain emissions and working collaboratively with its suppliers and partners in future years. The company has added a scope 3 target to its "Partnering With Suppliers" standard, which is reflected in its procurement contracts.

MFS engagement focus in 2023

Our engagements with Diageo included meetings and discussions to give us a better understanding and address issues which we believe are material to its long-term sustainability. Some topics on which we have engaged with Diageo include

- climate (physical and transition risk) and its impacts on commodities sourced and Diageo's products
- its short-, medium- and long-term net zero targets and the feasibility of achieving them
- the credibility of its transition plan, viability of implementation and the associated costs
- packing materials and waste management practices
- raw material sourcing and addressing its scope 3 upstream
- governance and board oversight

MFS next steps: Engagement focus 2024–2025

1. Financial credibility: Assess if the capital expenditure spending on the climate transition plan can be sustained.
2. Review raw material sourcing strategies to ensure alignment with land use–based emissions reductions and packaging emissions reduction targets.
3. Analyze the physical impact of climate change on key raw materials, particularly crops, and engage on supply chain sustainability of at-risk crops.
4. Evaluate quality of competitive moat due to the transitioning nature of the business.

Danone

Industry: Food and Beverages

MFS' Holding (USD): $0.49B[6]

Market Capitalization (USD): $43.9B[6]

Danone SA is a global food and beverage company based in France. It operates through four segments: Essential Dairy and Plant-Based Products (EDP), Waters and Specialized Nutrition, including Early Life Nutrition and Medical Nutrition. EDP produces and distributes fresh fermented dairy products and other dairy specialties, plant-based products and beverages, coffee creamers and organic products. Notable brands from Danone's portfolio include Activia, Actimel, Alpro, Danette, Danonino, Danio, evian, and Volvic.

The bulk of Danone's GHG emissions (approximately 60%) come from its agriculture related business segments, specifically milk and dairy ingredients.

Current Data

Scope 1/2 GHG Intensity	Industry Avg. Scope 1/2 GHG Intensity	Scope 3 GHG Intensity	Scope 1/2 GHG Absolute	
54.7 ▲ 5.00% vs 1 yr ago ▼ -7.13% vs 3 yrs ago	**84.4** ▼ -6.58% vs 1 yr ago ▼ -17.02% vs 3 yrs ago	**815.2** Upstream **127.9** Downstream	**1,593.7K** ▲ 6.56% vs 1 yr ago ▼ -4.40% vs 3 yrs ago	Discloses GHG Emissions √ Evidence of Net Zero Plan √ Science-Based Targets √ Climate Action 100+ √
Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	

Source: MFS ESG – Climate Dashboard 2024.

NZIF ALIGNING Criteria (as part of MFS' commitment)

NET-ZERO TARGET	GHG EMISSION REDUCTION	SHORT- OR MEDIUM-TERM TARGET	GHG EMISSION DISCLOSURE	TRANSITION PLAN
Scope 1, 2, 3: committed to achieve net zero across the entire business and value chain by 2050 or sooner	Downward 5Y trend – 27%	Energy and Industry: Reduce absolute scope 1 and 2 GHG emissions 46.3% by 2030 from a 2020 base year*. Reduce absolute scope 3 GHG emissions from purchased goods and services, fuel- and energy-related activities, upstream transportation and distribution, waste generated in operations, downstream transportation and distribution and end of life treatment of sold products 42% within the same timeframe. *The target boundary includes land-related emissions and removals from bioenergy feedstocks. FLAG: reduce absolute scope 1 and 3 FLAG GHG emissions 30.3% by FY2030 from a FY2020 base year. The target includes FLAG emissions and removals.	Yes, scope 1,2, relevant 3	See assessment below

Danone's transition plan assessment

Management credibility: Over the past five years, the company's management and board have undergone significant changes. Our discussions with Danone have given us some insight into their commitment to climate transition. However, we believe more work is needed to help investors understand how these commitments are driven at the board level. Progress on Danone's decarbonization actions is regularly reviewed by key governance bodies, with the Board of Directors and the Corporate Social Responsibility (CSR) Committee of the Board providing crucial annual oversight. Additionally, executive compensation is tied to the organization's transition plan goals. This ensures that key individuals are dedicated to meeting climate targets.

