

MFS Investment Management  
111 Huntington Avenue  
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[REDACTED]



November 14, 2018

Brent J. Fields, Esq.  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-0609

**Re: File No. 4-725 – Proxy Voting Roundtable**

Dear Mr. Fields:

On behalf of MFS Investment Management ("MFS"), I would like to express our appreciation for the opportunity to provide our thoughts on the upcoming proxy voting roundtable hosted by the Staff of the Securities and Exchange Commission. In announcing the upcoming roundtable, Chairman Clayton requested comments on a variety of topics. MFS would like to provide our thoughts on two of these topics: shareholder proposals and proxy advisory firms.

MFS is a global asset management firm with \$485 billion in assets under management as of August 31, 2018. Our investment process relies on a long-term orientation, deep fundamental research, and institutional risk controls. Our clients appoint us to help them achieve their investment objectives over the long term. Generally, our clients' objective is to maximize the financial return of their portfolio within appropriate risk parameters.

As a result of this investment process, MFS seeks to understand any factor that could impact our clients' investment returns over the long-term, including financially material environmental, social, and governance ("ESG") factors. Moreover, MFS believes that robust ownership practices can help protect and enhance long-term shareholder value. Such ownership practices include the thoughtful and diligent exercise of our voting rights. All proxy votes are cast in what we believe to be the best long-term economic interest of our clients. We maintain a proxy voting committee, which includes members of our legal, investment, and investment operations teams, that oversees our proxy voting activities and the governance of MFS' Proxy Voting Policies and Procedures (the "MFS Proxy Voting Policy"), which can be found on our website (mfs.com).

**Shareholder Proposals**

MFS has historically supported a wide variety of shareholder proposals on ESG topics. More specifically, over the past three years, we have supported almost half of all shareholder proposals appearing on the proxy statements of our portfolio companies. We supported these proposals because we believed that the proposals encouraged improved governance or provided shareholders with insight into the company's



management of environmental, social, reputational or regulatory risks. While some of these proposals were submitted by shareholders whose ownership may have been well above the current requirements of Rule 14a-8, it is likely that some of these proposals were submitted by shareholders with more modest holdings. We do not believe that there is necessarily a correlation between the value of a proposal in achieving the objectives of improved corporate governance and more fulsome disclosure and the size of a shareholder's holding and the time period for which the shareholder held the shares. Over the years, we have seen smaller shareholders use the shareholder proposal process to initiate and encourage improved governance (e.g., declassification of boards and the introduction of proxy access) and better management of financially material environmental and social risks (e.g., disclosure of risks from climate-related regulatory changes). We believe that shareholder proposals play an important role in our investment approach and our ownership activities. We would also like to address the areas of particular note in the Chairman's statement regarding the appropriateness of the current thresholds for minimum ownership to submit a proposal and the current rules allowing companies to omit resubmitted proposals.

First, we believe that all shareholders should have a voice in the oversight of the companies that they own. As a large institutional investor, we generally have access to management teams and directors that smaller shareholders may not have. The current shareholder proposal process offers smaller shareholders the opportunity to have management teams and boards consider the unique, and potentially financially material, risks they have identified. As an active investor, we believe that it is to our client's benefit to understand the views of other shareholders, as this information can augment our understanding of the risks and opportunities inherent in the companies we own. As such, we would view any action to limit *some* shareholders' rights to file proposals as an action to limit *all* shareholders' ability to fully consider all risks and opportunities of their investment. We believe that the current requirements with respect to the size of a shareholder's holdings and the time period that a shareholder must hold shares in the company before making a proposal are appropriate and the ability to analyze and vote on shareholder proposals with minimal intervention in the process is in the best interest of all shareholders. We note that Rule 14a-8 currently provides a variety of means by which companies can exclude proposals that are too onerous, are an attempt to "micromanage" a company's management, lack relevance to a company's operations or are resubmitted on multiple occasions without garnering minimal support. We do however caution that a broad application of these exclusions may limit shareholders' ability to fully consider all the risks and opportunities of a company's operations, and we encourage the Commission to avoid disqualifying a substantial number of these proposals on these grounds, especially those that have historically been allowed to proceed to a vote in the past.

Second, it is our experience that smaller shareholders are often well aligned with larger shareholders in their desire to ensure the companies they own are managed prudently with an eye to the long-term sustainability of the business. Over the years, we have seen both large and smaller shareholders use the shareholder proposal process to initiate and encourage improved governance and more transparency with respect to financially material environmental and social risks. Some of these proposals did not initially

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receive the support that they do today. We believe that the current resubmission thresholds are sufficient to rein in unnecessary proposals and that there is growing interest in, and support for, these types of proposals from large and small shareholders alike.

Lastly, we are mindful of other potential avenues of engagement that shareholders may leverage in order to effect change at their portfolio companies if the ability to submit a shareholder proposal is encumbered or unavailable. For example, a shareholder may choose to vote against certain directors or utilize proxy access bylaws to nominate directors to the board if the option to submit a shareholder proposal is not available. Non-binding shareholder proposals may be the more preferable and less costly method of engagement as opposed to risking a failed vote on re-election.

