

## **MFS SFDR Website Disclosure**

### **FDC SICAV EMMA Equities – Active 1**

Fonds de Compensation de la Sécurité Sociale, SICAV-FIS has appointed MFS Investment Management Company (Lux) S.à. r.l. ("**MFS Lux**") as the portfolio manager of its sub-fund FDC SICAV EMMA Equities – Active 1 (the "**FDC Sub-Fund**") has appointed MFS Investment Management Company (Lux) S.à. r.l. ("**MFS Lux**") as the portfolio manager. MFS Lux has classified the management of the portfolio of the FDC Sub-Fund under Article 8 of SFDR<sup>1</sup> as a financial product that applies the MFS Low Carbon Transition Characteristic (as defined below) in response to climate change, which is a risk and opportunity for issuers.

#### **Summary**

MFS Lux, in collaboration with its affiliates (collectively "**MFS**"), seeks to create long-term value by allocating capital responsibly. MFS incorporates sustainability risks by considering environmental, social and governance ("**ESG**") factors where these may be material to the value of an issuer. As an active investment manager for the FDC Sub-Fund, MFS relies on the blending of fundamental and quantitative research and a long-term perspective to select issuers that can produce durable returns over a full economic cycle.

We are promoting the 'MFS Low Carbon Transition Characteristic' in acknowledgement of the scientific consensus on climate change: human activity is resulting in the release of greenhouse gases into our atmosphere and causing our planet to warm towards disruptive and dangerous levels. Action is needed to reduce greenhouse gases on a net-zero basis and to re-orient towards a global low carbon economy. The MFS Low Carbon Transition Characteristic refers to this transition to a low carbon economy that MFS as an allocator of capital will promote through engagement and the application of climate criteria to certain investments. We consider climate change to represent a risk and opportunity for issuers. Issuers that do not prepare and respond to climate change and implement policies designed to mitigate applicable risks may see their future earnings impacted. MFS expects issuers to plan, disclose and take the necessary measures to transition to a lower carbon economy.

In promoting the MFS Low Carbon Transition Characteristic, MFS will apply climate criteria (explained below) to issuers of equity securities ("**Equity Issuers**") in managing the portfolio of the FDC Sub-Fund. MFS will monitor and assess Equity Issuers against, and use its active ownership tools to promote, the climate criteria with the aim of having at least 50% of the equity securities in the portfolio invested in Equity Issuers that meet any one of these criteria from 1 January 2027 (the "**Transition Date**"). This long-term target recognises that Equity Issuers require time to make operational changes to their activities in transitioning to a low carbon economy. Where the portfolio falls below the 50% threshold following the Transition Date, MFS will implement a remedial plan which may prioritise active engagement over portfolio adjustments as appropriate.

MFS believes that active ownership can be more effective in promoting the MFS Low Carbon Characteristic and driving meaningful change in Equity Issuers. MFS will also apply certain exclusions to the portfolio as required by the FDC Sub-Fund.

#### **No sustainable investment objective**

This financial product promotes an environmental or social characteristic but does not have as its objective a sustainable investment.

#### **Environmental or social characteristic of the financial product**

In managing the portfolio of the FDC Sub-Fund, MFS will promote the MFS Low Carbon Transition Characteristic, with respect to equity securities.

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<sup>1</sup> Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector ("**SFDR**")

### *The MFS Low Carbon Transition Characteristic*

In pursuing the FDC Sub-Fund's investment objective as set out in the Prospectus Supplement, MFS will also promote the MFS Low Carbon Transition Characteristic through active ownership and engagement with the aim of having at least 50% of the equity securities in the portfolio invested in Equity Issuers that meet at least one of these criteria from the Transition Date. Please refer to the 'Methodologies' section below which explains the underlying methodologies relating to each of the criterion.

- Climate Criterion 1 - Reduction in 'greenhouse gas' ("GHG") intensity

Equity Issuers that reduce their GHG intensity on a year on year basis. This means that the GHG intensity of the Equity Issuer must be less than the previous year. MFS will not apply a minimum threshold and will calculate the yearly GHG intensity based on a 3 year rolling average. We believe this approach provides a clearer indication for an Equity Issuer's emissions reduction trajectory over the longer term.