Financial credibility: There are concerns around the lack of transparency regarding the company's decarbonization capital expenditure. The decarbonization roadmap disclosed in 2022 included mention of capital expenditure of €1.5B EUR per annum but no further detail has been given.

Technological credibility: MFS's view on the company's methane emissions reduction plan is positive, we however continue to focus on the level of detail the company has disclosed on its decarbonization plan in relation to plastic. We would like to better understand how achievable the company's target on regenerative agriculture are and whether the targets are scalable across the business and its value chain.

Competitive credibility: More engagement will need to be undertaken to gain confidence on the competitive credibility of the transition plan.

Stakeholder alignment: Danone shares best practice and supports co-manufacturing partners to commit to science-based targets. It also partners with suppliers on decarbonization projects and provides ongoing support to engage its entire value chain on the journey to decarbonization.

MFS engagement focus in 2022 and 2023

In our engagements with Danone, we have sought to understand how its products interact with the natural environment and the communities from which it sources its raw materials. Topics we have discussed in our engagements with Danone include

- short-, medium- and long-term net-zero targets
- climate-related governance issues (*e.g.*, inclusion of climate strategy in executive compensation)
- climate-related lobbying
- deforestation targets for its supply chain, including targets for animal feed
- regenerative agriculture and its challenges
- plastic recycling, pollution and waste management
- raw materials sourcing

MFS next steps: Engagement focus 2024–2025

1. Disclosure on capital investment (capex) required for scope 3 decarbonization.
2. Scrutinize key milestones for capex deployment as one way to measure progress against emission reduction targets.
3. Assess plastics decarbonization target setting, recycled feedstock procurement and the financial risk of missing packaging targets.
4. Review the scalability of Danone's regenerative agricultural program including its impact on emissions reduction and on operating costs.

Reckitt Benckiser

Industry: Consumer Products

MFS' Holding (USD): $1.9B[6]

Market Capitalization (USD): $49.3B[6]

Reckitt Benckiser Group PLC (Reckitt) is a global consumer goods company based in the United Kingdom. The Company's operating segments comprise the Hygiene, Health and Nutrition business. Brands under the Nutrition business include household names like Dettol, Lysol, Harpic, Finish, Durex, Mucinex, Enfamil, and many more.

Current Data

Scope 1/2 GHG Intensity	Industry Avg. Scope 1/2 GHG Intensity	Scope 3 GHG Intensity	Scope 1/2 GHG Absolute	
20.1 ▼ -2.64% vs 1 yr ago ▼ -20.52% vs 3 yrs ago	**112.3** ▲ 3.98% vs 1 yr ago ▲ 33.23% vs 3 yrs ago	**133.0** Upstream **283.8** Downstream	**359.0K** ▼ -4.38% vs 1 yr ago ▼ -13.33% vs 3 yrs ago	Discloses GHG Emissions √ Evidence of Net Zero Plan √ Science-Based Targets √ Climate Action 100+ X
Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	Fiscal Year 2022 Souce TRUCOST	

Source: MFS ESG – Climate Dashboard 2024.

NZIF Criteria (as part of MFS' commitment)

NET-ZERO TARGET	GHG EMISSION REDUCTION	SHORT- OR MEDIUM-TERM TARGET	GHG EMISSION DISCLOSURE	TRANSITION PLAN
Net zero across value chain by 2040 (Scope 1, 2, 3)	Downward 5Y trend – 71% Ahead of 2030 target	Yes, absolute reduction target: reduce absolute scope 1 and 2 GHG emissions 65% by 2030 from a 2015 base year*. reduce absolute scope 3 GHG emissions 50% by 2030 from a 2015 base year. increase annual sourcing of renewable electricity from 5% in 2015 to 100% by 2030. *The target boundary includes biogenic emissions and removals from bioenergy feedstocks.	Yes, scope 1,2, relevant 3	See assessment below

