Why we believe sustainability is everyone's responsibility

At MFS, we seek to understand a company's effect on society and the environment from an investment perspective. We believe that the journey towards sustainability is inherently a collaborative one and that we can have far more impact through engaging with the companies we consider investing in

In its purest form, capitalism is an ingenious mechanism for directing resources and driving progress. But we need to remember that its primary purpose is just that: allocating humanity's aggregate resources on behalf of humanity. Returns to owners of capital are a by-product. They are of course necessary, but only one part of the process. If companies fail to create value for all their stakeholders – employees, customers, suppliers, communities and the environment – they will ultimately lose their license to operate, and everyone, investors included, will be the poorer for it.

MFS has been thinking about sustainability for many years. We have individuals dedicated to sustainability across various disciplines and departments who play a critical role in ensuring that we fulfil our stewardship obligations as a firm. But no investment firm – and indeed, no company – can hope to 'do sustainability' simply by hiring a group of experts. Sustainability is everyone's responsibility. From an investment perspective, that means that every single one of us, analyst or portfolio manager, equity or fixed income, needs to be thinking about the footprint our issuers leave on society and the environment.

Having done the analysis, what do we do with it? Clearly, we incorporate it into our valuation, and often this will be a factor in our deciding not to invest. But sometimes, when valuation is supportive, we will invest in companies with elevated environmental, social and governance (ESG) risks. Does this make us inconsistent? It does not. We have an obligation to fulfil our clients' mandates, but more important, we believe engaging with the companies we invest in has a greater impact than excluding them from our portfolios. Assuming that the ultimate objective is improved corporate behaviour, it would seem to us self-evident that the most effective way we can contribute to that end is through an active dialogue with company management and the exercise of our voting powers. In that context, divestment feels like a cop-out. It takes the problem off your plate, and puts it on someone else's.

No short cuts

Another conviction we hold deeply is that there are no short cuts in ESG analysis. We utilise a number of firms who provide us with data and insights into ESG issues, and they are a useful input in our process, but the idea that you can outsource the whole problem and distil a company's ESG profile into a single, simple rating is anathema to us. Sustainability presents itself in many shapes and forms; some are brightly lit, others darkly concealed. Often, the more we dig into these issues with companies, the more complicated they become. The only way we can hope to solve the riddle is through diligent, contextual analysis and judgment. It is arduous and often far from straightforward, but it is far too important to offload onto someone else.

"Sustainability is everyone's responsibility... That means that every single one of us, analyst or portfolio manager, equity or fixed income, needs to be thinking about the footprint our issuers leave on society and the environment"

To be clear, we are not claiming to have completely figured this out yet. Our industry has been excessively preoccupied with short-term financial results and has not adequately taken into account social and environmental externalities that are detrimental to the world and increasingly to the long-term economic viability of many business models. We cannot claim to be blameless in this regard. We have made significant progress in the past few years, but we recognise that we have to travel further down this road, and we are determined to do so. As is usually the case when driving organisational change, there are no magic bullets. Rather, a combination of education, tools, encouragement and accountability is driving a shift in mindset and a reorientation of our investment priorities.

Collaboration is key

The journey towards a more sustainable form of capitalism is inherently a collaborative one. Many organisations will no doubt be keen to trumpet their own particular contribution. But in reality, progress will be the result of mutual support and joint action. As an asset manager, we recognise the need to cooperate, not just with asset owners and companies but also with other asset managers. We will achieve far more working together than we would operating alone. With this in mind, we have joined a select number of high-impact collaborative initiatives including Climate Action 100+ and ShareAction's Workforce Disclosure Initiative.

The Covid-19 pandemic, which continues to plague us, has been a wake-up call in so many ways. In one sense it has been a huge distraction, but it has also served to highlight the inherent fragility of our existence. Most of us have grown up in a period of peace and prosperity. We have been conditioned to take so much for granted. In recent years, that complacency has been challenged repeatedly. We have had a global financial crisis, growing evidence of a looming (and existential) climate crisis and now a public health crisis. At a time when strong leadership has never been needed more, we are witnessing a collapse of trust in our democratic institutions. If ever there was a time for the investment industry to stand up and be counted, this is it. If not us, who? If not now, when?

Written by MFS portfolio manager and head of sustainability and stewardship, Barnaby Wiener

In association with MFS