

State of Play

Effective Stewardship and Reaching Net Zero

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full conversation*

Positive progress on the transition to net zero

The journey towards achieving net zero carbon emission is a multi-decade transition. Despite the challenges, we see reasons to be optimistic about the progress made so far. OECD emissions have fallen for a decade, renewable technologies are advancing and companies are increasingly committing to science-based targets. Cost curves for new technology are steadily falling, which will enable many industries to decarbonize their scope three emissions. As a result, companies are more open to talking about their scope three emissions than they were just two years ago. This is reflected in the growing number of companies signing up to the Science-Based Target initiative and committing to net zero targets.

Understanding the credibility of transition plans is crucial

Our experience has taught us the importance of evaluating the credibility of corporate transition plans due to the nuances across sectors and companies. We have developed a framework to help assess how credibly companies can deliver on the targets they have set. It's not merely about setting ambitious targets, but also considering the company's capacity to execute on those plans. Asking questions about management setup, financial credibility, technological feasibility and stakeholder considerations are crucial to assessing the viability of transition plans.

Engaging constructively with companies helps to build trust

We believe in taking a constructivist approach to stewardship by having thoughtful and authentic conversations with management. We have found companies often value guidance more than being set specific timelines and execution points. Striking a balance between positive feedback and constructive feedback that is intentional and considerate increases trust and builds a strong relationship so you can have the more difficult conversations when needed.

Effective stewardship requires strategic collaboration

We are fortunate to have a large global research platform with over 300 full-time investors engaging with companies. In some stewardship-based meetings with companies we can have between 5 and 25 analysts and portfolio managers present, depending on the size of our position and the number of strategies holding it. However, team size does not necessarily lead to effective stewardship. To be effective, we believe, also requires strategic collaboration across sectors as developments in one sector can have a material impact on other sectors. For example, advancements in green products developed by the chemicals industry will be used by companies in the food and cosmetic industries.

We welcome the opportunity to discuss key sustainability themes with you. Please contact allangles@mfs.com and we will be happy to help.

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