

## Massachusetts Financial Services Company

## Firm brochure

March 14, 2012

This brochure provides information about the qualifications and business practices of Massachusetts Financial Services Company. If you have any questions about the contents of this 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 Massachusetts Financial Services Company is registered with the SEC as an investment adviser, such registration does not imply any level of skill or training.

Additional information about Massachusetts Financial Services Company is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ***Material Changes***

This brochure is a new document prepared according to recently amended requirements and rules of the Securities and Exchange Commission (“SEC”). It is materially different in structure from, and contains information not provided in, our previous brochure. In the future, you can look to this section of the brochure for a summary of specific material changes that have been made since its last update.

## ***Table of Contents***

|  |           |
|--|-----------|
| <i>Advisory Business .....</i>   | <i>1</i>  |
| <i>Fees and Compensation .....</i>   | <i>3</i>  |
| <i>Performance Based Fees and Side-by-Side Management.....</i>                                     | <i>6</i>  |
| <i>Types of Clients .....</i>  | <i>7</i>  |
| <i>Methods of Analysis, Investment Strategies and Risk of Loss.....</i>                            | <i>8</i>  |
| <i>Disciplinary Information .....</i>  | <i>18</i> |
| <i>Other Financial Industry Activities and Affiliations. ....</i>                                  | <i>20</i> |
| <i>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</i> | <i>22</i> |
| <i>Brokerage Practices .....</i>   | <i>25</i> |
| <i>Review of Accounts .....</i>  | <i>37</i> |
| <i>Client Referrals and Other Compensation.....</i>  | <i>38</i> |
| <i>Custody.....</i>  | <i>39</i> |
| <i>Investment Discretion .....</i>   | <i>40</i> |
| <i>Voting Client Securities .....</i>  | <i>41</i> |
| <i>Financial Information .....</i>   | <i>42</i> |

## *Advisory Business*

Massachusetts Financial Services Company, d/b/a MFS Investment Management ("MFS"), is an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). MFS also is 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 mutual fund. MFS is an indirect, majority owned subsidiary of Sun Life Financial Inc. ("SLF"), a diversified financial services company. As of December 31, 2011, MFS managed approximately \$157 billion in client assets and the MFS Global Group (excluding McLean Budden Limited) managed \$222 billion.

MFS provides investment advisory services to a broad range of institutional clients and pooled investment vehicles, MFS institutional clients include pension and profit sharing plans, trusts and estates, and charitable organizations and sovereign wealth funds. MFS also provides investment advisory services to a family of registered investment companies (the "MFS Funds") and foreign investment companies. In addition, MFS provides sub-advisory services to registered investment companies for which a party other than MFS serves as the primary investment adviser, foreign investment companies and certain private funds.

MFS tailors its advisory services to the individual needs of institutional clients. Clients may communicate their individual needs to MFS during the request for proposal process or while negotiating an investment management agreement. Institutional clients may impose restrictions on investing in certain securities or types of securities and MFS seeks to maintain a continuous dialogue with its institutional clients about their individual needs.

MFS primarily manages long-only investment strategies. To a lesser extent, MFS also manages some strategies that employ both long and short positions (each, an "Alternative Strategy"). MFS charges an asset-based management fee and performance-based fee in connection with an Alternative Strategy. MFS employs portfolio management teams who currently manage long-only accounts to manage Alternative Strategies that may invest in substantially similar categories of assets as do the long-only accounts that the portfolio managers manage. MFS also permits MFS Global Group employees, including the managers of the Alternative Strategy portfolios, to invest in an Alternative Strategy.

As of February 1, 2010, MFS signed the United Nations-backed Principles for Responsible Investment ("UNPRI"), an investor initiative in partnership with the United Nations Environment Programme Finance Initiative and the United Nations Global Compact, for itself and its subsidiaries. As a signatory to the UNPRI, where consistent with its fiduciary responsibilities, MFS 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 they invest. MFS also seeks to promote acceptance and implementation of the UNPRI within the investment industry and report on progress in the effectiveness of such implementation. While MFS follows the UNPRI where consistent with its fiduciary responsibilities, signing the UNPRI is not a legal commitment to do so and MFS may either take actions inconsistent with the UNPRI or fail to take such actions as would be consistent with the UNPRI if in MFS' judgment it is in the best interests of its clients to do so. Please refer to the *Voting Client Securities* section of the brochure for more information about MFS' proxy voting practices.

