



MFS Institutional Advisors, Inc.

## FIRM BROCHURE

September 20, 2017

This brochure provides information about the qualifications and business practices of MFS Institutional Advisors, Inc. ("MFSI"). If you have any questions about the contents of the brochure, please contact us at +1.877.960.6077 or [institutionalclientservice@mfs.com](mailto:institutionalclientservice@mfs.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Although MFSI is registered with the SEC as an investment adviser, such registration does not imply any level of skill or training.

Additional information about MFSI is available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for MFSI is 107144.

You may request the most recent version of this brochure by contacting us as provided above.

## ***Item 2 – Material Changes***

This brochure differs from MFSI's annual brochure update filed on March 31, 2016 in the following material respects:

- The *Methods of Analysis, Investment Strategies and Risk of Loss* section (Item 8) of the brochure has been updated to reflect updates to the risk factors applicable to the various strategies listed in the *Fees and Compensation* section (Item 5).
- Various updates have been made to the *Brokerage Practices* section (Item 12).

## *About this Brochure*

*This brochure is not:*

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any vehicle*
- *a complete discussion of the features, risks or conflicts associated with any portfolio or vehicle*

*As required by the Investment Advisers Act of 1940, as amended ("Advisers Act"), MFSI will provide this brochure to current clients of MFSI. MFSI will also provide this brochure to sponsors of so-called "wrap programs" who make available to their clients strategies managed by MFSI. Those sponsors may, in turn, provide their clients with this brochure.*

*Although this publicly available brochure describes investment advisory services and products of MFSI, persons who receive this brochure (whether or not from MFSI) should be aware that it is designed solely to provide information about MFSI as necessary to respond to certain disclosure obligations under the Advisers Act.*

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## *Item 4 – Advisory Business*

MFS Institutional Advisors, Inc. ("MFSI"), an investment adviser registered with the SEC, has been serving institutional investors and their consultants since 1986. MFSI is a wholly-owned subsidiary of Massachusetts Financial Services Company, d/b/a MFS Investment Management ("MFS"), which is also an investment adviser registered with the SEC. MFS is also the parent company of other companies that manage investments. In this brochure, we refer to MFS and these other direct and indirect subsidiaries collectively as the "MFS Global Group". MFS and its predecessor organizations have a history of money management dating from 1924 and the founding of the first U.S. mutual fund. MFS is an indirect, majority owned subsidiary of Sun Life Financial Inc. ("SLF"), a diversified financial services company. As of December 31, 2016, MFSI managed approximately \$101 billion in discretionary client assets and \$15 billion in non-discretionary client assets. The MFS Global Group managed approximately \$420 billion as of December 31, 2016.

MFSI primarily provides investment advisory services to institutional clients, particularly separate accounts. Clients may impose restrictions on investing in certain securities or derivatives or types of securities or derivatives. In addition, MFSI provides sub-advisory services to pooled investment vehicles for which a party other than MFSI serves as the primary investment adviser.

MFSI also provides advisory services through certain wrap fee programs, which MFSI refers to as Private Portfolio Management ("PPM") programs. Participants in PPM programs include individual as well as institutional investors. PPM arrangements may be either "bundled" or "dual-contract". In bundled arrangements, a participant enters into an advisory agreement with the sponsor and the sponsor enters into a sub-advisory agreement with MFSI. Under a bundled PPM arrangement, MFSI is retained by broker-dealers or other PPM program sponsors and the clients of such sponsors select MFSI from among the investment advisers that the sponsor presents to them. In dual-contract arrangements, a participant enters into an investment advisory agreement with MFSI and a separate agreement with the program sponsor. Under a dual-contract arrangement, participants contract directly with MFSI after selecting MFSI from among the investment advisers presented by the sponsor. The selection is generally based upon the compatibility, in the judgment of the sponsor and/or the sponsor's client, of MFSI's style of investment management and performance with the sponsor's client's investment objectives and risk tolerance. MFSI reserves the right, in its sole discretion, to reject for any reason any PPM portfolio referred to it. Conversely, a sponsor's client may terminate its selection of MFSI as investment manager in a PPM program at any time, upon notice to the sponsor of a bundled PPM program or, in the case of a dual-contract program, directly to MFSI. Currently, MFSI participates in PPM programs with approximately one dozen sponsors. Please see Item 5, *Fees and Compensation*, for information concerning how MFSI is compensated for providing advisory services through a PPM program.

In addition to portfolio management services for PPM programs, MFSI may be retained by PPM program sponsors to provide research and portfolio recommendations, which may take the form of a portfolio model. In these circumstances, the sponsor generally retains full discretion to accept, modify, or reject such recommendations and remains solely responsible for implementing the ultimate investment decisions (either on the recipient's own behalf or on behalf of its clients or investors). See Item 12, *Brokerage Practices*, for information on MFSI's trade rotation policies with respect to the management of institutional and PPM portfolios and portfolio model recommendations.

In certain model portfolio arrangements, the sponsor (or an overlay manager retained by the sponsor to perform services for the program) may perform and/or direct various maintenance trades for the sponsor's clients pursuant to the portfolio model provided by MFSI to accommodate the sponsor's client's transitions to and from the program, account deposits and withdrawals, rebalancing, tax harvesting, and other limited or client-directed trades. These programs are referred to as Unified Management Accounts (each, a "UMA").

Participants in PPM programs may impose reasonable restrictions upon MFSI's ability to recommend or implement investments in certain securities or certain types of securities, if those restrictions are communicated to and accepted by MFSI. These restrictions affect MFSI's freedom of action and, consequently, may affect portfolio performance.

MFSI primarily manages long-only investment strategies. To a lesser extent, the MFS Global Group also manages some strategies that may employ both long and short positions as a principal strategy and/or manage exposure to asset classes, markets, and currencies, primarily through the use of derivatives.

MFS has signed the Principles for Responsible Investment ("PRI") for itself and its subsidiaries. As a subsidiary of MFS, where consistent with its fiduciary responsibilities, MFSI aspires to incorporate environmental, social and corporate governance ("ESG") issues into its investment analysis and decision making processes, as well as its ownership policies and practices, by seeking appropriate disclosure on ESG issues from the entities in which it invests. MFSI also seeks to promote acceptance and implementation of the PRI within the investment industry and reports on progress in the effectiveness of such implementation. While MFSI follows the PRI where consistent with its fiduciary responsibilities, signing the PRI is not a legally binding commitment to do so, and MFSI may either take actions inconsistent with the PRI or fail to take such actions as would be consistent with the PRI if, in MFSI's judgment, it is in the best economic interests of its clients to do so. As such, MFSI will introduce ESG-driven restrictions into a client's portfolio only as directed by a client or to comply with applicable law. Please refer to Item 17, *Voting Client Securities*, for more information about MFSI's proxy voting practices.

All discussions of MFSI's practices in this brochure are qualified in their entirety with respect to each institutional client or pooled investment vehicle by the applicable investment management agreement or offering and organizational materials, respectively, governing such portfolio, including without limitation, all practices pertaining to the portfolio's investments, strategies used in managing the portfolio,

investment risks, fees and other costs associated with an investment in the portfolio, and conflicts of interest faced by MFSI and its affiliates in connection with the management of the portfolio.

## ***Item 5 – Fees and Compensation***

MFSI's investment advisory fees are generally based upon a percentage of assets under management and are negotiable. The percentage typically depends upon the type of investment mandate. MFSI reserves the right, in its sole discretion, to negotiate and charge different types or rates of advisory fees for different portfolios. Advisory fees may vary due to, among other things, the inception date of a client's portfolio, the initial or potential size of the portfolio, the entirety of the client's and its affiliates' (if any) relationship with the members of the MFS Global Group, the client's domicile, and portfolio-specific requirements such as non-standard reporting obligations and compliance with laws not generally applicable to MFSI's activities. Accordingly, MFSI may charge a higher or lower fee than the standard fees set forth below. MFSI may manage a group of related portfolios for a client and may agree to aggregate assets in all related client portfolios for purposes of attaining fee breakpoints under any applicable fee schedule. MFSI's representative fee schedule for different mandates for institutional portfolios is as follows:



<b><u>Type of Mandate</u></b>	<b><u>Standard Investment Advisory Fee</u></b>
Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, Blended Research US Core Equity, Core Fixed Income, Core Plus Fixed Income, US Corporate BB Fixed Income, and US Credit	0.30% to 0.20% of average month end assets
Blended Research Global Equity, Global Aggregate Core, Global Aggregate Core Plus, and Global Credit	0.35% to 0.25% of average month end assets
Global Equity, Global Growth, Global Research, Global Value, International Growth, International Research, International Value, Mid Cap Growth Equity, and Mid Cap Value Equity	0.75% to 0.50% of average month end assets
International Equity	0.85% to 0.65% of average month end assets
International Concentrated Equity or Global Concentrated Equity	0.85% to 0.55% of average month end assets
Research Equity, Large Cap Value and Core Equity	0.55% to 0.40% of average month end assets
Emerging Market Debt, Emerging Market Debt Local Currency, Growth Equity, and Large Cap Growth	0.60% to 0.45% of average month end assets
Utilities	0.65% to 0.35% of average month end assets
Global Aggregate Opportunistic and Low Volatility Global Equity	0.40% to 0.30% of average month end assets
International Small-Mid Cap Equity	0.95% to 0.75% of average month end assets
Emerging Markets Equity	0.95% to 0.80% of average month end assets
Asia Pacific ex Japan and Technology Equity	0.75% to 0.65% of average month end assets
Latin American Equity	1.00% to 0.80% of average month end assets
Japan Equity	0.65% to 0.50% of average month end assets
Small Cap Growth Equity	0.90% to 0.70% of average month end assets
US Core High Yield	0.45% to 0.35% of average month end assets

Global High Yield	0.50% to 0.40% of average month end assets
Municipal Fixed Income	0.35% to 0.20% of average month end assets
Limited Maturity Fixed Income	0.25% to 0.175% of average month end assets
Domestic Balanced	0.55% to 0.30% of average month end assets
Global Balanced	0.60% to 0.30% of average month end assets
European Research Equity, European Value and European Equity	0.70% to 0.50% of average month end assets

Fees are billed and payable quarterly in arrears, unless a client agrees otherwise, and are generally based upon the average of the month-end net assets for the quarter. Upon written client instruction, MFSI may also automatically deduct fees from a client's custodial account and will remind such clients to compare their MFSI account statements with their periodic custodial statements. See Item 15, *Custody*, for more information.

When agreed upon with a client, MFSI may also earn incentive compensation by charging performance-based fees. Performance based fees usually consist of two components: a percentage of assets under management and the incentive portion of the compensation. The incentive portion of the compensation is typically calculated as a percentage of total return over a specified benchmark, and, in some cases, such incentive arrangements include a hurdle rate where no incentive portion will be charged unless total return meets or exceeds the hurdle rate over and above the specified benchmark. Incentive compensation may also be subject to a "high water mark", pursuant to which losses in a portfolio are carried forward so that no incentive portion is charged until the loss has been recouped, subject to certain adjustments. In certain instances, incentive compensation is based on rolling periods of up to three years and may be charged as frequently as quarterly after the completion of the initial account year. The value of performance-based fees charged to portfolios managed by MFSI can be far in excess of the value of asset-based fees charged to other portfolios. See Item 6, *Performance Based Fees and Side by Side Management*, for more information.

MFSI may purchase on behalf of an institutional client shares of any of the registered investment companies for which MFS acts as an investment adviser (the "MFS Funds"). In such cases, the client receives a credit to its portfolio equal to the amount of the management fee paid by the relevant MFS Fund(s) to MFS or its affiliates attributable to the client's investment in the MFS Fund.

In the event MFSI's services are terminated, its management fees are pro-rated to the extent that its services have been provided for less than the full quarter (or other billing period); any performance compensation may be charged as though the date of termination were the end of a performance period.

Institutional clients typically bear certain expenses in addition to investment advisory fees, including custodial fees, brokerage and transaction costs (please see Item 12, *Brokerage Practices*, for more information), taxes, out-of-pocket costs for Employee Retirement Income Security Act of 1974, as amended ("ERISA")-mandated fidelity bonds (if applicable), fees for plan administrator/trustee-directed special projects or reports, preparing financial statements and providing audit support, preparing tax-related schedules and documents or investor relations. MFSI receives no payment or remuneration from institutional clients with respect to such other expenses (except as described in Item 12, *Brokerage Practices*). No portion of such charges, fees or commissions shall be applied as an offset to reduce the amount of advisory fees owed by a client to MFSI. In addition, when institutional client assets are invested in an MFS Fund or in an exchange-traded fund ("ETF"), the client indirectly bears a ratable share of operating expenses incurred by the MFS Fund or the ETF, including without limitation, brokerage fees and transaction costs, transfer agency fees and custodial expenses. These expenses are described in greater detail in the Summary Prospectus, Prospectus and/or Statement of Additional Information for the relevant MFS Fund or ETF. Assets invested in non-MFS Funds or other non-MFS commingled or pooled investment vehicles (including ETFs) are included in calculating the value of the portfolio for purposes of computing fees. The same assets are also subject to additional advisory and other fees and expenses, as set forth in the offering documents of those pooled investments. These additional fees are paid by the investment vehicle, but ultimately borne by investors. Clients, in effect, pay two sets of advisory fees for these investments—one to MFSI and another to the managers of each mutual fund or commingled investment vehicle. To the extent that we invest any client's assets in shares of an MFS Fund, however, the client receives a credit to its portfolio equal to the amount of the management fee paid by the relevant MFS Fund(s) to MFS or its affiliates attributable to the client's investment in the MFS Fund, as discussed above.

### **Unsupervised Assets**

From time to time, clients may leave in the custodial or brokerage accounts subject to MFSI's discretionary management certain securities or other property over which MFSI has not been given discretionary authority ("Unsupervised Assets"). MFSI may request that the client confirm in writing the identity of any Unsupervised Assets. Unless otherwise agreed to with the client, MFSI will not provide investment advisory services of any kind with regard to Unsupervised Assets. MFSI will have no duty, responsibility, or liability with respect to the Unsupervised Assets and will not take the Unsupervised Assets into consideration when managing the portion of the portfolio for which it provides investment advice.