As of 30 June 2022, 40.86% of equity securities in the portfolio of the FDC Sub-Fund were invested in Equity Issuers that met this criterion, which represented 40.02% of the total assets of the portfolio. In measuring this criterion for this period, we compared an Equity Issuer's annual GHG intensity of 2020 against the annual GHG intensity of 2019 using a 3 year rolling average.

- Climate Criterion 2 - Commitment to a recognised GHG emissions reduction or stabilization program aligned with international / national targets

Equity Issuers that have developed and committed to an emissions reduction or stabilization program that is aligned with international and national targets, such as a Net Zero Commitment or a published Science-Based Target.

As of 30 June 2022, 7.59% of equity securities in the portfolio of the FDC Sub-Fund were invested in Equity Issuers that met this criterion, which represented 7.43% of the total assets of the portfolio.

- Climate Criterion 3 - Operating on a 'net-zero' basis aligned with the United Nations Paris Agreement or such other successor multilateral framework.

This criterion refers to Equity Issuers that already operate on a net-zero basis based on a credible and transparent methodology. It is recognised that the path towards net-zero is a long-term goal. We do not therefore expect many Equity Issuers to meet this requirement at this point in time.

As of 30 June 2022, 0% of equity securities in the portfolio of the FDC Sub-Fund were invested in Equity Issuers that met this criterion, which represented 0% of the total assets of the portfolio.

### *Exclusions*

In managing the portfolio of the FDC Sub-Fund, MFS will implement the exclusions required by the FDC Sub-Fund which prohibits investments in the following:

- Equity issuers that do not comply with international standards enshrined in the ten principles of the United Nations Global Compact as identified by the FDC Sub-Fund.
- Equity issuers involved in activities related to controversial weapons including anti-personnel mines, cluster bombs, nuclear weapons, depleted uranium, white phosphorous weapons and chemical and biological weapons as identified by the FDC Sub-Fund.
- Equity issuers involved in activities related to tobacco (5% or more in revenue from production and / or 15% or more in revenue from sales and distribution), nuclear energy (5% or more of annual revenue derived from nuclear power activities), controversial countries (countries identified in the UN Security Council Sanctions and high risk jurisdictions identified by FATF, based on US OFAC Sanctions List) and thermal coal (10% or more of revenue derived from thermal coal and sale to external parties – excluding metallurgical coal, coal mined for internal power generation, intra-company sales and coal trading).

## Investment Strategy

### *Description and implementation*

The FDC Sub-Fund managed by investment professionals within the MFS global integrated research platform which consists of analysts that undertake fundamental and quantitative analysis in issuers in which MFS is invested or may invest and portfolio managers / decision makers responsible for portfolio construction and investment decisions for portfolios ("**MFS Investment Professionals**"). Applying fundamental and quantitative analysis with active ownership, MFS Investment Professionals will assess and monitor Equity Issuers for their readiness to transition to a low carbon economy against the climate criteria of the MFS Low Carbon Characteristic. MFS Investment Professionals will also actively engage with Equity Issuers on the climate criteria of the MFS Low Carbon Transition Characteristic and their response to climate change. In engaging on the climate criteria, MFS Investment Professionals will seek to influence Equity Issuers on the following: providing climate disclosure that is clear, consistent, audited and decision-useful; undertake carbon reduction plans that are aligned with international standards and global ambitions; and holding senior leadership accountable for climate responses. The MFS Investment Professionals will actively engage with Equity Issuers that the FDC Sub-Fund is already invested in as well as with new or prospective Equity Issuers. By systematically and actively engaging with Equity Issuer on the climate criteria, especially during the period leading up to the Transition Date, MFS Investment Professionals will gradually adjust as necessary the level of equity securities in the portfolio of the FDC Sub-Fund towards the minimum target 50% climate criteria threshold from the Transition Date as necessary.

For information on the active ownership tools that MFS Investment Professionals may use, see section on 'Engagement policies' below.

Following the Transition Date, MFS Investment Professionals will continue to actively engage with existing, new and prospective Equity Issuers on the climate criteria and their response to climate change. MFS Investment Professionals will monitor the FDC Sub-Fund portfolio's adherence to the climate criteria in respect of equity securities.