All discussions of MFS' 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 account including without limitation all practices pertaining to the account's investments, strategies used in managing the account, fees and other costs associated with an investment in the account, and conflicts of interest faced by MFS and its affiliates in connection with the management of the account.

## ***Fees and Compensation***

MFS serves as the investment adviser to the MFS Funds, which it provides with overall investment advisory and administrative services. MFS' investment advisory fees for the MFS Funds are generally based on a percentage of assets under management and, for certain funds, a combination of assets under management and gross income. While the basic investment advisory fee for the MFS Funds varies depending on the type of MFS Fund managed, fees based upon a percentage of assets under management have typically ranged from 0.33% to 1.05% of assets under management on an annual basis for the MFS Funds. Reductions in advisory fees may be implemented, for example, as an MFS Fund's average daily net assets grow to certain break points. Fees for the MFS Funds are described in each MFS Fund's Summary Prospectus, Prospectus and Statement of Additional Information.

MFS may, from time to time, provide investment advisory services to institutional separate account clients ("Institutional Accounts"). MFS' investment advisory fees for Institutional Accounts are generally based upon a percentage of assets under management. The percentage typically depends upon the type of investment mandate. The standard investment advisory fees MFS' charges for different mandates for Institutional Accounts are:

| <b><u>Type of Mandate</u></b>   | <b><u>Standard Investment Advisory Fee</u></b> |
|---|--|
| Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity or Utilities                            | 0.65% to 0.45% of average month end assets     |
| Large Cap Value   | 0.55% to 0.40% of average month end assets     |
| Blended Research US Core Equity   | 0.35% to 0.20% of average month end assets     |
| Blended Research Global Equity 130/30   | 1.00% to 0.90% of average month end assets     |
| Global Growth, Global Value and Global Research   | 0.75% to 0.60% of average month end assets     |
| European Equity, Global Equity, International Equity, International Concentrated Equity or Global Concentrated Equity | 0.85% to 0.60% of average month end assets     |
| International Growth, International Research and International Value  | 0.75% to 0.60% of average month end assets     |
| Asia Pacific  | 0.85% to 0.65% of average month end assets     |
| Small Cap Growth Equity   | 0.90% to 0.75% of average month end assets     |

| <b><u>Type of Mandate</u></b>                              | <b><u>Standard Investment Advisory Fee</u></b> |
|--|--|
| Mid Cap Growth Equity                                      | 0.75% to 0.70% of average month end assets     |
| Strategic Core Fixed Income or Opportunistic Fixed Income  | 0.45% to 0.35% of average month end assets     |
| High Yield   | 0.55% to 0.50% of average month end assets     |
| Core Fixed Income  | 0.30% to 0.25% of average month end assets     |
| Core Plus, Fixed Income or Core Plus Research Fixed Income | 0.35% to 0.25% of average month end assets     |
| Municipal Fixed Income                                     | 0.40% to 0.30% of average month end assets     |
| Limited Maturity Fixed Income                              | 0.30% to 0.25% of average month end assets     |
| Emerging Market Debt                                       | 0.60% to 0.50% of average month end assets     |

The fee is billed and payable quarterly in arrears, unless a client agrees otherwise, generally based upon the average of the month-end net assets for the quarter. Fees are negotiable.

When agreed upon with a client, MFS 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 performance fee, which generally does not exceed 30% of the asset based fee. The incentive portion of the compensation is typically calculated as a percentage of capital appreciation over a specified benchmark and in some cases, a hurdle rate in excess of such benchmark as well. If a hurdle rate is used, no performance fee will be charged unless capital appreciation 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 an account are carried forward so that no performance fee 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 initial account year. The value of the performance-based fees charged to Alternative Strategies can be far in excess of 30% of an asset based fee.

MFS reserves the right, in its sole discretion, to negotiate and charge different advisory fees for different accounts. Advisory fees may vary due to, among other things, the inception date of a client's account, the initial or potential size of the account, the entirety of the client's and its affiliates' relationship with the MFS Global Group, and account-specific requirements such as non-standard reporting obligations and compliance with laws not generally applicable to MFS' activities. Accordingly, MFS may charge a higher or lower fee than the standard fees set forth above.