In summary, we do not believe every shareholder proposal that is submitted to our portfolio companies is financially material, but we do believe it is critical that shareholders continue to have the opportunity to vote on these proposals, regardless of the size of the submitting shareholder, as these proposals have helped improved governance, disclosure, and our knowledge of the companies we own. As such, MFS would encourage the SEC to maintain the current thresholds for minimum ownership and resubmission, so that we are able to continue to analyze and vote on any proposal that a currently qualified shareholder submits.

#### **Proxy Advisory Firms**

As noted above, MFS believes that the thoughtful and diligent exercise of our voting rights can help and protect and enhance long term shareholder value. The MFS Proxy Voting Policy provides insight into our views on a variety of global proxy voting issues, such as director elections, equity plans, and shareholder proposals. MFS has procedures in place to help ensure that all votes are cast pursuant to the MFS Proxy Voting Policy. We utilize the services of proxy voting advisory firms to help us achieve this goal, and we have procedures in place to oversee their performance and how these firms address potential conflicts of interest.

While we subscribe to the research from several proxy voting advisory firms, MFS analyzes all issues objectively and does not necessarily vote in-line with these firms. Such reports are generally one input into our comprehensive analysis that includes other sources of information that help us determine what vote is in the best, long-term economic interest of our clients (i.e., company proxy materials, company engagement, etc.). Our votes are based on our proprietary analysis of companies, management teams, and ESG topics. As active investors, we are always interested in accessing different viewpoints to stress test our investment and voting decisions. One alternate viewpoint that we consider as part of our broader information gathering process for votes that fall outside of our proxy policies is that of the proxy voting advisory firms.

We understand the Commission's concern regarding investors overreliance on proxy voting advisors. While investment advisers and investors in the past may have aligned their votes based on the views of

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proxy voting advisors, we do not believe most investors and investment advisers take this approach today for two reasons. First, the investment industry has increasingly realized that ESG topics included in proxy votes may be financially material in their investment decision making process. We have seen this shift at MFS over the past ten years, as our investment team now closely collaborates with our proxy voting experts in the development of our policies and execution of our votes. Second, large institutional asset owners simply will no longer accept investment advisers who allow third parties to dictate their voting policies or activities. Our clients expect us to articulate clear rationale for our policies and votes, and they demand that we vote based on our own internal assessment of what is in their best long-term economic interests. For these reasons, we do not believe the proxy voting advisory firms have undue influence on our voting policies or actual votes.

The Commission has highlighted several other potential topics regarding proxy voting advisory firms that we would like to address:

- We believe the proxy voting advisory firms have taken appropriate steps to understand the viewpoints of corporate management teams. Furthermore, as a large active manager, our competitive advantage is based on our in-depth research process. Our global team of analysts and portfolios managers, in addition to our proxy voting team, consistently engages with management of our portfolio companies to understand their views on a variety of competitive, strategic, and voting topics, so we are able to compare the advisory firms' views against those of management.
- We believe the proxy voting advisory firms are sufficiently transparent about their voting policies and procedures. They apply a consistent analytical approach when assessing issues like executive compensation, and they offer an annual survey that outlines and requests feedback on proposed changes to their policies that is available to both investors and issuers.
- The proxy voting advisory firms also help us automate back end processes, which is extremely cost efficient for MFS and allows us to focus on performing more analytical tasks.

In summary, we believe the proxy voting advisory firms have an important role to play in the proxy voting process, and client expectations preclude investment advisers from relying too heavily on these firms. Furthermore, their analysis is sufficiently transparent and generally takes into account alternate viewpoints (i.e. those of corporate management teams and directors). Finally, they offer services that enable us to improve our cost efficiency. We urge the Commission not to take steps that would create additional cost burdens on asset managers, which could result from substantial changes to the business model of using proxy voting advisory firms to support proxy voting efforts.

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**Conclusion**

Environmental regulations, changing social norms and investor expectations on corporate governance are both rapidly evolving and impacting security prices. As long-term shareholders, we benefit from the current shareholder proposal process and would like to see it maintained. In addition, we believe the proxy advisory firms provide helpful context as we conduct our own, independent voting analysis. We do not believe substantive changes are required in either of these areas, as both appear to be operating as intended and add value for MFS as a large institutional shareholder. MFS thanks the Commission for taking the time to consider our views on the topics outlined above.

We appreciate the opportunity to comment on the roundtable. If you have any questions regarding this comment letter or need additional information, please contact me at [REDACTED] or Susan Pereira at [REDACTED].

Sincerely,

A handwritten signature in blue ink that reads "Heidi W. Hardin".

Heidi W. Hardin

General Counsel & Executive Vice President

cc: The Honorable Walter J. Clayton  
Chairman  
Securities and Exchange Commission

The Honorable Kara M. Stein  
Commissioner  
Securities and Exchange Commission

The Honorable Robert J. Jackson, Jr.  
Commissioner  
Securities and Exchange Commission

The Honorable Hester M. Peirce  
Commissioner  
Securities and Exchange Commission

The Honorable Elad L. Roisman  
Commissioner  
Securities and Exchange Commission