Where the equity securities of the portfolio (on an asset weighted basis) fall below the 50% climate criteria threshold after the Transition Date, MFS Investment Professionals will undertake a review of the portfolio and implement a remedial plan. The remedial plan may include an assessment of the shortfall, a consideration of how to raise the threshold through various active ownership escalation strategies to address this over time, including reduction of exposure or divestment where active ownership is not deemed to be appropriate or feasible. As the purpose is to effect meaningful change in the real economy, immediate divestment and / or portfolio repositioning may not be the best approach to promote the MFS Low Carbon Transition Characteristic and the portfolio may remain below 50% for a period of time. In making portfolio adjustments, MFS Investment Professionals will take into account the need to minimize financial loss, ensure responsible risk management and mitigate disruption to the FCD Sub-Fund. MFS Investment Professionals may also choose to invest in Equity Issuers that cause the portfolio to fall below the 50% target following the Transition Date. However, this would only be permissible where the MFS Investment Professionals reasonably believe that promotion of the MFS Low Carbon Characteristic in relation to the climate criteria can be achieved within a reasonable timeframe through the use of active ownership tools to effect change at the level of the Equity Issuer.

### *Binding elements*

In managing the portfolio of the FDC Sub-Fund, MFS will promote the MFS Low Carbon Characteristic by: actively engaging with existing, new and / or prospective Equity Issuers on the climate criteria before and beyond the Transition Date as explained above; applying the climate criteria to equity securities in the portfolio of the FDC Sub-Fund with the aim of having at least 50% of the equity securities invested in Equity Issuers that meet any one of the three climate criteria from the Transition Date; undertaking a remedial plan where the equity securities of the portfolio fall below the 50% climate criteria target from the Transition Date.

MFS will provide the FDC Sub-Fund with an annual disclosure on the level of the equity securities in the portfolio that adhere to the climate criteria and the actions taken by MFS to promote the climate criteria.

### *Assessing good governance practices*

MFS considers "good governance" to mean the standards of governance that organisations seeking or obtaining capital in public markets to finance economic activities are required to comply or expected to conform and which may have a material impact on the value of the organisation. These standards of governance cover a broad range of matters including its structure, constitutional arrangements, management, culture, remuneration and compensation policies, employee relations, accountability to shareholders, engagement with broader stakeholders, compliance with applicable laws and adherence to industry norms. It is important to note that these standards of governance are not static and evolve within the broader environment in which Equity Issuers operate.

The MFS Investment Professionals assess and monitor the governance practices of Equity Issuers in which the portfolio of the FDC Sub-Fund is invested to determine whether such issuers follow good governance practices. These assessments are inherently subjective, qualitative and complex and dependent on the availability and reliability of data. They are unique to the Equity Issuer and may vary based on the broader operating context including market expectations, local practices, sector and industry norms. It is important to note that these assessments are continuous rather than point in time. MFS will seek to assist Equity Issuers to improve their governance practices through the deployment of our active ownership tools explained above. This enables the MFS Investment Professionals to raise concerns or make suggestions on a particular aspect of an Equity Issuer's governance practice. To support the MFS Investment Professionals in their assessments, MFS makes available a wide range of data, in-house training and research to identify best practices relating to governance.

### **Proportion of investments**

As set forth and further detailed in the Prospectus, the FDC Sub-Fund will invest in equities and similar assets included in the benchmark.

#### *Minimum proportion of investments*

MFS will aim to have at least 50% of equity securities in the portfolio of the FDC Sub-Fund invested in Equity Issuers meeting at least one of the climate criteria from the Transition Date. The 50% threshold will be calculated on an asset weighted basis and using equivalent exposure (which measures how a portfolio's value would change due to price changes in an asset held – the market value of the holding may differ).

As indicated above, it is important to note that the FDC Sub-Fund may invest in other non-equity instruments which are not subject to the 50% climate criteria threshold of the MFS Low Carbon Characteristic and therefore are not included in the calculation of the 50% climate criteria threshold (see 'Methodologies' section below).

As of 30 June 2022, equity securities represented 97.95% of the total assets of the portfolio. 41.85% of the equity securities held by the portfolio met at least one of the climate criteria, which represented 40.73% of the total assets of the portfolio. The remaining investments of the portfolio comprised of cash and cash equivalent instruments.