### **Private Portfolio Management**

The clients of bundled and dual-contract PPM programs also bear certain expenses that are separate from and in addition to, advisory fees, including brokerage and transaction costs. The sponsor of a bundled PPM program generally arranges for payment of MFSI's advisory fee on behalf of its clients, monitors and

evaluates MFSI's performance, executes some or all of its clients' portfolio transactions and, if so requested by its clients, may provide for custodial services for its clients' assets, all for a combined fee paid to the sponsor by its clients (in some instances, a sponsor's clients may have to separately pay the sponsor a commission on transactions). In a dual-contract PPM program, a client of the sponsor pays a management fee to MFSI pursuant to the investment advisory agreement between the sponsor's client and MFSI, as well as a separate fee to the sponsor for custodial, execution and other client services. The frequency and method of billing or deducting advisory fees accrued by MFSI from PPM program participants is determined by agreement between the participant, MFSI and the sponsor. These fees may be billed either in advance or in arrears, depending on the PPM program. In the event MFSI's services are terminated, fees billed in arrears are pro-rated, and fees billed in advance are refunded to the extent that services have been provided for less than the full quarter (or other billing period). Participants in PPM programs should also consider that depending on (i) the level of the wrap fee charged by the PPM program sponsor, (ii) the volume of portfolio activity in the participant's portfolio, (iii) the value of the custodial and other services that are provided under the arrangement, and (iv) other factors, the wrap fee may or may not exceed the aggregate amount of MFSI's standard advisory fee plus the cost of such services if they were to be provided separately (however, depending upon the amount of assets, a PPM program participant may be ineligible to enter into an agreement with MFSI outside the PPM context). The representative advisory fee schedule charged by MFSI pursuant to a PPM arrangement including a dual contract arrangement is as follows: 0.42% to 0.75% of assets under management; provided, however, in the case of a UMA arrangement, the representative fee schedule is as follows: 0.33% to 0.40% of assets managed by the sponsor using MFSI's model. MFSI's compensation for these services is negotiable. PPM program participants should consult with their sponsor for more information regarding the fees and expenses they may pay in connection with the advisory services, such as custodian fees or mutual fund expenses. To the extent that MFSI sells advisory recommendations to the sponsor of any PPM program, but is not responsible for managing any underlying client portfolios for the sponsor, MFSI will receive its entire advisory fee without regard to whether or not the sponsor invests any portion of its clients' assets in accordance with such advisory recommendations made by MFSI to the sponsor.

## ***Item 6 – Performance Based Fees and Side by Side Management***

As noted above, MFSI (and other members of the MFS Global Group) charge both performance-based fees and asset-based fees. Performance-based fees have the potential to cause a conflict of interest by creating an incentive to favor portfolios charged such fees over portfolios charged only asset-based fees in order to generate greater management fees. The MFS Global Group's allocation policies (see Item 12, *Brokerage Practices*, below) address such potential conflicts of interest by prohibiting the MFS Global Group from unfairly favoring one type of portfolio over another. These policies, which apply equally to portfolios that are charged solely asset-based fees and those that are charged performance-based fees, generally require allocations of investment opportunities and executions among similarly managed portfolios to be made on a *pro rata*, simultaneous or equitable rotation basis, as described in Item 12, *Brokerage Practices*, below. Performance-based fees may present an incentive for MFSI to take additional risk with regard to a portfolio's investments.

Because the performance-based fees received by MFSI may be subject to a benchmark or hurdle rate, MFSI may have the incentive to favor portfolios that are generally above their respective benchmarks or hurdle rates (and therefore required to pay performance-based fees) over those portfolios that are generally below their respective benchmark or hurdle rate (and therefore are not required to pay performance-based fees until such portfolios return to their applicable high water marks). This conflict is most apparent where two portfolios follow the same, or a similar, investment strategy.

Further, MFSI and its personnel may have differing investment or pecuniary interests in such portfolios. MFSI faces a potential conflict of interest when (i) the actions taken on behalf of one portfolio may impact other similar or different portfolios and (ii) MFSI or its personnel have different financial interests in such portfolios (i.e., expose MFSI or its related persons to differing potential for gain or loss through differential ownership interests) because MFSI may have an incentive to favor certain portfolios over others that may be less lucrative. Such conflicts may present particular concern when, for example, MFSI places or allocates the results of securities transactions, including cross-trades, that MFSI believes could more likely result in performance that favors the financial interests of MFSI or its personnel.

## *Item 7 – Types of Clients*

MFSI's clients are principally institutional investors, including pension and profit sharing plans, charitable organizations, corporations, sovereign wealth funds, insurance companies, other investment advisers, U.S. registered investment companies, and other pooled investment vehicles. In addition, MFSI's investment advice may be provided to high-net-worth individuals and, in some cases, to individuals not considered high-net-worth individuals depending on the PPM program in which those individuals participate and the personal net worth of those individuals. MFSI typically requires a minimum of \$50 million of assets as a condition for establishing a separate account and \$100,000 for a sponsor to enter into a bundled PPM arrangement on behalf of any client of the sponsor. MFSI generally requires a minimum of \$3 million of assets as a condition for entering into a "dual-contract" PPM relationship. Client relationships are governed by investment advisory agreements that set forth the terms under which MFSI will provide its services. In the bundled or model portfolio PPM context, MFSI will contract with the program sponsor only or, in the context of a tri-party PPM relationship, with both the program sponsor and the PPM participant. MFSI may accept a portfolio below the relevant minimum in its discretion when, for example, it seeks to promote a new mandate or a participant with multiple portfolios above the required minimum is allowed to open another portfolio below the minimum portfolio size. MFSI, in its sole discretion, reserves the right to decline any portfolio and reserves the right to close any portfolio that falls below the minimum portfolio size or for any other reason.

## ***Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss***

MFSI employs a variety of methods to evaluate securities, including fundamental analysis and quantitative analysis. Fundamental analysis focuses on individual issuers and their potential in light of their financial condition, and market, economic, political, and regulatory conditions. Factors considered may include analysis of an issuer's earnings, cash flows, competitive position, and management ability. Quantitative analysis focuses on quantitative models that systematically evaluate an issuer's valuation, price and earnings momentum, earnings quality, and other factors. MFSI may also make investment selection decisions based on a combination of both fundamental analysis of individual issuers and the use of quantitative models that systematically evaluate issuers.

MFSI may, from time to time, utilize advice or research provided by MFS International (U.K.) Limited ("MIL UK"), MFS Investment Management Company (Lux) S.à r.l. ("MFS Lux"), MFS Investment Management K.K. ("MIMKK"), MFS Investment Management Canada Limited ("MFS Canada"), MFS International Singapore Pte. Ltd. ("MFSI Singapore"), MFS International (Hong Kong) Limited ("MIL HK"), and MFS International Australia Pty Ltd ("MFSI Australia" and, together with MIL UK, MFS Lux, MIMKK, MFS Canada, MFSI Singapore, and MIL HK, the "Participating Affiliates"), each of which is an affiliated non-U.S. based investment adviser within the MFS Global Group that is not registered under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), pursuant to an amended and restated written memorandum of understanding by and among MFSI, MFS, and the Participating Affiliates (the "MOU"). Under the MOU, certain employees of each Participating Affiliate may serve as associated persons of MFSI ("Participating Employees"). See Item 10, *Other Financial Industry Activities and Affiliations*, for more information on the Participating Affiliates.

MFSI utilizes various investment techniques to implement its investment strategies, including, but not limited to, long- and short-term purchases, short sales, margin transactions, options, and exchange-traded and over-the-counter ("OTC") derivatives or other methods to seek to achieve performance. In addition, MFSI may use exchange-traded and OTC derivatives to manage, for example, currency or interest rate exposure (for instance through currency forwards or treasury futures, respectively). While MFSI may use derivatives for any investment purpose, MFSI uses derivatives primarily to increase or decrease exposure to a particular market, segment of the market, or security, to increase or decrease interest rate or currency exposure, or as an alternative to direct investments. MFSI will execute only those derivative transactions (including swaps and security-based swaps and deliverable foreign exchange forwards and swaps) for which it has sufficient knowledge to evaluate the transaction and risks. The investment professionals responsible for the portfolio trading of a derivative will have appropriate knowledge and expertise.

Investments in the portfolios to which MFSI provides advisory services are not insured or guaranteed and carry the risk of loss, which clients must be prepared to bear. Investment strategies may be limited to certain types of securities (e.g., equities) and may not be diversified. Investors and clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses. The funds and portfolios managed by MFSI are not intended to provide a

complete investment program and MFSI expects that assets invested in a fund or portfolio it manages do not represent all of an investor's assets. Investors are responsible for appropriately diversifying their assets to guard against the risk of loss. MFSI's analysis of a particular investment may be incorrect. Further, markets can prove volatile in response to issuer- or industry-specific circumstances, as well as broader economic, political, and regulatory conditions. Some of these conditions may prevent MFSI from executing a particular strategy successfully. For example, it may not be possible to access certain markets or to sell certain investments at a particular time or at an acceptable price, thereby impacting the liquidity of a given portfolio. The use of derivatives can involve risks in addition to, and potentially greater than, the risks of the underlying indicator(s), including the risk that a counterparty to a derivative fails to perform. Certain standardized swaps are subject to mandatory clearing, and more are expected to be in the future. The counterparty risk for cleared derivatives is generally lower than for uncleared derivatives, but cleared contracts are not risk-free. Gains or losses from derivatives can be substantially greater than the derivatives' original cost and can sometimes be unlimited and, therefore, may entail leverage. Leverage creates exposure in an amount exceeding the initial investment, which can increase volatility by magnifying gains or losses. The value of a client portfolio will change daily based on changes in market, economic, industry, political, regulatory, geopolitical, and other considerations. A client portfolio may not achieve its objective and/or may lose value.

While PPM portfolios may employ investment strategies broadly similar to those employed by institutional portfolios, the performance results achieved by MFSI with respect to PPM portfolios employing a particular investment strategy and investing in particular types of securities may differ from the performance results achieved by MFSI with respect to institutional portfolios that employ a broadly similar investment strategy. Several reasons may be responsible for this difference:

**Investment Differences.** The PPM sponsor, rather than MFSI, may be responsible for implementing investment decisions for PPM portfolios; the timing and implementation of investment decisions may vary between the PPM sponsor and MFSI, or between PPM portfolios and institutional portfolios or registered investment companies (discussed more in detail below under the caption "Order Aggregation and Allocation Practices" in Item 12, *Brokerage Practices*); and PPM portfolios may hold fewer securities (either in the aggregate or within individual investment styles) than the institutional portfolios or registered investment companies.

**Portfolio Restrictions.** Institutional and PPM portfolios may be subject to different restrictions imposed by the participant, the sponsor or, in the case of multi-manager PPM portfolios, style manager, such as limitations on the maximum percentage of an outstanding security under management by an investment manager and its affiliates, as well as temporary or permanent restrictions on transactions in specific securities (e.g., PPM portfolios may be subject to investment limitations such as a prohibition on participation in initial public offerings or, in many cases, ineligibility to hold or a prohibition on holding, foreign securities other than in the form of American Depositary Receipts).



**Other Factors.** Performance of PPM portfolios is also likely to differ from the performance results of institutional portfolios or registered investment companies due to any of the following: PPM portfolios are generally traded less frequently than institutional portfolios or registered investment companies; changes over time in the number, types, availability and diversity of securities available; economies of scale, regulations and other factors applicable to institutional portfolios or registered investment companies and gains and losses caused by currency transactions.

Set forth below is a general description of material risk factors for portfolios to which MFSI provides advisory services. Unless otherwise specified, these risk factors apply to investments across a variety of asset classes, including those in which all of the mandates set forth in Item 5, *Fees and Compensation*, above, may invest. A risk factor may still be a material risk to a particular mandate even if it is not listed below as a principal risk of such mandate. Furthermore, if you are an investor in a pooled investment vehicle (including an MFS Fund), such vehicle's prospectus or other offering documentation (e.g., in the case of an MFS Fund, its Summary Prospectus, Prospectus and Statement of Additional Information) (collectively, "Offering Documents"), will contain a more complete description of the risk factors to which the vehicle is subject and the discussion below is qualified in its entirety by reference to the relevant Offering Document(s). Depending upon the specific investment guidelines and restrictions applicable to any particular client portfolio in any mandate, these risk factors may or may not be material to that specific portfolio.

#### Asia Pacific Risk

The economies of countries in the Asia Pacific region are in all stages of development. Many of the economies of countries in the Asia Pacific region are considered emerging market economies. Companies in the Asia Pacific region may be subject to risks such as nationalization or other forms of government interference, and/or can be heavily reliant on only a few industries or commodities. Many Asia Pacific economies may be intertwined, so they may experience recessions at the same time or respond similarly to adverse events. Furthermore, many of the Asia Pacific economies can be characterized by significant fluctuations in inflation levels, undeveloped financial service sectors, frequent currency fluctuations, devaluations, or restrictions, political and social instability, and less efficient markets. The economies of many Asia Pacific countries are heavily dependent on international trade and can be adversely affected by trade barriers, exchange controls and other measures imposed or negotiated by the countries with which they trade. The Australia and New Zealand economies are dependent on the economies of Asian countries and on the price and demand for agricultural products and natural resources.

The sole mandate for which this represents a principal risk is Asia Pacific ex Japan.

#### Company-Specific Risk

Changes in the financial condition of a company or other issuer and changes in specific market, economic, industry, political, regulatory, geopolitical, and other conditions that affect a particular type of investment or issuer can adversely affect the price of an investment. The prices of securities of smaller, less well-known issuers can be more volatile than the prices of securities of larger issuers or the market in general.

This represents a principal risk for all mandates except the following: Core Fixed Income, Core Plus Fixed Income, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Credit, Global High Yield, Limited Maturity Fixed Income, Municipal Fixed Income, US Core High Yield, US Corporate BB Fixed Income, and US Credit.

#### Counterparty and Third Party Risk

Transactions involving a counterparty other than the issuer of the instrument, including clearing organizations, or a third party responsible for servicing the instrument or effecting the transaction, are subject to the credit risk of the counterparty or third party, and to the counterparty's or third party's ability or willingness to perform in accordance with the terms of the transaction.

#### Credit Risk

The price of a debt instrument depends, in part, on the issuer's or borrower's credit quality or ability to pay principal and interest when due. The price of a debt instrument is likely to fall if an issuer or borrower defaults on its obligation to pay principal or interest, if the instrument's credit rating is downgraded by a credit rating agency, or based on other changes in the financial condition of the issuer or borrower. For certain types of instruments, including derivatives, the price of the instrument depends in part on the credit quality of the counterparty to the transaction. For other types of debt instruments, including asset-backed securities, the price of the debt instrument also depends on the credit quality and adequacy of the underlying assets or collateral as well as whether there is a security interest in the underlying assets or collateral. Enforcing rights, if any, against the underlying assets or collateral may be difficult.

Below investment grade quality debt instruments can involve a substantially greater risk of default or can already be in default, and their values can decline significantly over short periods of time. Below investment grade quality debt instruments are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and principal. Below investment grade quality debt instruments tend to be more sensitive to adverse news about the issuer, or the market or economy in general, than higher quality debt instruments. The market for below investment grade quality debt instruments can be less liquid, especially during periods of recession or general market decline.

The credit quality of, and the ability to pay principal and interest when due by, an issuer of a municipal instrument depends on the credit quality of the entity supporting the municipal instrument, how essential any services supported by the municipal instrument are, the sufficiency of any revenues or taxes that support the municipal instrument, and/or the willingness or ability of the appropriate government entity to approve any appropriations necessary to support the municipal instrument.

This represents a principal risk for the following mandates: Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Balanced, Global High Yield, Global Credit, Limited Maturity Fixed Income, Municipal Fixed Income, US Core High Yield, US Corporate BB Fixed Income, US Credit, and Utilities.