Reckitt Benckiser's transition plan assessment

Management credibility: Management has delivered emissions reduction of scope 1 and 2 of 65% absolute reduction in operational emissions from 2015 to 2030 ahead of their 2030 target. They have made significant strides in renewable electricity use but have not made progress in reducing scope 3 emissions, which forms most of their overall emissions. There is a climate governance strategy in place. The company has two board-level committees that are responsible for climate change strategy: CRSECC (Corporate Responsibility, Sustainability, Ethics and Compliance) made up of board members who are required to meet three times per year; and the RSCC (Risk, Sustainability and Compliance Committee), chaired by the CEO and supported by business units. In our opinion, members of this committee seem to lack relevant experience in climate and environmental issues. The company introduced climate key performance indicators (KPI's) in the CEO's 2022 long-term incentive plan, including targets on net revenue from more sustainable production and reduction in scope 1 and 2 emissions. We believe Reckitt may need to stretch their targets given that they are making progress ahead of schedule.

Financial credibility: In our view, there is not enough disclosure on the spending required to meet climate targets. Importantly, there is little to no disclosure on supply chain investments required to reduce scope 3 emissions from purchased goods and services and on investments required to scale biofuel and EV use across the value chain.

Technological credibility: The company reports that a reduction of scope 3 emissions is challenging. To get to 50% reduction in virgin plastic use, packaging recycling is key. The company needs to get from 4% to 25% recycled packaging use and needs to conduct stability trials for recycled PET use in plastic bottles.

Its logistics emissions are being addressed through a combination of biofuels in the short term and electric vehicles over the longer term.

Competitive credibility: Reckitts' use of natural raw materials is relatively small (e.g., dairy) therefore it is better positioned than other consumer staples products with regards to its emissions profile. However, reducing emissions from logistics and retail (41% of total emissions) is challenging. The company has successfully used biofuels in the UK, but it is materially more expensive per litre than the price of diesel. Efficacy would be high enough to lower emissions by 93%, but to scale biofuel use, the company needs an increase in carbon taxes to enable them to be cost competitive versus industry peers.

Stakeholder alignment: The company is working with suppliers to track and support emission reductions and need to bring financial support into the conversation for small suppliers. However, the company does not disclose reduction targets for raw material suppliers whose emissions account for 30% of the company's scope 3 emissions.

We believe, more disclosure is required on how the company will work with chemicals suppliers to get to 2040 reduction levels. The company is also investing in co-packing manufacturing to ensure quality and consistency and encouraging better recycling infrastructure networks while working with e-commerce suppliers to collaboratively buy green freight haulage.

MFS next steps: Engagement focus 2024–2025

1. Further diligence required on upstream scope 3 purchased goods and services decarbonization plan
2. Progress on plastic packaging reduction and scale up of post-consumer recycled content use
3. Decarbonization of heating/cooling systems
4. Transition plan for emissions reduction in logistics and transportation

Challenges and Lessons

Decarbonization presents a complex challenge for the consumer staples sector. In our view, it involves creating and implementing a plan to reduce emissions across geographically diverse and decentralized supply chains. In addition, there is a need for policy support to tackle deforestation and manage plastic waste, all while maintaining a resilient and cost-competitive supply chain. This challenge is further complicated in a retail environment where consumers are constrained in their ability to pay more for sustainable products but expect companies to meet their sustainability targets.

While the range of issues that consumer companies must contend with is wide, through engagement and research we developed a differentiated materiality framework against which we assess the financial implications of climate risk and opportunity for this sector. We combine our bottom-up assessment of each consumer company with cross-sector analysis of related value chain companies (*e.g.*, chemicals, packaging, agricultural commodity traders, etc.) to forecast how their climate risks and opportunities could impact the long-term risk adjusted returns they are able to generate for investors. Our long term–focused engagement process further enables us to continually assess how responses to these complex climate challenges are evolving, which helps us with our bottom-up stock selection and portfolio construction process.