#### *Use of derivatives*

MFS will not use derivatives to attain the MFS Low Carbon Transition Characteristic.

#### *Direct and indirect exposures*

MFS expects to obtain exposure to Equity Issuers directly through investments in equity shares to promote the MFS Low Carbon Transition Characteristic.

### **Monitoring of environmental or social characteristics**

MFS Investment Professionals managing the portfolio of the FDC Sub-Fund will be responsible for monitoring the portfolio's adherence to the climate criteria. In addition, the portfolio's adherence to the climate criteria will be monitored by MFS' Compliance Department using a variety of proprietary and third-party tools. The following indicators will be used to monitor the MFS Low Carbon Characteristic:

Climate Criterion 1 - Measuring GHG intensity of Equity Issuers: the percentage (%) of equity securities in the portfolio (on an asset weighted basis) invested in Equity Issuers that have reduced their annual GHG intensity in accordance with the methodology set out below.

Climate Criterion 2 - Measuring recognised GHG emissions reduction or stabilization program: the percentage (%) equity securities in the portfolio (on an asset weighted basis) invested in Equity Issuers that have adopted such programs in accordance with the methodology set out below.

Climate Criterion 3 - Measuring 'net-zero' issuers: the percentage (%) of equity securities in the portfolio (on an asset weighted basis) invested in Equity Issuers that are operating at 'net-zero' determined in accordance with the methodology set out below.

In the period leading up to the Transition Date, MFS Investment Professionals will monitor, assess and track Equity Issuers against the climate criteria and take steps to engage with these issuers to facilitate their compliance with the climate criteria and overall climate transition. Where the portfolio's adherence to the climate criteria falls below 50% in respect of equity securities following the Transition Date, the MFS Investment Professionals will implement a remedial plan as set out above in the 'Investment Strategy' section above. For the purposes of measuring and disclosing the climate criteria against the portfolio on an annual basis, the percentage (%) will be based on the average of four quarterly calculations.

The climate criteria will be monitored using a variety of data sources including third party vendors (as detailed in the section 'Data sources and processing' below). MFS aims to provide investment professionals with robust, high-quality data on environmental, social and governance considerations. For each of these three pillars, MFS seeks to find and utilise the best available data sources.

Equity Issuers subject to exclusions will be provided by the FDC Sub-Fund to MFS for implementation. These exclusions will be implemented and monitored by the MFS Investment Compliance Group. The MFS Investment Compliance Group is responsible for restriction implementation and compliance rule coding as well as monitoring portfolios on a pre-trade and trade date.

## Methodologies

### *Measuring climate criteria*

The science that underpins our understanding and response to climate change will continue to evolve. MFS will continue to review the climate criteria of the MFS Low Carbon Transition Characteristic to ensure that these remain fit for purpose based on the prevailing science. Where appropriate and consistent with the MFS Low Carbon Transition Characteristic, MFS may introduce new climate criteria or adjust the current criteria.

### *Measuring allocated proportion of assets*

Pursuant to the MFS Low Carbon Transition Characteristic, MFS will assess, monitor and engage with Equity Issuers with the aim of having at least 50% of the equity securities in the portfolio of the FDC Sub-Fund invested in Equity Issuers that meet any one of the three climate criteria from the Transition Date, calculated on weighted basis. Where an Equity Issuer meets more than one of these criteria at the same time, the same weighted exposure of the issuer in the portfolio would be used once to avoid double counting. These thresholds relate to equity securities only and will not include other instruments such as cash and cash equivalent instruments that the portfolio of the FDC Sub-Fund may invest or hold.

### *Climate Criterion 1 - Measuring GHG intensity of issuers*

GHG intensity of issuers shall be calculated in accordance with the following formula:

$$\sum_i \left( \frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1, 2 and 3 GHG emissions}_i}{\text{investee company's €M revenue}_i} \right)$$

MFS will use Scope 1 and Scope 2 emissions data under the GHG Protocol Corporate Accounting and Reporting Standards. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. MFS may consider the inclusion of Scope 3 emissions (all indirect emissions that occur in the value chain of

the reporting issuer not included in Scope 2) when the data is sufficiently available and reliable.