### Currency Risk

Changes in currency exchange rates can significantly impact the financial condition of a company or other issuer with exposure to multiple countries. In addition, a decline in the value of a foreign currency relative to the U.S. dollar reduces the value of the foreign currency and investments denominated in that currency. In addition, the use of foreign exchange contracts to reduce foreign currency exposure can eliminate some or all of the benefit of an increase in the value of a foreign currency versus the U.S. dollar. The value of foreign currencies relative to the U.S. dollar fluctuates in response to, among other factors, interest rate changes, intervention (or failure to intervene) by the U.S. or foreign governments, central banks, or supranational entities such as the International Monetary Fund, the imposition of currency controls, and other political or regulatory conditions in the U.S. or abroad. Foreign currency values can decrease significantly both in the short term and over the long term in response to these and other conditions.

This represents a principal risk for all mandates except the following: Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, Blended Research US Core Equity, Core Equity, Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Growth Equity, Large Cap Growth, Large Cap Value, Limited Maturity Fixed Income, Mid Cap Growth Equity, Mid Cap Value Equity, Municipal Fixed Income, Research Equity, Small Cap Growth Equity, Technology Equity, US Core High Yield, US Corporate BB Fixed Income, and US Credit.

### Cybersecurity Risk

Portfolios managed by MFSI may be exposed to cyber security risks through MFSI, its affiliates, other third parties (such as broker-dealers, other financial intermediaries, and PPM program sponsors), as well as through MFSI's service providers or service providers to the funds or portfolios MFSI manages. With the increased use of technologies, such as the Internet and the dependence on computer systems to perform necessary business functions, firms are susceptible to operational and information security risks that could result in losses to a portfolio. Cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, infection by computer viruses or other malicious software code, unauthorized access to the firm's digital systems through system-wide hacking or other means for the purpose of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on a firm's systems or Web sites rendering them unavailable. In addition, authorized persons could inadvertently or intentionally release confidential or proprietary information stored on a firm's systems.

Cyber security failures or breaches resulting from such firms or the issuers of securities in which the portfolio invests may negatively impact the value of the Fund's investments and cause disruptions and impact the firm's or a portfolio's operations, potentially resulting in financial losses, the inability of a portfolio to transact business and process transactions, the inability to calculate a portfolio's net asset value (if applicable), violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs.

Portfolios that are pooled vehicles may incur incremental costs to prevent cyber incidents in the future which could negatively impact the pooled vehicle and its investors. While the MFS Global Group has established business continuity plans and risk management systems designed to prevent or reduce the impact of such cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been adequately identified. Furthermore, MFSI cannot directly control any cyber security plans and systems put in place by other third parties including service providers, or by issuers in which portfolios managed by MFSI may invest.

#### Debt Market Risk

Debt markets can be volatile and can decline significantly in response to, or investor perceptions of, issuer, market, economic, industry, political, regulatory, geopolitical, and other conditions. These conditions can affect a single instrument, issuer, or borrower, a particular type of instrument, issuer, or borrower, a segment of the debt markets, or debt markets generally. Certain events, such as political, social or economic developments, including increasing and negative interest rates; regulatory or government actions, including the imposition of tariffs or other protectionist actions; natural disasters; terrorist attacks; war; and other geopolitical events can have a dramatic adverse effect on debt markets and may lead to periods of high volatility and reduced liquidity in a debt market or segment of a debt market.

This represents a principal risk for the following mandates: Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Balanced, Global Credit, Global High Yield, Limited Maturity Fixed Income, Municipal Fixed Income, US Core High Yield, US Corporate BB Fixed Income, US Credit, and Utilities.

#### Derivatives Risk

Derivatives can be highly volatile and involve risks in addition to, and potentially greater than, the risks of the underlying indicator(s). Gains or losses from derivatives can be substantially greater than the derivatives' original cost, and can sometimes be unlimited. Derivatives can involve leverage. Derivatives can be complex instruments and can involve analysis and processing that differs from that required for other investment types used by a portfolio. If the value of a derivative does not change as expected relative to the value of the market or other indicator the derivative is intended to provide exposure to, the derivative may not have the effect intended. Derivatives can also reduce the opportunity for gains or result in losses by offsetting positive returns in other investments. Derivatives can be less liquid than other types of investments.

#### Emerging Markets Risk

Emerging markets investments can involve additional and greater risks than the risks associated with investment in developed foreign markets securities. Emerging markets typically have less developed economies and markets, greater custody and operational risk, less developed legal, regulatory, and accounting systems, less trading volume, and more government involvement in the economy than

developed countries. Emerging markets can also be subject to greater political, social, and economic instability. These factors can make emerging market investments more volatile and less liquid than investments in developed markets.

This represents a principal risk for all mandates except the following: Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, Blended Research US Core Equity, Core Equity, Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Growth Equity, Japan Equity, Large Cap Growth, Large Cap Value, Limited Maturity Fixed Income, Mid Cap Growth Equity, Mid Cap Value Equity, Municipal Fixed Income, Research Equity, Small Cap Growth Equity, Technology Equity, US Core High Yield, US Corporate BB Fixed Income, and US Credit.

#### Equity Market Risk

Equity markets can be volatile and can decline significantly in response to, or investor perceptions of, issuer, market, economic, industry, political, regulatory, geopolitical, and other conditions. These conditions can affect a single issuer or type of security, issuers within a broad market sector, industry or geographic region, or the equity markets in general. Different parts of the market and different types of securities can react differently to these conditions. For example, the stocks of growth companies can react differently from the stocks of value companies, and the stocks of large cap companies can react differently from the stocks of small cap companies. Certain events, such as political, social, or economic developments; government or regulatory action, including the imposition of tariffs or other protectionist actions; natural disasters; terrorist attacks; war; and other geopolitical events, can have a dramatic adverse effect on equity markets and may lead to periods of high volatility in an equity market or a segment of an equity market.

This represents a principal risk for all mandates except the following: Core Fixed Income, Core Plus Fixed Income, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Credit, Global High Yield, Limited Maturity Fixed Income, Municipal Fixed Income, US Core High Yield, US Corporate BB Fixed Income, and US Credit.

#### European Market Risk

In light of the fiscal conditions and concerns regarding sovereign risk of certain European countries, which could worsen and spread, and result in a break-up of the Eurozone and Euro currency, portfolios invested in the European region may be subject to an increased amount of volatility, liquidity, price, and foreign exchange risk. The performance of such portfolios could deteriorate significantly should reform and austerity measures by European governments to address the financial and economic problems not work, or if there are any adverse credit events in the European region (e.g. downgrade of the sovereign credit rating of a European country or a European financial institution), which may result in significant loss. European countries can be significantly affected by the tight fiscal and monetary controls that the European Economic and Monetary Union ("EMU") imposes on its members, the deficit and budget issues of several EMU members and the uncertainty surrounding the Euro. Additionally, on June 23, 2016, the

United Kingdom voted via referendum to leave the European Union, which may lead to significant market volatility around the world, as well as political, economic, and legal uncertainty.

This represents a principal risk for the following mandates: European Equity, European Research Equity and European Value.

#### Foreign Risk

Investments in securities of foreign issuers, securities of companies with significant foreign exposure, and investments in foreign currencies can involve additional risks relating to market, economic, industry, political, regulatory, geopolitical, and other conditions. Political, social, and economic developments, U.S. and foreign government action such as the imposition of currency or capital controls or tariffs, economic and trade sanctions or embargoes, entering or exiting trade or other intergovernmental agreements, or the expropriation or nationalization of assets in a particular country, can cause dramatic declines in certain or all securities with exposure to that country and other countries. Economies and financial markets are becoming more connected, which increases the likelihood that conditions in one country or region can adversely impact issuers in different countries or regions. Less stringent regulatory, accounting, and disclosure requirements for issuers and markets are more common in certain foreign countries. Enforcing legal rights can be difficult, costly, and slow in certain foreign countries, and can be particularly difficult against foreign governments. Changes in currency exchange rates can negatively impact the financial condition of a company or other issuer with exposure to multiple countries as well as affect the U.S. dollar value of foreign currency investments and investments denominated in foreign currencies. Additional risks of foreign investments include trading, settlement, custodial, and other operational risks, and withholding and other taxes. These factors can make foreign investments, especially those in emerging markets, more volatile and less liquid than U.S. investments. In addition, foreign markets can react differently to market, economic, industry, political, regulatory, geopolitical, and other conditions than the U.S. market.

This represents a principal risk for all mandates except the Municipal Fixed Income mandate.

#### Frequent Trading Risk

MFSI may engage in active and frequent trading in pursuing a portfolio's principal investment strategies. Frequent trading increases transaction costs, which may reduce the portfolio's return. Frequent trading can also result in the realization of a higher percentage of short-term capital gains and a lower percentage of long-term capital gains as compared to a portfolio that trades less frequently. Because short-term capital gains are distributed as ordinary income, this would generally increase a non-tax exempt client's tax liability.

#### Geographic Focus Risk

Issuers in a single country, a small number of countries, or a particular geographic region can react similarly to market, currency, economic, political, regulatory, geopolitical and other conditions. These

conditions include anticipated or actual government budget deficits or other financial difficulties, levels of inflation and unemployment, fiscal and monetary controls, tax policy, and political and social instability in such countries and regions. A portfolio's performance will be affected by the conditions in the countries or regions to which the portfolio is exposed.

This represents a principal risk for all mandates except the Municipal Fixed Income mandate.

#### Geographic Focus Risk – National Municipal Mandates

A portfolio's performance will be closely tied to the issuer, market, economic, industry, political, regulatory, geopolitical, and other conditions in the states, territories, and possessions of the United States in which the portfolio's assets are invested. These conditions include constitutional or statutory limits on an issuer's ability to raise revenues or increase taxes, anticipated or actual budget deficits or other financial difficulties, or changes in the credit quality of municipal issuers in such states, territories, and possessions. If a significant percentage of the portfolio's assets is invested in a single state, territory, or possession, or a small number of states, territories, or possessions, these conditions will have a significant impact on the portfolio's performance and the portfolio's performance may be more volatile than the performance of more geographically-diversified portfolios.

The sole mandate for which this represents a principal risk is Municipal Fixed Income.

#### Growth Company Risk

The stocks of growth companies can be more sensitive to the companies' earnings and more volatile than the market in general.

This represents a principal risk for the following mandates: Blended Research Large Cap Growth Equity, Global Growth, Growth Equity, International Growth, Large Cap Growth, Mid Cap Growth Equity, Small Cap Growth Equity, and Technology Equity.

#### Industry and Sector Focus Risk

Issuers in an industry or sector can react similarly to market, economic, political, regulatory, geopolitical, and other conditions, and the portfolio's performance will be affected by the conditions in the industries and sectors to which the portfolio is exposed.

This represents a principal risk for all mandates except the following: Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Credit, Global High Yield, Limited Maturity Fixed Income, Municipal Fixed Income, Technology Equity, US Core High Yield, US Corporate BB Fixed Income, US Credit, and Utilities.

### Interest Rate Risk

The price of a debt instrument typically changes in response to interest rate changes. Interest rates may change in response to the supply and demand for credit, government monetary policy and action, inflation rates, and other factors. In general, the price of a debt instrument falls when interest rates rise and rises when interest rates fall. Interest rate risk is generally greater for instruments with longer maturities, or that do not pay current interest. In addition, short-term and long-term interest rates and interest rates in different countries do not necessarily move in the same direction or by the same amount. An instrument's reaction to interest rate changes depends on the timing of its interest and principal payments and the current interest rate for each of those time periods. Instruments with floating interest rates can be less sensitive to interest rate changes. The price of an instrument trading at a negative interest rate responds to interest rate changes like other debt instruments; however, an instrument purchased at a negative interest rate is expected to produce a negative return if held to maturity.

This represents a principal risk for the following mandates: Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Emerging Market Debt Local Currency, Emerging Market Debt, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Balanced, Global Credit, Global High Yield, Limited Maturity Fixed Income, Municipal Fixed Income, US Core High Yield, US Corporate BB Fixed Income, US Credit, and Utilities.

### Investment Selection Risk (strategies that do not use quantitative models as part of principal investment strategy)

MFSI's investment analysis and its selection of investments may not produce the intended results and/or can lead to an investment focus that results in the portfolio underperforming other portfolios with similar investment strategies and/or underperforming the markets in which the portfolio invests.

This represents a principal risk for all mandates except the following: Blended Research Global Equity, Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, Blended Research US Core Equity, and Low Volatility Global Equity.

### Investment Selection Risk (strategies that use quantitative models as part of principal investment strategy)

MFSI's investment analysis, its development and use of quantitative models, and its selection of investments may not produce the intended results and/or can lead to an investment focus that results in the portfolio underperforming other portfolios with similar investment strategies and/or underperforming the markets in which the portfolio invests. Investments selected using quantitative models may not produce the intended results due to the factors used in the models, the weight placed on each factor in the models, changing sources of market return, and technical issues in the design, development, implementation, and maintenance of the models (e.g., incomplete or inaccurate data, programming or other software issues, and technology failures).



This represents a principal risk for the following mandates: Blended Research Global Equity, Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, Blended Research US Core Equity, and Low Volatility Global Equity.

#### Investment Strategy Risk - Blended Research strategy

There is no assurance that a portfolio managed in this strategy will meet its target predicted tracking error over the long term or for any year or period of years, or that a portfolio's predicted tracking error and actual tracking error will be similar. A portfolio's strategy to target a predicted tracking error of approximately 2% compared to the portfolio's index and to blend fundamental and quantitative research may not produce the intended results. In addition, MFS fundamental research is not available for all issuers.

This represents a principal risk for the following mandates: Blended Research Global Equity, Blended Research Large Cap Growth Equity, Blended Research Large Cap Value Equity, and Blended Research US Core Equity.

#### Investment Strategy Risk – Low Volatility strategy

There is no assurance that a portfolio managed in this strategy will be less volatile than the portfolio's index over the long term or for any year or period of years. A portfolio's strategy to invest in equity securities with historically lower volatility may not produce the intended results if, in general, the historical volatility of an equity security is not a good predictor of the future volatility of that equity security, and/or if the specific equity securities held by the portfolio become more volatile than expected. In addition, a portfolio's strategy to blend fundamental and quantitative research may not produce the intended results, and MFS fundamental research is not available for all issuers. It is expected that a portfolio managed in this strategy will generally underperform the equity markets during strong, rising equity markets.

The sole mandate for which this represents a principal risk is Low Volatility Global Equity.

#### Issuer Focus Risk

If a portfolio invests a significant percentage of the portfolio's assets in a single issuer or small number of issuers, the portfolio's performance will be affected by economic, industry, political, regulatory, geopolitical, and other conditions that impact that one issuer or those issuers, and could be more volatile than the performance of more diversified portfolios.

This represents a principal risk for the following mandates: Technology Equity, Emerging Market Debt Local Currency, International Concentrated Equity, Global Concentrated Equity, and Japan Equity.