MFS' Work With Industry Collaboratives

At MFS, our primary duty is to create long-term value for our clients. Participating in industry collaborations enhances our ability to thoroughly examine complex and ever-changing risks, both on a system-wide and company-specific level. These collaborations also allow us to learn from others who have different insights and investment processes.

These collective efforts complement our individual bottom-up engagement process by adding scale and can also help us create more momentum in our engagement process.

We are selective in our participation, choosing only those collaborative platforms that we believe will enhance our ability to fulfill our fiduciary duty to our clients.

For instance, to deepen our understanding of the growing systemic risks from issues like climate change and other environmental factors, we are members of the Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) project. Not only does our membership in ASCOR help us identify how different countries may respond to these systemic risks and the potential impact on their sovereign debt issuance, but it also provides insight on how a country's climate risk and progress in climate transition could affect individual issuers that we cover.

Moreover, we have been involved in ASCOR from its inception. This involvement allows us to lend our expertise to this initiative. In return, we gain greater insight, access to better data and consensus on the type of disclosure investors seek. This collaboration helps to create scale and contributes to our broader understanding of climate-related risks and opportunities.

Our fiduciary duty remains paramount. We don't view our participation as conflicting with this duty. We diligently observe and abide by all laws and regulations that apply to our participation in industry collaboratives. To this end, we conduct an annual review of all our collaborative memberships as part of our internal review process.

For more details on these activities, please refer to our Annual Sustainability Report, and quarterly Stewardship Reports, found at www.mfs.com/sustainability.

Appendix

1. Net Zero Progress Tracker 2022

	TIERED BREAKDOWN - IN-SCOPE EQUITIES (as of 31 December 2022)[8]	CLIMATE ENGAGEMENTS (aggregate, from baseline date, 1 July 2021)	AGGREGATE HOLDINGS WITH A SCIENCE-BASED TARGET COMMITTED TO OR SET	OTHER INDICATORS OF ALIGNING WITH NET ZERO - EMISSIONS[9]	NET ZERO ALIGNED	NET ZERO
Tier 1	31				Not currently reported	Not currently reported
Tier 2	137	142	455	387	Not currently reported	Not currently reported
Tier 3	193				Not currently reported	Not currently reported
Total as % of in-scope AUM			**49.04%**	**45.63%**		

[8] Figures are only shown for the public equity portion of our in-scope AUM and are as of 31 December 2022.

[9] In our 2022 report, we defined holdings as "aligning" if they had science-based targets already set or were in the process of having their target verified by a recognized body. Other indicators of aligning refers to whether the company discloses scope 1, 2 and material scope 3 emissions.

*An engagement's tier may change year to year.

2. NZIF Criteria Summary

Criteria underpinning alignment assessment

CRITERIA	COMMITTED TO ALIGNING	ALIGNING TO A NET ZERO PATHWAY	ALIGNED TO A NET ZERO PATHWAY	ACHIEVING NET ZERO
Asset with emissions intensity required by the sector and regional pathway for 2050 and whose operational model will maintain this performance				√
Emission performance: Current absolute or emissions intensity is at least equal to a relevant net zero pathway[85]			√	√
***Capital allocation alignment:** A clear demonstration that capital expenditures are consistent with a relevant net zero pathway.			√	√
***Decarbonisation plan:** A qualified set of measures exits to achieve short and medium term science-based targets by reducing GHGs and increasing green revenues, when relevant.		√	√	√
Disclosure: Disclosure of operational scope 1, 2 and material scope 3 emissions.		√	√	√
Targets: Short and medium term science-based targets to reduce GHG emissions.		√	√	√
Ambition: A long term goal consistent with the global goal of achieving net zero.	√	√	√	√

*Additional alignment criteria that a corporate within a high impact material sector needs to meet.

Source: NZIF.

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