White Paper
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How ESG fits into MFS® Lifetime® Funds

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Intensifying marketplace interest in environmental, social and governance (ESG) integration has brought a new dimension to the way plan participants think about retirement funds. ESG integration considers material environmental, social and governance factors in addition to traditional valuation factors in pursuing the objective of maximizing financial returns and mitigating risk — it isn't motivated by the desire to advance an environmental or social goal (impact investing) or to invest in a way that reflects plan participant values (socially responsible).

MFS has a long history of integrating ESG factors, along with other material factors, into our investment process and portfolios. To support this, we seek to engage with companies and ensure they are managed for long-term value creation. We integrate ESG factors into the MFS Lifetime Funds, our target date suite, which invest directly in a wide range of MFS equity, fixed income and specialty portfolios.

We expect plan participant demand for ESG-related investments will continue to increase, giving plan sponsors the opportunity to fit such investments into their menus while still maintaining their fiduciary duty.

Product versus process: Different approaches to incorporating ESG into target date funds

In our view, there are two dominant approaches to ESG investing that can be regarded as product-led and process-led:

- Product-led: The addition of ESG-labeled funds to the investment menu. These often employ screens or benchmark tilts or target specific companies.
- Process-led: ESG-related factors are integrated during the company evaluation, security selection and portfolio construction process.

At MFS, we believe in and focus on a process-led approach. The integration of material ESG factors into our research process is reflected across our global research platform, which affects every portfolio we manage, including our target date suite of the MFS Lifetime Funds. That's because we believe these factors, in addition to other fundamental factors, represent risks and opportunities that can, and frequently do, affect the long-term value of securities we own on behalf of our clients. The following shows examples of ESG factors that might be considered.

Environmental

- Climate change
- Greenhouse gas (GHG) emissions
- Resource depletion,including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labor
- Local communities, including indigenous communities
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

Our approach brings ESG integration into our research process as well as proxy voting and issuer engagement, and helps us to identify companies that we believe exhibit long-term competitive advantages.

ESG integration works its way into our target date suite. For our investment personnel to make effective investment decisions, all relevant material factors are considered when evaluating securities and constructing portfolios. ESG information represents an additional dataset, which enables a more holistic understanding of risks and opportunities that could affect the long-term viability of a business.

[1] Effective June 1, 2025, Joseph Flaherty will retire from MFS and relinquish his portfolio management responsibilities.

The power of engagement

It is our view that stewardship is a critical component of ESG integration. We believe influencing real-world outcomes is more likely to be achieved through strong relationships and regular, mutual dialogue with the companies we invest in rather than through taking an exclusionary approach. ESG topics are some of many topics we discuss with companies. Our goal when engaging is to exchange views on any fundamental topic that represents a material risk for companies or issuers, and to effect positive change on such issues. We believe that long-term-oriented asset managers who constructively engage companies on these topics can positively influence a multitude of better business practices, which we believe may ultimately accrete value.

While we recognize the appeal of seeking to exert influence through exclusions, we view this approach as an abdication of responsibility, and feel that ESG-labeled products based on exclusion and divestment are misaligned with our clients' objectives and our stated purpose of creating value. Moreover, we believe an exclusionary approach could hinder future returns by seeking to avoid low-rated companies with improving ESG characteristics, or certain sectors, such as energy. As is true in all aspects of investing, we can't simply avoid every material ESG risk that may arise. Instead, we must focus our efforts on engaging with the companies we invest in to ensure our portfolios are well positioned to manage those risks, while also taking advantage of potential opportunities.

MFS Lifetime funds incorporate ESG

Security-level recommendations by MFS analysts reflect integration and assessment of ESG factors in addition to other material fundamental factors. The MFS Lifetime funds, as a fully proprietary suite, are 100% invested in a broad range of MFS portfolios. As a result, ESG integration is embedded within the target date portfolios, not because we target a specific sustainability outcome or ESG rating, but because ESG is integrated into our research process in an effort to manage risk and maximize risk-adjusted returns.

MFS Lifetime Funds — What's Under the Hood*

US EQUITY	GLOBAL/ INTERNATIONAL EQUITY	FIXED INCOME	SPECIALTY
MFS® Value Fund	MFS® Research International Fund	MFS® Total Return Bond Fund	MFS® Commodity Strategy Fund
MFS® Blended Research® Value Equity Fund	MFS® Blended Research® International Equity Fund	MFS® Limited Maturity Fund	MFS® Global Real Estate Fund
MFS® Growth Fund	MFS® International Intrinsic Value Fund[3]	MFS® Government Securities Fund	
MFS® Blended Research® Growth Equity Fund	MFS® International Growth Fund	MFS® Inflation Adjusted Bond	
MFS® Research Fund	MFS® International New Discovery Fund[4]	MFS® Global Opportunistic Bond Fund	
MFS® Blended Research® Core Equity Fund	MFS® Emerging Markets Equity Fund	MFS® High Income Fund	
MFS® Mid Cap Value Fund	MFS® Blended Research® Emerging Markets Equity Fund	MFS® Emerging Markets Debt Fund	
MFS® Mid Cap Growth Fund		MFS® Emerging Markets Debt Local Currency Fund	
MFS® Blended Research® Mid Cap Equity Fund			
MFS® New Discovery Value Fund[2]			
MFS® New Discovery Fund			
MFS® Blended Research® Small Cap Equity Fund			

MFS Lifetime Funds are diversified across and within asset classes.

* As of December 31, 2022.

[2] Effective at the close of business on August 14, 2019, the fund will be closed to new investors subject to certain exceptions. Please see the prospectus for additional information.

[3] Effective at the close of business on May 29, 2015 (the "Closing Date"), the fund will be closed to new investors subject to certain exceptions. Please see the prospectus for additional information.

[4] Effective at the close of business on November 29, 2019 (the "Closing Date"), the fund is closed to new investors subject to certain exceptions. Please see the prospectus for additional information.

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Key takeaways for plan sponsors to consider

- **Screen with care:** Consider the extent to which your manager employs exclusions and how this might affect the underlying characteristics of the portfolio. Managers' tools of influence should be aligned with the overall values of the organization and should be working in the best interest of portfolio returns and their fiduciary duty.
- **Process over product:** Consider the extent to which your managers incorporate ESG as part of their overall investment process. Are the investment decision makers incorporating ESG, or is there a separate team of individuals responsible for managing ESG considerations?
- **Harness active ownership:** Engagement is a powerful way to influence companies. Managers who take this approach should be able to demonstrate that they are regularly and actively engaging with companies on ESG issues. They should be able to articulate their objectives and describe their rationale for choosing them, as well as be able to provide examples of engagements they have had with companies.

MFS Fund Distributors, Inc., Member SIPC, Boston, MA

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