#### Latin American Market Risk

All of the countries in the Latin American region are currently considered emerging market economies. High interest, inflation (in some cases substantial and prolonged), and unemployment rates have

historically characterized most Latin American economies. These economies are less developed and can be reliant on particular industries and more vulnerable to changes in international trade, trade barriers and other protectionist or retaliatory measures. The economies of Latin American countries are particularly sensitive to fluctuations in commodity prices because commodities such as agricultural products, minerals and metals represent a significant percentage of exports of many Latin American countries. Governments of many Latin American countries exercise influence over many aspects of the private sector, and any such exercise could have a significant effect on issuers in which the portfolio invests. Moreover, some Latin American countries have histories of instability and upheaval that could cause their government to act in a detrimental or hostile manner toward private enterprise or foreign investment.

The sole mandate for which this represents a principal risk is Latin American Equity.

#### Leveraging Risk

Certain transactions and investment strategies can result in leverage. Leverage involves investment exposure in an amount exceeding the initial investment. In transactions involving leverage, a relatively small change in an underlying indicator can lead to significantly larger losses to a portfolio. Leverage can cause increased volatility by magnifying gains or losses.

#### Liquidity Risk

Certain investments and types of investments are subject to restrictions on resale, may trade in the over-the-counter market, or may not have an active trading market due to adverse market, economic, industry, political, regulatory, geopolitical, and other conditions. At times, all or a significant portion of segments of the market may not have an active trading market. Without an active trading market, it may be difficult to value, and it may not be possible to sell these investments and the portfolio may have to sell certain of these investments at a price or time that is not advantageous. The price of illiquid securities may be more volatile than more liquid investments.

#### Mid Cap Risk

The stocks of mid cap companies can be more volatile than stocks of larger companies due to limited product lines, financial and management resources, and market and distribution channels. Their shares can be less liquid than those of larger companies, especially during market declines.

This represents a principal risk for the following mandates: Mid Cap Growth Equity and Mid Cap Value Equity.

#### Municipal Risk

The price of a municipal instrument can be volatile and significantly affected by adverse tax or court rulings, legislative or political changes, market and economic conditions, issuer, industry-specific and other conditions. Municipal instruments can be less liquid than other types of investments and there may

be less publicly available information about the issuers of municipal instruments compared to other issuers. If the Internal Revenue Service or a state taxing authority determines that an issuer of a municipal instrument has not complied with applicable tax requirements, interest from the instrument could become taxable (including retroactively) and the instrument could decline significantly in price. Because many municipal instruments are issued to finance similar projects, especially those relating to education, health care, housing, utilities, and water and sewer, conditions in these industries can significantly affect the portfolio and the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market.

This represents a principal risk for the following mandates: Core Fixed Income, Core Plus Fixed Income, and Municipal Fixed Income.

#### Prepayment/Extension Risk

Many types of debt instruments, including mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, certain corporate bonds, and municipal housing bonds, and certain derivatives, are subject to the risk of prepayment and/or extension. Prepayment occurs when unscheduled payments of principal are made or the instrument is called or redeemed prior to an instrument's maturity. When interest rates decline, the instrument is called, or for other reasons, these debt instruments may be repaid more quickly than expected. As a result, the holder of the debt instrument may not be able to reinvest the proceeds at the same interest rate or on the same terms, reducing the potential for gain. When interest rates increase or for other reasons, these debt instruments may be repaid more slowly than expected, increasing the potential for loss. In addition, prepayment rates are difficult to predict and the potential impact of prepayment on the price of a debt instrument depends on the terms of the instrument.

This represents a principal risk for the following mandates: Core Fixed Income, Core Plus Fixed Income, Domestic Balanced, Global Aggregate Core Plus, Global Aggregate Core, Global Aggregate Opportunistic, Global Balanced, Global Credit, Limited Maturity Fixed Income, Municipal Fixed Income, US Corporate BB Fixed Income and US Credit.

#### Real Estate Investment Trust Risk

A real estate investment trust ("REIT") is a company that owns, and in many cases operates, income-producing real estate or real estate related assets. The risks of investing in REITs include certain risks associated with the direct ownership of real estate and the real estate industry in general. REITs are affected by general, regional, and local economic conditions; difficulties in valuing and disposing of real estate; fluctuations in interest rates and property tax rates; shifts in zoning laws, environmental regulations, and other governmental action; cash flow dependency; increased operating expenses; lack of availability of mortgage funds; losses due to natural disasters; overbuilding; losses due to casualty or condemnation; changes in property values and rental rates; the management skill and creditworthiness of the REIT manager; and other factors. Many real estate-related issuers, including REITs, utilize leverage (and some may be highly leveraged), which increases investment risk and could adversely affect the

issuer's operations and market value in periods of rising interest rates. The securities of smaller real estate-related issuers can be more volatile and less liquid than securities of larger issuers and their issuers can have more limited financial resources.

REITs could be adversely affected by failure to qualify for the tax-advantaged treatment available to REITs under the Internal Revenue Code of 1986, as amended, or to maintain their exemption from registration under the 1940 Act, and similar risks may also apply to securities of entities similar to REITs formed under the laws of non-U.S. countries.

The sole mandate for which this represents a principal risk is Mid Cap Value Equity.

#### Short Sales Risk

A security sold short is closed out at a loss if the price of the security sold short increases between the time of the short sale and closing out the short position. It may not be possible to close out a short position at any particular time or at an acceptable price. Short sales can involve leverage. Investing the proceeds from short sale positions in other securities subjects a portfolio to the risks of the securities purchased with the proceeds in addition to the risks of the securities sold short.

The sole mandate for which this represents a principal risk is Technology Equity.

#### Small Cap Risk

The stocks of small cap companies can be more volatile than the stocks of larger companies due to limited product lines, financial and management resources, market and distribution channels. Small cap companies may have shorter operating histories and more limited publicly available information than larger, well-established companies. Their shares can be less liquid than those of larger companies, especially during market declines.

The sole mandate for which this represents a principal risk is Small Cap Growth Equity.

#### Small to Medium Cap Risk

The stocks of small to medium cap companies can be more volatile than the stocks of larger companies due to limited product lines, financial and management resources, and market and distribution channels. Small to medium cap companies often have shorter operating histories than larger, well-established companies. Their shares can be less liquid than those of larger companies, especially during market declines.

The sole mandate for which this represents a principal risk is International Small Cap Equity.

#### Technology Concentration Risk

The portfolio's performance will be closely tied to the performance of issuers in a limited number of industries. Companies in a single industry can react similarly to market, economic, industry, political,

regulatory, geopolitical and other conditions. As a result, the portfolio's performance can be more volatile than the performance of more broadly-diversified portfolios.

The price of stocks in the technology sector can be very volatile, especially over the short term, due to the rapid pace of product change and technological developments. Issuers in the technology sector are subject to significant competitive pressures, such as new market entrants, short product cycles, competition for market share, and falling prices and profits. Issuers doing business in the technology area also face the risk that new services, equipment, or technologies will not be commercially successful, or will rapidly become obsolete.

The sole mandate for which this represents a principal risk is Technology Equity.

#### Utilities Concentration Risk

The portfolio's performance will be closely tied to the performance of issuers in a limited number of industries. Issuers in a single industry can react similarly to market, economic, industry, political, regulatory, geopolitical, and other conditions. As a result, the portfolio's performance could be more volatile than the performance of more broadly-diversified portfolios.

Issuers in the utilities sector are subject to many risks, including the following: increase in fuel and other operating costs; restrictions on operations, increased costs, and delays as a result of environmental and safety regulations; coping with the impact of energy conservation and other factors reducing the demand for services; technological innovations that may render existing plans, equipment or products obsolete; the potential impact of natural or man-made disasters; difficulty in obtaining adequate returns on invested capital; difficulty in obtaining approval of rate increases; the high cost of obtaining financing, particularly during periods of inflation; increased competition resulting from deregulation, overcapacity, and pricing pressures; and the negative impact of regulation.

Issuers doing business in the telecommunications area are subject to many risks, including the negative impact of regulation, a competitive marketplace, difficulty in obtaining financing, rapid obsolescence, and agreements linking future rate increases to inflation or other factors not directly related to the active operating profits of the issuer.

The sole mandate for which this represents a principal risk is Utilities.

#### Value Company Risk

The stocks of value companies can continue to be undervalued for long periods of time and not realize their expected value and can be more volatile than the market in general.

This represents a principal risk for the following mandates: Blended Research Large Cap Value Equity, Domestic Balanced, European Value, Global Balanced, Global Value, International Value, Large Cap Value, and Mid Cap Value Equity.

## ***Item 9 – Disciplinary Information***

Nothing to report.

## ***Item 10 – Other Financial Industry Activities and Affiliations***

As described above in Item 4, *Advisory Business*, MFSI is part of the MFS Global Group, which consists of investment advisers with investment professionals located in Australia, Hong Kong, Japan, Singapore, Brazil, Mexico, Canada, Portugal, and the United Kingdom, as well as MFS Global Group operations in the United States. Moreover, as mentioned in Item 8, *Methods of Analysis, Investment Strategies and Risk of Loss*, from time to time, MFSI benefits from sharing research with its Participating Affiliates and may also share investment personnel among the Participating Affiliates pursuant to the previously described MOU. The investment professionals of each affiliated investment adviser in the MFS Global Group contribute to the management of client portfolios in the MFS Global Group. Supervision of such portfolio management is the responsibility of the officers and employees of each Participating Affiliate and MFS. In addition, MFS' trading personnel are responsible for implementing portfolio management decisions relating to client portfolios, including clients of MFSI. Specific decisions to purchase or sell a client's portfolio securities are made by individuals affiliated with MFSI. Any such individual may serve other clients of MFSI or any affiliate of MFSI in a similar capacity.

The activities of the Participating Affiliates within the MFS Global Group are described more fully below. The MOU also designates certain advisory personnel of the Participating Affiliates as Participating Employees for purposes of regulatory supervision.

- **MIL UK.** MIL UK is an indirect, wholly-owned subsidiary of MFS. MIL UK is organized under the laws of England and Wales. MIL UK provides investment research, advice and management services with respect to various non-U.S. registered products or non-U.S. clients, including those for which MFSI and/or its affiliates act as an investment adviser or sub-adviser. As a Participating Affiliate within the MFS Global Group, MIL UK also provides investment research, advice and management services with respect to various U.S. registered products or U.S. clients, including those for which MFSI and/or its affiliates acts as an investment adviser or sub-adviser.
- **MIMKK.** MIMKK is an indirect, wholly-owned subsidiary of MFS organized under the laws of Japan. MIMKK provides investment advisory services and related distribution services for certain non-U.S. registered products or non-U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser. As a Participating Affiliate within the MFS Global Group, MIMKK also provides investment advisory services and related distribution services outside the United States for certain U.S. registered products or U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser.
- **MFS Canada.** MFS Canada, an indirect wholly-owned subsidiary of MFSI, is an investment adviser headquartered in Toronto, Ontario, Canada and registered in each of the provinces and territories of Canada. MFS Canada provides services to pension, corporate, foundation and other non-retail portfolios based in Canada. These portfolios are managed through the use of private pooled investment funds, and/or individual securities offered and sold to non-U.S. persons. MFS Canada provides investment advisory services for certain non-U.S. registered and unregistered

commingled products or non-U.S. clients for which MFS Canada and/or its affiliates acts as investment adviser or sub-adviser. As a Participating Affiliate within the MFS Global Group, MFS Canada also provides investment advisory services outside the United States for certain U.S. registered products or U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser.

- **MFS Lux.** MFS Lux, an indirect, wholly-owned subsidiary of MFS, is a société à responsabilité limitée organized under Luxembourg law. MFS Lux provides management, administration, and distribution services outside the United States to certain non-U.S. investment products for which MFS acts as investment manager.
- **MIL HK.** MIL HK is an indirect, wholly-owned subsidiary of MFS and provides investment management and marketing support services outside the United States. As a Participating Affiliate within the MFS Global Group, MIL HK also provides investment advisory services outside the United States for certain U.S. registered investment companies or U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser.
- **MFSI Singapore.** MFSI Singapore is an indirect, wholly owned subsidiary of MFS and is organized under the laws of Singapore. MFSI Singapore provides investment management, investment research, investment advice and distribution related services outside the United States for certain non-U.S. separate account clients and non-U.S. registered products that may be advised or sub-advised by MFS or MFSI and/or its affiliates. As a Participating Affiliate within the MFS Global Group, MFSI Singapore also provides investment advisory services outside the United States for certain U.S. registered investment companies or U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser.
- **MFSI Australia.** MFSI Australia is an Australian proprietary limited liability company and an indirect, wholly owned subsidiary of MFS. MFSI Australia holds an Australian Financial Services License and provides investment management, research, and advice, as well as distribution related services, for institutional separate accounts and pooled investment vehicles in Australia.

In addition to the Participating Affiliates, MFSI also has arrangements material to its advisory business or its clients with the following affiliated entities:

#### MFS

MFS, an investment adviser registered with the SEC and a commodity trading advisor and commodity pool operator registered with the U.S. Commodity Futures Trading Commission ("CFTC"), is a subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc., and an indirect subsidiary of Sun Life Financial Inc. MFS is the direct parent company of MFSI and provides certain investment management and related services to MFSI, including day-to-day management of and trading for client portfolios. The President of MFSI—Carol Geremia—is also registered with the CFTC as an associated person of MFS.



#### MFS Fund Distributors, Inc. ("MFD")

MFD, a registered broker-dealer and wholly-owned subsidiary of MFS, acts as distributor for most of the U.S. registered open-end management investment companies for which MFS acts as the primary investment adviser. The President of MFSI—Carol Geremia—is also a registered representative of MFD. The agreements under which MFD serves as distributor are subject to annual approval by the independent trustees of the MFS Funds.

#### MFS Heritage Trust Company ("MHTC")

MHTC, a wholly-owned subsidiary of MFS, is a New Hampshire-chartered non-depository trust company that serves as a directed trustee or custodian of certain employer-sponsored retirement plans and individual retirement accounts, as well as trustee, manager and administrator for collective investment trusts offered to eligible investors. MFSI provides client introductions and client servicing support to MHTC for its collective investment trusts.

#### MFS International Ltd. ("MIL")

MIL provides distribution services outside the United States for various investment products and services, including distribution of products advised or sub-advised by MFSI or MFS.

#### MFS International Switzerland GmbH ("MFSI Switzerland")

MFSI Switzerland is a wholly-owned subsidiary of MIL UK. MFSI Switzerland is organized as a company with limited liability under the laws of Switzerland. MFSI Switzerland provides distribution and marketing services outside of the United States for various non-U.S. registered products or non-U.S. clients, including those for which MFSI and/or its affiliates acts as an investment adviser or sub-adviser.

#### SLF entities

Currently, MFSI sub-advises a number of Canadian mutual fund trusts managed by Sun Life Global Investments (Canada) Inc. and manages client assets on behalf of certain other subsidiaries of SLF.