MFS may purchase on behalf of an Institutional Account shares of any of the MFS Funds. In such cases, the client receives a credit to its account 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 MFS' services are terminated, its 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 Accounts typically bear certain expenses other than investment advisory fees, including custodial fees, brokerage and transaction costs, out-of-pocket costs for ERISA-mandated fidelity bonds (if applicable), or fees for plan administrator/Trustee-directed special projects or reports. MFS receives no payment or remuneration from institutional clients with respect to such other expenses (except as described in *Brokerage Practices*), and any such charges, fees and commissions are exclusive of and in addition to MFS' fees. 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 MFS. 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. Please refer to the *Brokerage Practices* section of this brochure for a discussion of fees related to MFS' selection of brokers and order allocation practices.



## ***Performance Based Fees and Side by Side Management***

As noted above, MFS (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 accounts charging such fees over accounts charging asset-based fees in order to generate greater management fees. The MFS Global Group's allocation policies (see *Brokerage Practices*, below) address such potential conflicts of interest by prohibiting the MFS Global Group from unfairly favoring one type of account over another. These policies, which apply equally to accounts 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 accounts to be made on a *pro rata* basis, as described in the *Brokerage Practices* section below.

## *Types of Clients*

MFS provides investment advisory services to a broad range of institutional and pooled investment vehicles. MFS institutional clients include pension and profit sharing plans, trusts and estates, and charitable organizations and sovereign wealth funds. MFS also provides investment advisory services to the MFS Funds. In addition, MFS provides sub-advisory services to registered investment companies for which a party other than MFS serves as the primary investment adviser, foreign investment companies and certain private funds. MFS generally requires a minimum account size, which varies by product type. The typical minimum account size for an Institutional Account is \$50 million of assets. The typical pooled investment vehicle minimum size is \$3 million of assets. Client relationships are governed by investment advisory agreements that set forth the terms under which MFS will provide its services.

## *Methods of Analysis, Investment Strategies and Risk of Loss*

MFS employs a variety of methods to evaluate securities, including fundamental analysis, technical analysis and quantitative analysis. Fundamental analysis focuses on a given issuer's financials and operations, while technical analysis considers historical market data (e.g., price and other trading variables) of a given stock to help predict future trends. Quantitative analysis uses computer models to apply concepts of fundamental valuation and security selection. MFS may, from time to time, utilize advice or research provided by MFS International Ltd. ("MIL"), MFS International (U.K.) Limited ("MIL UK") and MFS Investment Management K.K. ("MIMKK" and, together with MIL and MIL UK, 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 ("Advisers Act"), pursuant to a written memorandum of understanding by and among MFS, its wholly-owned subsidiary MFS Institutional Advisors, Inc. ("MFSI"), also an investment adviser registered with the SEC, and the Participating Affiliates (the "MOU"). Under the MOU, certain employees of each Participating Affiliate serve as associated persons of MFS ("Participating Employees"). MFS may also utilize advice or research provided by McLean Budden Limited ("MBL"), an affiliated investment adviser that is registered both in the provinces and territories of Canada and under the Advisers Act. MBL is a member of the MFS Global Group, although not a Participating Affiliate. See the *Other Financial Industry Activities and Affiliations* section of this brochure for a description of the Participating Affiliates.

MFS utilizes various investment techniques to implement its investment strategies, including long- and short-term purchases, short sales, margin transactions, options and exchange-traded and over-the-counter ("OTC") derivatives or other methods to achieve performance. In addition, MFS may use exchange-traded and OTC derivatives to manage currency or interest rate exposure (for instance through currency forwards or treasury futures, respectively). While MFS may use derivatives for any investment purpose, MFS generally 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.

Investments in the accounts to which MFS provides advisory services are not insured or guaranteed and carry the risk of loss. MFS' 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 MFS 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 over and above those of the underlying indicator(s) on which the derivatives are based, including the risk that a counterparty to a derivative fails to perform. Gains or losses from derivatives can be substantially greater than the derivatives' original

cost 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 account will change daily based on changes in market, economic, industry, political, regulatory, geopolitical, and other considerations. A client account may not achieve its objective and/or may lose value.