The GHG intensity of issuers will be calculated based on a 3 year rolling average. Note that there may be time lags in the availability of data at the time when MFS undertakes its calculations. For example, for 2027, we may use the average emissions for 2026, 2025 and 2024 and / or recordable estimates. If the data for 2026 is not available at the time of calculation, we would use 2025, 2024 and 2023.

### *Climate Criterion 2 - Measuring recognised GHG emissions reduction or stabilization program*

MFS will determine which programs adopted by Equity Issuers are acceptable for the purposes of this criterion. As a minimum, these programs must be science based and aligned with the Paris Agreement. Examples of acceptable programs include:

- the Science Based Targets initiative developed by CDP, the UN Global Compact, World Resources Institute and World Wide Fund for Nature.
- Race to Zero under the UN Framework Convention on Climate Change.

### *Climate Criterion 3 - Measuring the 'net-zero' issuers*

MFS will use confirmation from Equity Issuers on their net-zero status derived or calculated where MFS is satisfied that basis for the confirmation is credible and aligned to international or national standards.

## **Data sources and processing**

### *Data sources used*

MFS will use a broad range of data sources in the promotion of the MFS Low Carbon Characteristic and measuring Equity Issuers against the binding criteria including:

- Proprietary research and analysis produced by MFS Equity Issuer analysts, quantitative analysts and specialist ESG analysts.
- Data, representations and information made available by Equity Issuers.
- Data and analysis from third party specialist vendors such as MSCI, ISS and TruCost. MFS will continue monitor the availability of data and may engage new vendors from time to time.

## **Limitations to methodologies and data**

MFS considers the following as limitations to the methodologies and data:

- The general scientific understanding of climate change continues to evolve at pace and may supersede current assumptions and basis of climate policies.
- Our calculation of GHG intensity is dependent on the accuracy of emissions data provided by Equity Issuers and third-party vendors.
- Reliance on representations and confirmations provided by Equity Issuers on the climate. To mitigate this limitation, MFS will consider the frameworks and methodologies used by the issuer where available.
- There may be a time lag when Equity Issuers disclose emissions data.
- Data providers may not provide coverage of all Equity Issuers.
- There may be a lack of industry harmonisation in the scope, definition and methodologies in the collection of data fields between third party vendors.

## Due diligence

MFS Investment Professionals will undertake fundamental and quantitative research on all financially material aspects of an Equity Issuer prior to investing as well as on the climate criteria summarized above, and will continue to monitor the issue during the period of investment. This will include the Equity Issuer's readiness to respond to the risks posed and opportunities presented by climate change. MFS Investment Professionals will also have access to the MFS proprietary dashboard that measures Equity Issuers in the portfolio of the FDC Sub-Fund against the climate criteria.

## Engagement policies

Engagement with Equity Issuers through active ownership tools is an integral component by which MFS will promote the MFS Low Carbon Transition Characteristic. These tools are:

- Informal engagement – engagements between the MFS Investment Professionals and the executive management team of Equity Issuers that take place on an ongoing basis through meetings and conference calls, onsite visits and investment conferences.
- Formal engagement – engagements between MFS Investment Professionals and executive management teams that have a higher level of formality to address specific issues or concerns for example through the formal exchange of correspondence with the executive and / or board members of Equity Issuers.
- Collective engagement – these engagements include participation in industry, organizations and working groups that seek to improve and provide guidance on corporate and investor best practices, ESG integration and proxy voting issues. For example, MFS became a signatory to the CDP Science Based Targets Campaign in September 2020 which provides the platform to encourage issuers to adopt science-based emissions reduction targets.
- Proxy voting – exercising voting rights based on the long-term economic interest of our clients. MFS generally exercises its voting rights to achieve a better understanding of an Equity Issuer's environmental, social and governance practices and how these practices may impact its long-term economic financial performance. For example, MFS generally supports reasonably crafted proposals that request disclosure on the impact of environmental issues on an Equity Issuer's operations, sales and capital investments. Proxy voting at MFS is overseen by the MFS Proxy Voting Committee.

The MFS Lux Engagement Policy Statement provides further information on our engagement practices which can be accessed via the link below. MFS may engage with Equity Issuers on any wide range of issues that it considers to be material to the financial value of an issuer sustainability related controversies.

<https://www.mfs.com/content/dam/mfs-enterprise/microsites/meridian/Directive%20II%20-%20Lux.pdf>