## ***Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

### **Participation or Interest in Client Transactions**

MFSI and its affiliates act as investment manager to numerous client portfolios and may give advice or take action with respect to a client portfolio, or for their own portfolios, that differs from action taken on behalf of other portfolios. MFS Global Group members, including MFSI, are not obligated to provide the same investment opportunities to all portfolios other than to the extent that may be required by the current policies or procedures of the relevant MFS Global Group member. From time to time, MFSI may take an investment action or decision for one or more portfolios that may be different from, or inconsistent with, an action or decision taken for one or more other portfolios that have different investment objectives, and such actions may be taken at different, potentially inopportune, times. The difference in timing could result in increased implementation costs, such portfolios could be diluted, the values, prices or investment strategies of another portfolio could be impaired or such portfolios could otherwise be disadvantaged. For example, one portfolio may buy a security and another portfolio may subsequently establish a short position in that same security or with respect to another security of that issuer. The subsequent short sale may result in a decrease in the price of the security which the first portfolio holds. Conversely, potential conflicts may also arise because portfolio decisions effected for one portfolio may result in a benefit to other portfolios. For example, one portfolio may purchase a security or cover a short position in a security, which may increase the price of the same security held by other portfolios, therefore benefitting those other portfolios. These effects may be particularly pronounced in less liquid strategies.

Currently, MFSI sub-advises a number of Canadian mutual fund trusts managed by Sun Life Global Investments (Canada) Inc. and manages client assets on behalf of certain other subsidiaries of SLF, and MFSI may have an incentive to favor such portfolios.

Certain portfolios to which MFSI or another MFS Global Group member provides investment management services may be beneficially owned, in whole or in part, by MFSI or its affiliates (including MFS) and/or their respective officers and employees. MFS Global Group's management of such portfolios presents at least three potential conflicts: 1) charging a performance-based fee (the MFS Global Group member has an incentive to favor a performance-based fee portfolio to maximize fee revenue); 2) investment of proprietary assets (the MFS Global Group member invests proprietary assets in such portfolios and therefore has an incentive to favor its investments to maximize its return); and 3) portfolio manager investment in such portfolios (a portfolio manager has an incentive to favor portfolios in which he/she is invested in order to maximize the return of his/her investment). Please also refer to Item 6, *Performance Based Fees and Side by Side Management*, and Item 12, *Brokerage Practices*, for discussions of the manner in which MFS addresses such potential conflicts of interest.

MFS has also established and seeded a number of Proprietary Portfolios (as defined in Item 12, *Brokerage Practices*), each with not more than \$25 million, for the purpose of establishing a performance record to enable MFS or one of its subsidiaries to offer such a portfolio's investment style to clients (each, an "MFS Pilot Fund") (an MFS Pilot Fund may also include client investments in certain circumstances). MFSI may purchase on behalf of one or more client portfolios the same securities or other financial instruments as those held in an MFS Pilot Fund. Such client portfolios may be managed in a similar style to the MFS Pilot Fund or pursuant to a different investment style than the MFS Pilot Fund. MFS may have an incentive to favor an MFS Pilot Fund to create a good track record to maximize distribution opportunities. Additionally, although trading by MFS Pilot Funds are not restricted to the same degree as trading by Access Persons as discussed below, an MFS Pilot Fund is subject to special trading restrictions that are described more fully under the caption "Order Aggregation and Allocation Practices" in Item 12, *Brokerage Practices*, below.

Further, employees of the MFS Global Group may invest or otherwise have an interest in securities owned by or recommended to MFSI's clients. Such employees may also invest or otherwise have an interest, either directly or indirectly, in private funds that may invest in securities held in other client portfolios.

Conflicts may also arise in cases where portfolios invest in different parts of an issuer's capital structure. If an issuer in which different portfolios hold different classes of securities (or other assets, instruments or obligations issued by such issuer) encounters financial problems, decisions over the terms of any workout will raise conflicts of interests. To avoid such conflicts, MFSI may refrain from participating or may exercise the rights of all such portfolios to the fullest extent, even though doing so may disadvantage some portfolios. As the situations described above may give rise to potential conflicts of interest, MFSI has implemented policies and procedures relating to, among other things, portfolio management and trading practices, personal securities transactions, and insider trading. These policies and procedures are intended to mitigate conflicts of interest with or among clients and to resolve them appropriately when they do occur.

#### **MFS Investment Management Code of Ethics/Personal Investing Policy**

The MFS Investment Management Code of Ethics/Personal Investing Policy (the "Policy"), applicable to MFSI as a subsidiary of MFS, includes standards of business conduct requiring employees to comply with pertinent U.S. federal securities laws and the fiduciary duties an investment adviser owes its clients. The overarching purpose of the Policy is to ensure that the interests of clients are always placed first. Accordingly, in governing the personal trading of employees, including officers and directors, the Policy requires them to avoid (i) placing personal interests ahead of clients' interest; (ii) creating actual or potential conflicts of interest between personal activities and client activities; and (iii) taking advantage of their position to misappropriate investment opportunities from clients. All employees are obligated to report personal and beneficially owned portfolios as well as holdings and transactions in reportable securities, including mutual funds managed or sub-advised by MFS. In addition, employees are obligated to certify to transactions and holdings in reportable securities to the extent required under the Policy. However, neither MFSI nor any of its employees is obligated to refrain from investing in securities held by

the portfolios that it manages except to the extent that such investments violate applicable law, the Policy, or other policies of MFS or MFSI.

In addition, employees deemed to be Access Persons (which, as defined in the Policy, includes all investment personnel) must receive pre-clearance authorization to execute transactions in designated reportable securities for personal and beneficially owned accounts.

Portfolio managers are prohibited from trading a security for their personal account (i) for seven calendar days after a transaction in the same or similar security in a client portfolio managed by the portfolio manager and (ii) for seven calendar days before a transaction in the same or similar security in a client portfolio managed by the portfolio manager if the portfolio manager has reason to believe that such client portfolio is reasonably likely to trade the same or similar security within seven calendar days after a transaction in the portfolio manager's personal account. Portfolio managers are also prohibited from short-term trades in funds that they manage (*i.e.*, personally (i) buying and selling, or (ii) selling and buying, shares of any mutual fund managed by the portfolio manager within a 14 calendar day period). For these purposes, research analysts who support client portfolios that do not otherwise employ portfolio managers are themselves treated as portfolio managers.

All employees are required to certify quarterly that they have complied with the terms of the Policy. Violations of the Policy are reviewed with the MFS Committee charged with oversight of the Policy, which determines appropriate disciplinary action that may be taken for violations. Disciplinary action includes, but is not limited to, written warnings, monetary penalties, restrictions on personal trading, profit disgorgement, and/or termination of employment.

In limited circumstances, the MFS committee charged with oversight of the Policy has the authority to grant exceptions to the provisions of the Policy on a case-by-case basis.

The Policy is intended to limit the investment activity of Access Persons and Investment Personnel (as defined in the Policy) so that it is not detrimental to clients of MFS or MFSI. Please also refer to Item 12, *Brokerage Practices*, below, for a discussion of MFSI's practices with respect to potential conflicts arising from the recommendation or disposition of securities for both client portfolios and portfolios beneficially owned by institutions within the MFS Global Group.

A copy of the Policy is available to clients and prospective clients upon request.

### **Inside Information Policy**

MFSI and its related persons may, from time to time, come into possession of material, nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, MFSI may be prohibited from improperly disclosing or using such information for its personal benefit or for the benefit of any other person, regardless of whether such other person is an advisory client. Accordingly, should MFSI come into possession of material, nonpublic or other confidential information with respect to any company, it may be prohibited from communicating

such information to, or using such information for the benefit of its managed portfolios, and have no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, such portfolios when following policies and procedures designed to comply with law. To this end, MFS maintains an Inside Information Policy, to which the MFS Global Group, including MFSI, is subject, that establishes procedures to prevent the misuse of material, nonpublic information concerning an issuer of securities by MFSI and its officers, directors and employees. The policy provides that if any of the directors, officers and employees of MFS or any of its subsidiaries obtain material, nonpublic information concerning an issuer of securities, MFSI is prohibited from using such information for its own and its clients' benefit. For purposes of the policy, "using" material, nonpublic information includes trading activity while in possession of such information.

#### **Investment in MFSI's Ultimate Parent Company**

As a matter of corporate policy, MFSI does not invest the assets of any client in securities of SLF.

#### **Identification and Resolution of Errors**

MFS maintains a Trade Error Policy, to which the MFS Global Group is subject. The Trade Error Policy applies to trades that were not authorized by the responsible portfolio manager, trades that were erroneously authorized by the portfolio manager or trades that result in a violation of an applicable legal or contractual constraint on a client portfolio (collectively, "Trade Errors"). The Trade Error Policy is intended to prevent the use of client assets to correct Trade Errors caused by MFSI. Trade Errors are reported to MFS' Corporate Compliance Department, and associated documentation, including a description of the error, resolution and action(s) taken to prevent re-occurrence are reviewed monthly by the MFS Committee charged with oversight of Trade Errors. The Committee's members include a cross-functional group of senior professionals.

## ***Item 12 – Brokerage Practices***

The following is a general discussion of MFSI's brokerage practices, which in certain circumstances may be varied by specific direction of the client. At its discretion, MFSI may accept advisory accounts for which MFSI must utilize only brokers chosen by the client or advisory accounts on which clients may impose reasonable limits on MFSI's investment discretion if the client agrees to waive MFSI's obligation to seek best execution of the client's transactions (ERISA may prohibit such a waiver).

### **Trading Venues and Methods**

MFSI places trades in various manners including through different broker/dealers, agency brokers, principal market-making dealers, smaller brokers and dealers, which may specialize in particular regions or asset classes, futures commission merchants and OTC derivatives dealers (each, a “broker” for purposes of the discussion in this section). MFSI also utilizes electronic trading methods, including electronic communications networks (“ECNs”) (including, without limitation, multilateral trading facilities (“MTFs”) and alternative trading systems (“ATs”)). These trading platforms often, in the case of equity transactions, execute transactions at a commission rate lower than that charged by a full-service broker. MFS owns a 4.9% stake in Luminex Trading & Analytics LLC (“Luminex”), an alternative trading system. While there may be an economic incentive for MFSI to route orders to Luminex to enhance its profitability, Luminex currently runs as close to break-even as possible while remaining financially sound and self-sustaining. Since Luminex does not currently seek to earn a profit on transactions, MFSI should not increase Luminex's profitability by routing more trades to it.

When making trading decisions, MFSI selects venues and methods in order to seek best execution for client transactions. These decisions are influenced by a number of factors which are described more specifically below. Transaction costs may include market impact costs and opportunity costs as well as commission costs (which in the United States, are typically measured in cents per share, while in most non-U.S. jurisdictions, are typically measured in basis points). Brokers, generally, are used on a full service, execution-only or direct access basis.

Brokers may either receive a commission, which is generally negotiable and may vary depending on the type of broker and market, or for trades executed on a “net” basis in lieu of a commission, retain the difference (or a portion of the difference) between the buying price and the selling price (*i.e.*, the “spread”). Most domestic transactions in equity securities are executed in OTC markets or listed markets (*e.g.*, the New York Stock Exchange) on a commission or commission equivalent basis. Transactions in foreign equity securities are normally executed on foreign exchanges. Foreign equity securities are typically subject to a fixed commission rate which is negotiated on a country-by-country basis. Fixed income securities are generally traded on a net basis directly with a broker.

## Selection of Brokers

Except as discussed below with respect to clients who have limited MFSI's brokerage discretion, MFSI places all orders for the purchase or sale of securities through MFS trading personnel with the primary objective of seeking to obtain the best execution from responsible executing brokers at competitive rates. MFSI seeks to deal with brokers who can provide high-quality execution services.

In seeking best execution, MFSI takes into account all factors that it considers to be relevant, including, by way of illustration: price; the size of the transaction; the nature of the market or the security; the amount of the commission; the timing and impact of the transaction, considering market prices and trends; the reputation, experience and financial stability of the broker involved; the willingness of the broker to commit capital; the need for anonymity in the market; and the quality of services rendered by the broker in other transactions, which may include the quality of the research and brokerage services provided by the broker. In seeking best execution, MFSI is not required to take into account charges imposed upon clients by third parties, such as ticket charges that may be imposed by a client's custodian.

Commission rates for equity securities and some derivatives may vary depending upon the trading techniques, methods, venues and brokers selected, as well as the market(s) in which the securities are traded and their relative liquidity. As noted above, MFSI may utilize numerous brokers and trading venues and strategies in order to seek best execution for client transactions. MFSI periodically and systematically reviews the performance of the brokers that execute its transactions, including the commission rates paid to brokers, by considering the value and quality of brokerage and research services provided. The quality of a broker's services is measured by analyzing various factors that could affect the execution of trades. These factors include the ability to execute trades with a minimum of market impact, the speed and efficiency of executions, electronic trading capabilities, adequacy of capital, commitment of capital when necessary or desirable, market color provided to the investment adviser, and accommodation of the investment adviser's special needs. MFSI may employ outside vendors to provide reports on the quality of broker executions.

In the case of securities traded in the OTC market, portfolio transactions may be effected either on an agency basis, which involves the payment of negotiated brokerage commissions to the broker (including ECNs, MTFs, or ATSs), or on a principal basis, at net prices without commissions but including compensation to the broker in the form of a mark-up or mark-down, depending on where MFSI believes best execution is available. In the case of securities purchased from underwriters, the cost of such securities generally includes a fixed underwriting commission or concession. From time to time, soliciting dealer fees are available to MFSI on tender or exchange offers. Such soliciting or dealer fees are in effect recaptured by the clients.

MFSI believes that the MFS Global Group's order aggregation and allocation practices are reasonably designed to ensure that clients receive fair and equitable treatment over time. However, as described in greater detail below, the foregoing practices may have a detrimental effect on the price or availability of a security with respect to a particular client's portfolio.

## **“Soft Dollars”**

In allocating brokerage, MFSI may take into consideration the receipt of research and brokerage services, consistent with its obligation to seek best execution for client transactions. As permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended (“Section 28(e)”), MFSI may cause clients to pay a broker that provides “brokerage and research services” (as defined by Section 28(e)) to MFSI an amount of commission for effecting a securities transaction for clients in excess of the amount other brokers would have charged for the transaction if MFSI determines in good faith that the greater commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker viewed in terms of either a particular transaction or MFSI’s overall responsibilities to the client and its other clients. “Commissions,” as currently interpreted by the SEC, include fees paid to brokers for trades conducted on an agency basis, and certain mark-ups, mark-downs, commission equivalents and other fees received by dealers in riskless principal transactions as well as any separately identifiable charge for brokerage and research services collected together with the transaction charge for execution in connection with the purchase and sale of portfolio securities.

The term “brokerage and research services” includes:

- advice as to the value of securities; the advisability of investing in, purchasing, or selling securities; and the availability of securities or purchasers or sellers of securities;
- furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of portfolios; and
- effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or required in connection therewith by applicable rules.

Such services can include:

- access to corporate management ("Corporate Access");
- industry conferences;
- research field trips to visit corporate management and/or to tour manufacturing, production or distribution facilities;
- statistical, research and other factual information or services such as investment research reports;
- access to analysts;
- execution systems and trading analytics;
- reports or databases containing corporate, fundamental, and technical analyses;
- portfolio modeling strategies; and



- economic research services, such as publications, chart services, and advice from economists concerning macroeconomics information, and analytical investment information about particular corporations (collectively, "Research").

MFSI has entered into client commission agreements with certain broker-dealers that execute, clear or settle securities transactions on behalf of clients (collectively, "Executing Brokers") which provide for the Executing Brokers to pool a portion of the Commissions paid by MFSI's clients for securities transactions ("Pooled Commissions"). Pooled Commissions also include a portion of the commissions paid in connection with the transactions of other members of the MFS Global Group. Executing Brokers pay a portion of Pooled Commissions to providers of Research to MFSI ("Research Providers"). To the extent a Research Provider plays no role in executing client securities transactions, any Research prepared by that Research Provider would constitute third party research. MFSI may use brokerage commissions, including Pooled Commissions, from client portfolio transactions to acquire Research, subject to the procedures and limitations described in this discussion. "Research Commissions" as used in the discussion below represent the portion of Commissions or "Other Compensation" (as defined below) that is paid on client transactions in excess of the portion that compensates the broker or dealer for executing, clearing and/or settling the transaction.

MFS establishes a semi-annual budget for Research paid for with Research Commissions ("Global Budget"). The MFS Global Group allocates Research Commissions through a research vote process ("Research Vote") in which MFSI and other MFS Global Group investment professionals assess the value of Research provided to MFSI, as well as other members of the MFS Global Group, by Research Providers (which may include Executing Brokers) ("Research Firms") during the period. MFSI ascribes a dollar amount to each vote which, in total, is intended to equal the Global Budget for the period. Investment professionals are not required to spend all of their votes. MFSI uses the Research Vote as a guide for allocating Pooled Commissions to Research Firms subject to each semi-annual period's Global Budget. Compensation for Research may also be made pursuant to commissions paid on trades ("Trade Commissions") executed by a Research Provider who is registered as a broker-dealer (a "Broker Provider"), other than Executing Brokers. To the extent that payments for Research to a Broker Provider are made pursuant to Trade Commissions, MFSI, as well as other members of the MFS Global Group, will reduce the amount of Pooled Commissions to be paid to that Broker Provider for its Research by a portion of the Trade Commission. MFSI, as well as other members of the MFS Global Group, reserves the right to pay cash to the Research Firm from its own resources in an amount MFS determines in its discretion.

The MFS Global Group currently conducts two separate Research Votes. One Research Vote is used to allocate among Research Firms those Research Commissions attributable to investment decisions taken by a manager on behalf of MIL UK clients ("MIL UK Vote"), while the other Research Vote is used to allocate among Research Firms those Research Commissions attributable to investment decisions taken by a manager on behalf of clients of another member of the MFS Global Group ("MFS Global Group Vote"). The principal difference between the MFS Global Group Vote and the MIL UK Vote is that members of the MFS Global Group investment staff may take into account Corporate Access in the MFS Global Group Vote but may not take into account Corporate Access in the MIL UK Vote.

If MFSI determines that any service or product has a mixed use (*i.e.*, it also serves functions that do not assist the investment decision-making or trading process), MFSI may allocate the costs of such service or product accordingly in its reasonable discretion. MFSI will allocate Research Commissions to Research Firms only for the portion of the service or product that MFSI determines assists it in the investment decision-making or trading process, and will pay for the remaining value of the product or service in cash. The Research is provided to MFSI for no consideration other than Research Commissions. In determining whether a service or product qualifies as “brokerage and research services”, MFSI evaluates whether the service or product provides lawful and appropriate assistance to MFSI in carrying out its investment decision-making responsibilities. It is often not possible to place a dollar value on the brokerage and research services provided to MFSI by brokers. The determination and evaluation of the reasonableness of the Research Commissions paid is based primarily on the professional opinions of the investment professionals who utilize the Research provided by the broker-dealers.

In certain instances, MFSI provides discretionary investment management services to a client of a Participating Affiliate pursuant to a delegation of investment management authority or pursuant to a sub-advisory agreement between the Participating Affiliate and MFSI. A Participating Affiliate may utilize fees paid in non-U.S. transactions executed on behalf of non-U.S. clients that do not fall within the definition of Commissions as interpreted by the SEC (*e.g.*, compensation generated in principal and certain riskless principal transactions) (“Other Compensation”) to purchase Research in accordance with rules issued by the U.K. Financial Conduct Authority or Canadian national instruments that govern money managers’ use of client commissions. MFSI’s portfolio management activities on behalf of non-U.S. clients of Participating Affiliates, pursuant to MFSI’s investment management authority, may cause these clients to generate Other Compensation in connection with transactions effected on behalf of those clients. In addition, trading personnel may effect portfolio transactions on behalf of non-U.S. clients of Participating Affiliates. Therefore, MFSI may obtain Research, or benefit from Research obtained, through transactions that may fall outside the safe harbor afforded by Section 28(e). However, no MFS Global Group member will use Other Compensation to purchase products or services other than Research. In addition, MFSI and MFS will not utilize Other Compensation generated in transactions effected on behalf of MFSI’s and MFS’ clients to purchase Research.

The advisory fee paid by MFSI’s clients is not reduced as a consequence of MFSI’s receipt of Research. To the extent the clients’ portfolio transactions are used to obtain Research, the brokerage commissions paid by the clients might exceed those that might otherwise be paid for execution only.

Through the use of Research acquired with Research Commissions, MFSI avoids the additional expenses that it would incur if it developed comparable information through its own staff or if it purchased such Research with its own resources. As a result, the clients pay more for their portfolio transactions than if MFSI caused clients to pay execution only rates. MFSI may have an incentive to select or recommend a broker based on its interest in receiving the Research rather than the client’s interest in receiving lower commission rates. The Research received may be useful and of value to MFSI or other members of the MFS Global Group in serving both the client portfolios that generated the commissions and other clients of MFSI or other members of the MFS Global Group. Accordingly, not all of the Research provided by

brokers through which client securities transactions are effected may be used by MFSI in connection with the clients whose portfolio generated the brokerage commissions.

### **Private Portfolio Management (“PPM”) Portfolio Brokerage**

Except as described below, brokerage transactions for PPM participants are generally directed through a sponsoring broker or its affiliates, which may limit or adversely affect the quality of execution that such participants might otherwise have received. For example, wrap fees generally cover the costs of brokerage commissions and other charges only for transactions effected through the PPM program sponsors or their affiliates. Thus, although its arrangements with certain PPM program sponsors allow MFSI the discretion to select other brokers in an effort to seek best execution for participant portfolios, many transactions in such cases will continue to be effected through the sponsor or its affiliates so that participants are not charged separate commissions and related costs for these transactions. If permitted under the PPM program, MFSI may trade away from the sponsor in certain instances consistent with the goal of seeking best execution, including, without limitation, to maintain the unity of an order or to consolidate trade execution with one broker thereby alleviating order fragmentation. MFSI generally believes that the PPM program sponsor is better able than MFSI to judge whether causing PPM participants to be charged additional commissions above those embedded in the PPM program is advantageous to participants in the sponsor's PPM program. However, this means that PPM portfolios are unlikely to be executed at the same time through the same executing broker as institutional portfolios when buying or selling the same securities. See discussion under the caption "Order Aggregation and Allocation Practices", below, for more information on the potential consequences of separating these transactions. As a result of the PPM program structure in most instances, MFSI is not in a position effectively to monitor or evaluate the nature and quality of the services participants receive from the PPM program sponsors. Additionally, in UMA programs, the sponsor or another third party may also perform various maintenance trades on behalf of program participants (i.e. trades required due to opening new portfolios, closing existing portfolios, and effecting additions to or reductions in open portfolios). Where the UMA sponsor does perform maintenance trades, it generally directs those trades to itself or its affiliates and, other than providing the portfolio model, MFSI neither participates in, nor is responsible for, those transactions. If permitted under the relevant UMA program, in the event that assets in an MFSI model included in the sponsor's UMA program reach approximately \$100 million or more, MFSI generally seeks to reserve the right to provide trade execution services in connection with certain trades resulting from changes in the MFSI model. Factors that MFSI takes into consideration when making a determination as to whether it will execute such trades in a UMA program, include, among other factors, the percent of average daily volume ("ADV") of a trade in isolation, whether MFSI or another MFS Global Group member will be active (or expects to be active) in trading the security on behalf of other client portfolios, the percent of ADV for the trade taking into account these other client portfolios, as well as the trader's knowledge of a potential event in the security or expectations around volatility in the security. Alternatively, if a sponsor waives MFSI's duty to seek best execution MFSI may place the sponsor's order with it only after it has placed orders for the same securities on behalf of clients that have not waived MFSI's duty to seek best execution.

MFSI may purchase foreign securities on behalf of its PPM participants through the use of American Depositary Receipts, Global Depositary Receipts, or similar securities (collectively, “ADRs”). Transactions in ADRs involve fees and expenses not typically involved in non-ADR transactions. In certain circumstances MFSI may elect to “create” an ADR whereby ordinary shares of a foreign issuer are purchased and deposited with an ADR custodian, which creates the ADR. Reasons for creating an ADR include circumstances in which MFSI believes the market in ADRs in the United States is not sufficiently liquid or when the U.S. markets are not open. When an ADR is created, a broker-dealer initiates the transaction and then steps out the transaction to the PPM participant’s sponsor. Upon a sale, the ADR is “collapsed”, and the underlying shares of the foreign issuer are sold in the foreign market. PPM participants may incur a proportionate share of any costs associated with any ADRs in which the PPM participant’s asset are invested, and may also incur fees associated with creating or collapsing ADRs. For example, depending upon where the underlying stock is traded, an exchange fee or stamp fee may be charged, and ADR conversion fees are also charged. In practice, MFSI frequently trades ADRs away from the PPM sponsor, which often results in participants being charged separate commissions and related costs for these transactions.

## **Order Aggregation and Allocation Practices – Excluding PPM**

### ***Trade Opportunities***

As part of MFSI’s duty to seek best execution, MFSI may, but is not required to, aggregate purchases and sales of the same security for several clients and allocate the trades, in a fair and equitable manner, across participating portfolios. To address these circumstances, MFSI has adopted the trade allocation policies described below. These policies apply in instances where investments may be appropriate for more than one client or portfolio of MFSI, MFS or other members of the MFS Global Group. The procedures are designed to help assure that investment opportunities are allocated in a manner that is fair and equitable to each client and portfolio over time and that no client or portfolio of MFSI, MFS or other MFS Global Group member is improperly favored over any other client or portfolio over time. When two or more clients are simultaneously engaged in the purchase or sale of the same investment, the investments are allocated in a manner believed to be equitable to each and in accordance with MFSI’s trade allocation policies.

Under these policies, investment opportunities for equity securities are generally allocated *pro rata* among portfolios with the same or similar investment objectives managed by a portfolio manager based on the value of the portfolio (or relevant portion thereof). In making *pro rata* allocations of investment opportunities, MFSI permits allocations to be weighted (i.e., diverge from *pro rata*) (a) to counterbalance disparities in positions or portfolio characteristics among similarly managed portfolios, (b) to account for cash availability and expected flows for similarly managed portfolios, (c) to account for prospectus restrictions, portfolio guideline restrictions or other restrictions, and (d) to account for tax reasons (collectively, “Equity Deviation Reasons”). It will not be a violation of MFSI’s trade allocation policies if similarly managed portfolios are not allocated a *pro rata* portion of an investment opportunity for an

equity security as a result of MFSI's implementation of non-*pro rata* allocations in response to one or more Equity Deviation Reasons.

Also under these policies, investment opportunities for fixed income securities are generally allocated among portfolios with the same or similar investment objectives managed by a portfolio manager based on the value of the portfolio (or relevant portion thereof) so that similarly-managed portfolios have or will have similar portfolio characteristics. In making allocations of investment opportunities, MFS permits allocations to be weighted (i.e., other than based on the value of each portfolio's existing assets so that similarly-managed portfolios have or will have similar portfolio characteristics) to account for (a) cash availability and expected flows for similarly managed portfolios, (b) prospectus restrictions, portfolio guideline restrictions or other restrictions and (c) tax reasons (collectively, "Fixed Income Deviation Reasons"). It will not be a violation of MFS' trade allocation policies if similarly managed portfolios are not allocated a portion of an investment opportunity so that similarly-managed portfolios have or will have similar portfolio characteristics in response to one or more Fixed Income Deviation Reasons.

An equity portfolio will be deemed to have similar characteristics as that of the applicable model portfolio if, after giving effect to the execution, the weighting of a portfolio security held in that portfolio is within 50 basis points of the weighting of the same security in the applicable model portfolio. Dispersion of greater than 50 basis points and not supported by an Equity Deviation Reason will not by itself constitute a violation of MFS' trade allocation policies, provided that the dispersion of more than 50 basis points is approved by the portfolio manager and the reasons for the different treatment of the similarly managed portfolio are documented and approved by MFS' Investment Management Committee ("IMC") or brought within 50 basis points within 3 months of the time that the dispersion first exceeded 50 basis points.

Fixed income portfolios are monitored monthly for dispersion in interest rate duration and spread duration. This review identifies and validates any dispersion greater than 25 basis points for fixed income portfolios managed to a similar strategy. The review is designed to highlight inconsistencies in either dispersion type between the clone portfolio and its designated model. Dispersion of greater than 25 basis points and not supported by a Fixed Income Deviation Reason will not by itself constitute a violation of MFS' trade allocation policies provided that the dispersion of more than 25 basis points is approved by the portfolio manager and the reasons for the different treatment of the similarly managed portfolio are documented and approved by the IMC or brought within 25 basis points within 3 months of the time that the dispersion first exceeded 25 basis points.

In monitoring any deviations from the general rule, the MFS Global Group may review several measures. In the case of two portfolios that are similarly managed, for example, the MFS Global Group may flag dispersion in performance results for further examination. Such dispersion, however, is not necessarily dispositive of unfair favoring, as it could legitimately result from factors such as variations in cash flows or client restrictions on the MFS Global Group's ability to freely select brokers to execute transactions with respect to a particular portfolio. In addition, the MFS Global Group may need to review information including, by way of example, a security's prospectus, private placement memorandum or other offering circular as well as documents, certifications and representations provided by clients or other information

to determine whether it can purchase an investment on behalf of certain clients or categories of clients (e.g., qualified institutional buyers, clients subject to ERISA, clients domiciled in the U.S.). The MFS Global Group may determine to purchase an investment for portfolios not requiring such prior review before it completes its review with respect to portfolios requiring such prior review. In some instances, by the time the review is completed, the MFS Global Group may not be able to purchase those investments for portfolios requiring prior review at prices that are as favorable as those that were available with respect to portfolios not requiring prior review. In other instances, by the time the MFS Global Group has completed its prior review, it may be unable to purchase the investment for a portfolio requiring prior review or it may have determined that it can no longer purchase the security for a portfolio requiring prior review at a price that it believes is reasonable.

In monitoring any deviations from the general rule in the case of portfolios that are not similarly managed, the MFS Global Group analyzes compliance with such portfolios' respective investment guidelines. Any deviation would need to be justified by reference to the pertinent portfolio's investment guidelines. These guidelines may be more or less detailed depending upon the complexity of the investment strategy pursued.

As a general matter, MFSI will not allocate an investment opportunity to "Proprietary Portfolios" until it has first been allocated to client portfolios. MFSI defines Proprietary Portfolios as those portfolios, the beneficial owners of which are exclusively members of the MFS Global Group, officers, directors and employees of a member of the MFS Global Group, or trustees of any of the registered investment companies for which MFS serves as the primary investment adviser, or any combination of the foregoing, provided, however, that no portfolio that has been established and seeded by a member of the MFS Global Group that is available for purchase by unaffiliated third parties constitutes a Proprietary Portfolio even if no such investments have been made. Proprietary Portfolios are not eligible for new issue allocations ("New Issue Restriction") and may receive secondary allocations only after client portfolios have received their full allocations ("Secondary Restriction"). Furthermore, short sales, or purchases to cover short positions, for Proprietary Portfolios may be effected only after regular-way sales or regular-way purchases, respectively, for client portfolios ("Short Sale Restriction").

The allocation policies currently exclude any MFS Pilot Fund from the scope of the Secondary Restriction and the Short Sale Restriction. They are, however, subject to the New Issue Restriction. MFS or an affiliate may manage portfolios that are beneficially owned by SLF or one or more of its subsidiaries not controlled by MFS. Such portfolios are not Proprietary Portfolios and are entitled to allocation of investment opportunities and proceeds of aggregated orders on the same basis as other clients.

The securities and other financial instruments held in client portfolios may not be identical, even in similarly managed portfolios. This could occur, for example, as a result of a portfolio's specific investment objectives, investment strategies, different cash resources arising from contributions or withdrawals, certain attributes of a portfolio security or its issuer and/or treatment of the security or issuer by a third-party service provider or the purchase of a small position to assess the overall desirability of an investment. Transactions for each portfolio are generally effected independently, unless MFSI determines

to purchase or sell the same investments for several portfolios at approximately the same time, and except for similarly managed accounts.

Allocation decisions are not based on the performance of, or amount or type of management fees paid by, a portfolio or set of portfolios. Post-execution allocation of orders may be made only in limited circumstances and only to the extent permitted by MFSI's written policies.

### ***IPO Allocation and Oversubscribed Secondary Offerings***

MFSI maintains specific written policies regarding allocation of equity investments acquired in initial public offerings ("IPOs"), oversubscribed secondary offerings and securities with respect to which MFS Global Group portfolio manager demand exceeds MFS Global Group internal ownership limits (collectively, "Equity Limited Offerings"), which address situations in which orders for client portfolios exceed the available shares in such an Equity Limited Offering. These policies are generally intended to ensure that the opportunity to invest in an Equity Limited Offering is made available on equal terms among similarly managed portfolios managed by the same portfolio manager and that portfolios receive allocations in proportion to the relevant assets within the portfolio. Asset weightings for each portfolio are calculated based on categories of issuers as established by the IMC, in its discretion, from time to time. Allocation is generally *pro rata* based upon the proportion that the amount of the portfolio's relevant assets bears to the total amount of the relevant assets held in all portfolios that submit orders.

In the event that a portion of the available investments in an Equity Limited Offering remains unallocated after all portfolios have received a full allocation, the allocation of the unallocated investments to each portfolio will be made in a fair and equitable manner.

From time to time, a situation may arise in which a client hires a transition manager to model a portfolio before MFSI begins to manage it and the model includes one or more securities for which MFS complex-wide holdings are approaching MFS Global Group-imposed maximum ownership limits ("Internally Limited Securities"). In such a situation, inclusion of an Internally Limited Security in the model for the portfolio being transitioned could cause MFSI to exceed internal ownership limits for such Internally Limited Security once MFSI begins to manage the portfolio. MFSI's policies specifically exclude any Internally Limited Security from the model for a portfolio while it is being transitioned; once MFSI has assumed day-to-day management of the portfolio, it may seek to purchase the Internally Limited Security subject to the discretion of the IMC. The foregoing practice may have an adverse effect on a portfolio's performance.

MFSI follows similar policies when allocating fixed income securities issued in the new issue market, oversubscribed secondary offerings and securities with respect to which MFS Global Group portfolio manager demand exceeds MFS Global Group internal ownership limits (collectively, "Fixed Income Limited Offerings"). These policies are generally intended to ensure that portfolios receive allocations based upon the proportion that the amount of the portfolio's relevant assets bears to the total of the relevant assets held in portfolios submitting the order. Fixed Income Limited Offering assets are categorized into types as determined by the IMC, in its discretion, from time to time. An exception to this

allocation rule applies to portfolios with a particular asset bias, portfolios with a particular asset allocation mix, and, potentially, portfolios that have experienced a significant change in investment objective or that are in "ramping mode" (*i.e.*, the portfolio is not yet fully invested in conformity with its investment objective). For such portfolios, the amount of relevant assets shall be deemed to be the amount that would be held by such portfolio were that portfolio fully invested in conformity with its investment objective (*i.e.*, consistent with how the portfolio is expected to look when it becomes fully invested). This may result in a portfolio in "ramping mode" receiving a larger relative amount of investments in such an offering than would a portfolio with the same amount invested in the relevant asset class but not in a "ramping mode." The foregoing limitations apply only in instances where the demand among portfolios for the fixed income investments is greater than what is available for purchase. This discussion of ramping mode does not override the restrictions applicable to MFS Pilot Funds even when in ramping mode.

Exceptions to the Equity Limited Offering and Fixed Income Limited Offering allocation guidelines may be made in limited circumstances. One circumstance that can arise where an exception may be warranted involves instances in which a *pro rata* allocation would result in a portfolio being allocated less than the minimum board lot or minimum denomination for fixed income offerings (or other applicable minimum lot size of the offering). Under this scenario, the portfolio will receive no allocation if the *pro rata* allocation was less than 50% of the minimum board lot or minimum denomination. If a *pro rata* allocation would have resulted in the portfolio receiving at least 50% of the minimum board lot or minimum denomination through a *pro rata* allocation, the portfolio will receive the minimum board lot or denomination. Another circumstance that can arise where an exception may be warranted is when excess shares become available to MFSI to allocate among portfolios because the portfolio manager of one or more participating portfolios determines not to purchase all of the shares to which the portfolio(s) would otherwise be entitled. Under this scenario, the additional shares may be allocated to other participating portfolios. Exceptions may also occur; (1) where necessary to allow for reasonable rounding of allocations; and (2) as otherwise determined by MFSI to be appropriate and equitable to client portfolios. The guidelines also prohibit allocations of Equity Limited Offerings or Fixed Income Limited Offerings to: (1) PPM portfolios; or (2) any Portfolio for which MFS does not believe that applicable law or the rules or regulations of any governmental or self-regulatory organization would permit such investments. In addition, MFSI may not request an equal allocation for a portfolio under the Equity Limited Offering and Fixed Income Limited Offering allocation guidelines if other factors exist that would justify such an unequal allocation, such as (a) to counterbalance disparities in positions or portfolio characteristics in the similarly managed portfolios if those disparities cause the portfolios to lack similar portfolio characteristics, (b) to account for cash availability and expected flow for the similarly managed portfolios, (c) prospectus restrictions, account guideline restrictions or other restrictions, or (d) tax reasons.

Additionally, the MFS Global Group generally limits aggregate ownership by all portfolios that the MFS Global Group manages to a fixed percentage of a single issuer's outstanding common equity. When the maximum level has been reached on an aggregate basis, portfolio managers are not permitted to acquire additional shares (absent the prior approval of senior management), until aggregate ownership by all portfolios falls below the maximum level. Consequently, portfolios may be unable to acquire certain



investments in which the portfolio manager might wish to invest and in which other portfolios have previously invested and continue to hold, which may affect absolute and relative returns.

To the extent that an IPO is a “new issue”, as defined in relevant rules established by the Financial Industry Regulatory Authority (“FINRA”), and is being made available to MFSI by a FINRA member, MFSI intends to allocate such investments as described above and consistently with FINRA Rule 5130 and FINRA Rule 5131, which provide that brokers, their affiliates and certain other “restricted persons” may not participate in new issues, or may be limited as to the extent of their participation. Only portfolios that MFSI does not believe are ineligible under Rule 5130 and Rule 5131 to participate in profits and losses attributable to new issues will be permitted to receive allocations of new issues.

### ***Execution of Trades and Aggregation***

#### ***Crossing***

MFSI may “cross” opposing trades (*e.g.*, a buy order and a sell order for the same security) or aggregate similar trades (*e.g.*, buy orders for the same security).

Consistent both with Section 206 of the Advisers Act and Rule 17a-7 under the 1940 Act, MFSI has adopted procedures regarding purchases or sales of securities between eligible portfolios (ERISA portfolios are not eligible portfolios) managed by MFSI, or purchases or sales of securities between a portfolio managed by MFSI and one managed by MFS. Such procedures include the following provisions:

- The transaction will be a purchase or a sale for no consideration other than a cash payment against prompt delivery of a security for which market quotations are readily available;
- The transaction will be consistent with the investment objectives, policies and restrictions of each party to the transaction;
- Except for customary transfer fees, no brokerage commission, fee or other remuneration will be paid in connection with the transaction; and
- The transaction will be effected at the then current market price of the security.

However, due to differences in Canadian law and Canadian market practice regarding transactions between or among an adviser's discretionary portfolios, MFSI has imposed a blanket prohibition on cross transactions between an MFS Fund and another portfolio if MFS Canada is exercising investment discretion with respect to the security that would otherwise be crossed.

#### ***Aggregation***

MFSI has also adopted the following general guidelines regarding the combination of orders for execution. Such combined trades may be used to facilitate best execution, including negotiating more favorable prices, obtaining more timely or equitable execution or reducing overall commission charges. Orders for Proprietary Portfolios (other than MFS Pilot Funds) will be effected after client orders are completed.

Orders for the same security will be executed in the order received. If multiple orders for the same security are received at the same time, in the trader's discretion, such orders will be executed in combination, simultaneously or in an equitable rotation. If a portfolio manager of the MFS Global Group places an order and the trader executes the order before any additional orders are placed for other portfolios, the original order will not be combined with any subsequent orders. If an order remains open and an additional order or orders for the same investment for other portfolios are received by MFS Global Group's trading department, in the trader's discretion, such orders will be executed in combination, simultaneously or in an equitable rotation. If a portfolio manager's order is open in part at the time an additional order or orders for the same security are received by the MFS Global Group's trading department, the portion of the initial order that has been executed will be split off as a separate trade and allocated in accordance with MFS Global Group's applicable trade allocation policies, and the remaining balance of the order will be executed with the new orders. Allocations of the executions of such aggregated orders are generally made in proportion to the orders and otherwise made in accordance with the MFS Global Group's applicable trade allocation policies. When two or more client portfolios have orders to purchase or sell the same secondary market investment and the orders are combined, the investments or the proceeds of sale, as applicable, as well as any attendant costs, including commissions, are generally allocated among portfolios *pro rata* based on the amount of each client portfolio's order.

In some cases, one or more portfolio managers of the MFS Global Group may learn that a change in the internal rating of a security or initiation of a security's rating by MFS (each, a "Rating Event") is imminent. To preclude a portfolio manager from unfairly increasing or decreasing positions in a security impacted by a Rating Event (an "Affected Security") and to ensure that all MFS Global Group investment professionals are able to act upon a Rating Event on a reasonably equivalent basis, MFSI requires that all orders for an Affected Security placed during a specified Order Window (as defined below) be allocated *pro rata* among participating portfolios, even if some portfolios' orders were submitted and/or executed before orders for other portfolios. The "Order Window" typically begins at the time of the Rating Event and may extend for a period of up to three hours after notice of the Rating Event has been disseminated to all investment professionals in the MFS Global Group. MFSI has excepted from these requirements trades in Affected Securities that are placed for reasons unrelated to the Rating Event (e.g., to invest cash generated from investment inflows or to generate cash to satisfy redemptions).

In certain circumstances, such as a buy in for failure to deliver, MFSI is not able to select the broker who will transact to cover the failure. For example, if a portfolio sells a security short and is unable to deliver the securities sold short, the broker through whom the portfolio sold short must deliver securities purchased for cash (i.e., effect a "buy in," unless it knows that the portfolio either is in the process of forwarding the securities to the broker or will do so as soon as possible without undue inconvenience or expense). Similarly, there can also be a failure to deliver in a long transaction and a resulting buy in by the broker through whom the securities were sold. If the broker effects a buy-in, MFSI will be unable to control the trading techniques, methods, venues or any other aspect of the trade used by the broker.

If (i) MFSI does not believe that it is permitted to execute portfolio trades with certain brokers or otherwise by reason of an affiliation of the client with the broker, (ii) the client has directed its brokerage

to a particular broker (other than the one through which the aggregated trade is to be executed), (iii) MFSI is prohibited by a client from executing trades with brokers other than brokers that the client has specifically approved for its portfolio, or (iv) MFSI is prohibited by a client from utilizing a specific broker or venue, such trades may be segregated from other client trades through such brokers or venues. The practice of clients instructing MFSI to direct brokerage transactions for their portfolios to a broker or brokers selected by the client is sometimes referred to as “directed brokerage”. Certain institutional clients may enter into arrangements (which are often referred to as “commission recapture” arrangements) with certain brokerage firms that provide for the fund or other institutional client, as the case may be, to receive a credit for part of the brokerage commission paid by the fund or the other institutional client, which is applied against expenses of the fund or other institutional client's portfolio. Where a client directs MFSI to execute through particular brokers in connection with such commission recapture arrangements, MFSI negotiates commission rates on transactions executed through such brokers, while the client negotiates the portion of the commission recaptured by such client. Where a client directs MFSI to execute through particular brokers, MFSI does not evaluate the brokerage services provided to the client. Any benefits derived from directed brokerage and commission recapture arrangements will inure to the benefit of the client whose transactions created the benefits.

Clients also should understand that directing brokerage or allowing only certain approved brokers for execution limits or removes MFSI’s discretion to select brokers to execute client transactions. Additionally, trades for clients who direct brokerage for execution or for clients who are prohibited from utilizing a broker-dealer or venue selected by MFSI for executing other clients’ orders for the same security generally will not be combined with, and may be placed after, orders for the same securities for other client portfolios managed by MFSI. Accordingly, directed transactions and transactions not aggregated with other client transactions by reason of an affiliation of the client with the relevant broker-dealer or by reason of such broker not being on the client's approved broker list or because the client has prohibited that particular broker or venue may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the aggregated order. Under these circumstances, even if the client has not waived MFSI’s duty to seek best execution, the direction by a client of a particular broker to execute transactions, the need to use a different broker-dealer to execute a client's order by virtue of an affiliation between the client and the broker-dealer or the need to use a different broker to execute a client's order by virtue of the broker-dealer not being listed on a client's approved broker list, may result in higher commissions, greater spreads or less favorable prices than might be the case if MFSI could negotiate commission rates or spreads freely, or select executing brokers or dealers based on best execution.

Depending on the nature of the direction, MFSI may instead use “step-outs” to allow such clients to participate in aggregated trades. In step-out transactions, MFSI instructs the broker that executes a transaction to allocate, or “step out”, a portion of such transaction to the broker to which the client has directed trades. The brokers to which the executing broker has “stepped out” would then clear and settle the designated portion of the transaction, and the executing broker would clear and settle the remaining

portion of the transaction that has not been “stepped out”. Each broker may receive a commission or brokerage fee with respect to the portion of the transaction that it clears and settles.

Similarly, if MFSI, at the instruction of a client, utilizes a derivatives agreement entered into between the client and a particular counterparty instead of entering into an agreement with a derivatives counterparty that MFSI selects, MFSI may be unable to control the terms or conditions of any transaction entered into under the client's agreement, and the pricing and other economic terms may be less beneficial to the client than those for a similar transaction entered into under a derivatives agreement with a counterparty selected by MFSI.

If an order for PPM portfolios for the same security is on behalf of clients of more than one PPM program sponsor and MFSI believes that one or more of those PPM program sponsors is not permitted to transact with the broker chosen by the trader, for reasons of affiliation or otherwise, then such PPM orders may be executed with a different broker at the same time as the other PPM orders are being executed or by participating in an equitable rotation with the other PPM portfolios, as determined in the trader's discretion.

Short sale orders and orders to purchase to cover short sales ("Short Sale Orders") typically will not be combined with regular-way sales and purchase orders, and Short Sale Orders for Proprietary Portfolios, other than for MFS Pilot Funds, will normally be effected after regular-way sales and regular-way purchases, respectively, for client Portfolios. If a Short Sale Order is received while regular-way orders are being executed for the same security or a regular-way order is received while a Short Sale Order is being executed for the same security, the Short Sale Order may be executed either at the same time as the regular-way orders are being executed or by participating in an equitable rotation with the regular-way orders, as determined in the trader's discretion. Currency derivative orders for Proprietary Portfolios (other than MFS Pilot Funds) cannot be executed until after all such orders for client portfolios have been executed.

### **Operating Currency Related Transactions**

Each client's portfolio will be set on MFS' trading system with a single operating currency (which may not be the same as the reporting currency of the portfolio). Client portfolio trades and flows that occur in currencies other than the operating currency will be converted to the operating currency by processing a foreign exchange (FX) transaction.

Foreign income and dividend repatriation FX transactions are FX transactions executed in order to convert dividends, interest payments and other income received in a currency other than the portfolio's operating currency ("foreign currency") into the portfolio's operating currency. With respect to foreign income and dividend repatriation FX transactions, MFSI will direct the client's custodian bank to execute the FX transactions in order to repatriate all income to the operating currency of the portfolio, unless the client requests otherwise.

Securities related FX transactions are FX transactions executed in connection with specific purchase and sale transactions in individual securities in order to effect an exchange between the portfolio's operating currency and the foreign currency in which a particular security is denominated. With respect to securities related FX transactions, clients of MFSI may choose to have FX transactions effected either through MFSI or through their respective custodian. Where MFSI has been given authority to effect securities related FX transactions for a client, MFSI is permitted to execute FX transactions for the client portfolio with brokers MFSI selects at its discretion for currency management purposes, unless the scope of authority given to MFSI by the client enables the client to direct otherwise (*e.g.*, by reason of any directed brokerage requirements the client may have, any brokerage affiliation issues the client may have, and/or any specific approved broker lists the client may have provided to MFSI). Generally, transactions for portfolios with similar currency needs will be aggregated based on the currencies involved as well as matching trade and settlement date requirements. In situations where MFSI encounters offsetting currency needs for portfolios at approximately the same time, and where the other details of the needs match, net transactions will be executed. In such cases, the participating portfolios must be eligible for netting transactions. For example, MFSI will not consider portfolios subject to ERISA to be eligible to participate in such netting transactions, and, depending on a non-ERISA portfolio's particular restrictions, including, for example, any directed brokerage or custodian bank requirements, a non-ERISA portfolio may or may not be eligible to participate in netting transactions. Where the client has chosen to have securities related FX transactions effected through its custodian, MFSI will direct the client's custodian bank to execute securities related FX transactions (the custodian bank may have different netting practices).

For all portfolios (regardless of whether the client has chosen to have FX transactions effected through its custodian or through MFSI), the client's custodian bank will generally process FX transactions related to securities transactions and income and dividend repatriations for transactions in countries that restrict transactions in their currency due to regulatory or foreign exchange controls (*i.e.*, so-called "restricted markets"). MFSI will provide the client's custodian bank with FX instructions for all security settlements in such restricted markets on a trade by trade basis, which instructions are in turn sent by the custodian bank to its trading desk or local sub-custodian for execution.

For any FX transaction executed through the client's custodian (whether for security transaction purposes at the client's direction or foreign income and dividend repatriation purposes as part of MFSI's standard process), the client generally negotiates the fees charged by the custodian on these FX transactions, and MFSI generally does not evaluate the services provided to the client; however, on a daily basis, MFSI reviews the foreign exchange rates received by the client's portfolio versus the daily quoted trading range sourced from a third party vendor in order to flag any rates received with respect to the transactions by the client's portfolio that may be materially outside of this range.

MFSI recognizes that FX transactions may positively or negatively affect performance and does not seek to take any investment view on operating currency related FX transactions.

### **Investment Related Currency Transactions**

MFSI may also execute FX transactions for client portfolios to obtain currency exposure and/or for risk management purposes when managing client portfolios, depending upon the client portfolio's specific mandate and investment guidelines. In these cases, MFSI is permitted to execute FX transactions for the client portfolio with brokers MFSI selects at its discretion for such purposes, unless directed otherwise by the client.

### **Order Aggregation and Allocation for PPM Portfolios**

For PPM portfolios, MFSI generally has discretion with respect to the timing of the release of orders. If a PPM purchase or sale order is received while orders for other clients are being executed for the same security, the PPM purchase or sale order may be executed either at the same time as the other orders are being executed or by participating in an equitable rotation with the other clients' orders, as determined in the trader's discretion. If a trader elects to trade PPM portfolios' orders and other portfolios' orders in rotation, the trader may further elect to execute all PPM orders attributable to all PPM program sponsors in combination or successively in an equitable rotation among PPM program sponsors, as determined in the trader's discretion. In the event that MFSI is participating in several PPM programs, it may rotate orders among the sponsoring and other executing brokers, consistent with the objective of treating all PPM participant portfolios fairly and equitably on a long-term basis.

In some PPM programs, it is the sponsor's responsibility to allocate trades among the programs' portfolios. Allocations made by MFSI to these programs are further allocated to participants' portfolios pursuant to the applicable sponsor's allocation policies and not those of MFSI. UMA sponsors are authorized to perform maintenance trades (as described under the caption "PPM Portfolio Brokerage", above) for portfolio securities in accordance with MFSI's models at such time as they are provided to them.

Orders for PPM portfolios are not generally combined with other orders for institutional or registered investment company portfolios for which MFSI or MFS serves as the investment adviser. Rather, as noted above, orders for PPM portfolios are generally either executed simultaneously with, or in an equitable rotation with, other orders for such institutional or registered investment company portfolios, in the trader's discretion. However, a single order for non-U.S. ordinary shares may be transmitted to a dealer with instructions to purchase (sell) a certain percentage of the shares to be created into (collapsed from) ADRs, which percentage is allocated to PPM portfolios, and to purchase (sell) the remaining percentage of the shares for allocation to the registered investment companies and institutional portfolios. Trading on behalf of PPM portfolios generally occurs once a week to maintain the appropriate weightings of securities for the investment style selected by a PPM program participant. Generally, smaller aggregate trade orders among PPM portfolios are executed on an electronic order entry system while larger aggregate trade orders among PPM portfolios are placed with PPM sponsors or other brokers. Typically, transactions for PPM programs involve substantially greater numbers of portfolios than transactions for institutional or registered investment company portfolios and therefore require the use of specialized trading systems to determine the quantity of investments being purchased or sold by each portfolio and to record and confirm each transaction at the individual PPM participant level. In order to facilitate the

allocation of investments to individual PPM participants, MFSI may elect to allocate executed trades on a *pro rata* basis or randomly among PPM program sponsors or participant portfolios, as determined in the trader's discretion.

### *Item 13 – Review of Accounts*

Client portfolios are managed day-to-day by officers of MFSI appointed and supervised by senior employees of the MFS Global Group. MFSI conducts reviews of client portfolios based on the nature of such portfolios. Reviews may include ongoing regular or periodic reviews as well as reviews on a more frequent basis as needed, depending on a specific client's mandate, economic conditions and changes in the general market. Semi-annual risk reviews are conducted by both management and investment personnel, including both the Chief Investment Officer and the Chief Investment Risk Officer of MFS.

Periodic reports (oral, written or both) are provided to clients from time to time in a form mutually agreed with MFSI. MFSI typically provides clients with both quarterly and monthly written reports. Quarterly reports include market and portfolio commentary, performance and attribution, market value, portfolio holdings and transaction detail in addition to information on corporate actions. Monthly reports are more concise and include performance, market value and portfolio characteristics. In addition, as agreed with MFSI, customized reporting is available. Written reports are delivered via e-mail and also can be retrieved directly and securely by clients from MFSI's website. MFSI also typically provides a similar range of information orally to clients through in-person meetings, conference calls, webinars, and client conferences.

Reports may also be sent by a third-party service provider on behalf of MFSI.

Annual audited financial statements are prepared for each private fund sponsored by MFSI, and the fund and its investors receive copies of such statements.



## ***Item 14 – Client Referrals and Other Compensation***

Many of MFSI's clients retain investment consultants to assist with the selection of investment managers, such as MFSI. Typically, such investment consultants are compensated by the clients, not MFSI. However, MFSI may have its own relationship with the same and different investment consultants in connection with services provided by the consultants to MFSI, including, without limitation, competitive universe databases, manager performance analytics, investment forums, and business or product consulting engagements. MFSI pays such consultants for these services. MFSI believes that the payments it makes to such consultants are fair in relation to the services purchased and not compensation for such consultants' recommendations of MFSI's services or products to the clients of the consultants. In addition, MFSI provides money management services to certain investment consultants who may choose to recommend MFS Global Group services or products to one or more of their clients. MFSI seeks to maintain arm's-length relationships when receiving or providing services to investment consultants.

MFSI does not currently intend to pay third party agents or other entities for the purpose of soliciting or introducing it to new U.S. mandates for which it provides investment management services directly to the client. In the event MFSI does enter into such arrangements in the future, it intends to comply with the disclosure and other requirements applicable to such relationships under applicable laws and regulations, which include providing disclosure to clients who have been solicited by a person to whom MFSI pays a fee. With respect to its business outside of the U.S., MFSI has in the past and may from time to time in the future use local companies in certain jurisdictions to assist it in obtaining mandates for a fee. To the extent SEC client disclosure rules and other requirements are applicable to such arrangements, MFSI will comply with such requirements.

## *Item 15 – Custody*

MFSI may be deemed to have “custody” of advisory client cash or bank accounts and securities to the extent they are attributable to certain (i) private funds structured as limited liability companies for which MFSI or an affiliate serves as managing member or (ii) foreign investment companies for which MFSI serves as sub-adviser. Investors in such private funds or foreign investment companies receive account statements from the funds' or foreign investment companies' custodian, rather than MFSI or one of its affiliates, and should carefully review such statements. To the extent that a client has instructed MFSI to automatically deduct advisory fees from the client's account, MFSI may be deemed to have custody of such client accounts. Such clients will receive account statements from both MFSI and their custodian. Clients are urged to review and compare such statements carefully. Additionally, clients should contact MFSI immediately if they do not receive account statements from the custodian on at least a quarterly basis.

## *Item 16 – Investment Discretion*

Generally, MFSI is retained on a discretionary basis and authorized to make the following determinations in accordance with clients' specified investment objectives without client consultation or consent before a transaction is effected:

- which securities to buy or sell;
- the total amount of securities to buy or sell;
- the broker or dealer through which securities are bought or sold;
- the commission rates at which securities transactions will be effected; and
- the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Before assuming discretionary authority, MFSI requires a client to enter into a written investment management agreement with MFSI. Any limitations on MFSI's discretion in the case of a particular client will be agreed in advance and set forth in the investment management agreement between MFSI and such client. Clients should understand that in order for MFSI to fully exercise its discretionary investment management authority, MFSI asks clients to execute and deliver any and all agreements, instruments, contracts, assignments, bond powers, stock powers, transfer instructions, receipts, waivers, consents and other documents, provide any and all information and perform any and all such acts, as MFSI may deem necessary or reasonably desirable (collectively, "Necessary Actions"). If and to the extent a client fails to perform any Necessary Action, MFSI may be unable to fully exercise its discretionary investment management authority and, consequently, the performance of the client's portfolio may differ from the performance of similarly-managed portfolios of MFSI with respect to which all Necessary Actions have been performed.

In addition, the IMC of MFS (as defined in Item 12, *Brokerage Practices*), which is comprised of members of senior management and representatives of the equity and fixed income departments, meets on a regular basis to establish and monitor investment policies and procedures. These policies and procedures govern, among other things, the exercise of MFSI's discretionary authority. The IMC also provides ongoing oversight of investment personnel, portfolio management, research and trading.

## *Item 17 – Voting Client Securities*

MFSI has adopted proxy voting policies and procedures with respect to securities owned by the clients for which it serves as investment adviser and has the power to vote proxies. MFSI's policy is that proxy voting decisions are made in what it believes at the time to be the best long-term economic interests of its clients and not in the interest of any other party or in MFSI's own corporate interests, including its institutional relationships or the distribution of MFS Fund shares.

MFSI also generally votes consistently on the same matter when securities of an issuer are held by multiple client portfolios, unless MFSI has received explicit voting instructions from a client to vote differently on behalf of its portfolio. From time to time, MFSI may also receive comments on the MFSI proxy voting policies and procedures from its clients. These comments are carefully considered by the MFS Proxy Voting Committee, which is responsible for reviewing these guidelines and revising them as appropriate.

These policies and procedures are intended to address any potential material conflicts of interest on the part of MFSI or its affiliates that are likely to arise in connection with the voting of proxies on behalf of MFSI's clients. If such potential material conflicts of interest do arise, MFSI will analyze and document them and shall ultimately vote the relevant proxies in what MFSI believes to be the best long-term economic interests of its clients. The MFS Proxy Voting Committee is responsible for monitoring and reporting with respect to such potential material conflicts of interest.

Please refer to the proxy voting section of [www.mfs.com](http://www.mfs.com) for the complete version of our proxy voting policies. MFSI will also furnish a copy of its proxy voting policies and procedures to any client upon such client's request. A client can additionally request at any time a record of all votes cast for its portfolio. The record reflects the proxy issues that MFSI voted for the client during the past year, as well as the position taken with respect to each issue, and identifies any situations in which MFSI may not have voted in accordance with specific guidelines of its proxy voting policies and procedures.

## ***Item 18 – Financial Information***

Not Applicable.

## ***Privacy Policy***

[Insert Policy]