Set forth below is a description of principal risk factors for accounts to which MFS provides advisory services. Unless otherwise specified, these risk factors apply to investments across a variety of assets classes, including those in which all of the mandates set forth in *Fees and Compensation*, above, may invest. 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) ("Offering Documents"), will contain a more complete description of the risk factors to which the vehicle is subject and the discussion below is qualified by reference to the relevant Offering Documents.

### Stock Market Risk

The price of an equity security fluctuates in response to issuer, market, economic, industry, political, regulatory, geopolitical, and other conditions, as well as to investor perceptions of these conditions. Prices can decrease significantly in response to these conditions, and these conditions can affect a single issuer, issuers within a broad market sector, industry or geographic region, or the market 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 unanticipated events, such as natural disasters, terrorist attacks, war, and other geopolitical events, can have a dramatic adverse effect on stock markets.

This does not represent a principal risk of the following mandates: Core Fixed Income, Core Plus, Fixed Income, Core Plus Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income and Emerging Market Debt.

### Interest Rate Risk

The price of a debt instrument changes in response to interest rate changes. In general, the price of a debt instrument falls when interest rates rise and rises when interest rates fall. Instruments with longer maturities, or that do not pay current interest, are more sensitive to interest rate changes. In addition, short-term and long-term interest rates 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.

This does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Large Cap Value, Blended Research US Core, Blended Research Global Equity 130/30, Global Growth, Global Value, European Equity, Global Equity,

International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Asia Pacific, Small Cap Growth Equity and Mid Cap Growth Equity.

#### Company Risk

Changes in the financial condition of a company or other issuer and changes in specific market, economic, political, regulatory, geopolitical, and other conditions that affect a particular type of issuer can adversely affect the price of an investment. The price of securities of smaller, less well-known issuers can be more volatile than the price of securities of larger issuers or the market in general. In particular, the stocks of value companies can continue to be undervalued for long periods of time and not realize their expected value, while the stocks of growth companies can be more sensitive to the company's earnings. The stocks of both small- and mid-cap companies can also 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 does not represent a principal risk of the following mandates: Core Fixed Income, Core Plus, Fixed Income, Core Plus Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income and Emerging Market Debt.

#### 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 does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Utilities, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Growth, European Equity, Global Equity, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, Asia Pacific, Small Cap Growth Equity, Mid Cap Growth Equity, Strategic Core Fixed Income, Opportunistic Fixed Income, High Yield, Core Fixed Income, Core Plus, Fixed Income, Core Plus Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income and Emerging Market Debt.

#### Growth Company Risk

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

This does not represent a principal risk of the following mandates: Research, Core Equity, Union Standard Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Value, European Equity, Global Equity, International Research, International Concentrated Equity, Global Concentrated Equity, International Equity, International Value, Asia Pacific, Strategic Core Fixed Income, Opportunistic Fixed Income, High Yield, Core Fixed Income, Core Plus, Fixed

Income, Core Plus Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income and Emerging Market Debt.

### 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 or if the instrument's credit rating is downgraded by a credit rating agency. The price of a debt instrument can also decline in response to changes in the financial condition of the issuer or borrower, changes in specific market, economic, industry, political, regulatory, geopolitical, and other conditions that affect a particular type of instrument, issuer, or borrower, and changes in general market, economic, political, regulatory, geopolitical, and other conditions. Certain unanticipated events, such as natural disasters, terrorist attacks, war, and other geopolitical events can have a dramatic adverse effect on the price of a debt instrument. 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 collateralized instruments, the price of the debt instrument also depends on the credit quality and adequacy of the underlying assets or collateral. Enforcing rights against the underlying assets or collateral may be difficult, or the underlying assets or collateral may be insufficient, if the issuer defaults.

Lower 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. Lower quality debt instruments are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and principal. Lower 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 lower quality debt instruments can be less liquid, especially during periods of recession or general market decline.

Municipal instruments supported as to the payment of principal and interest only by the revenue from a specific project or specific assets, or by the issuer's pledge to make annual appropriations for lease payments, are subject to greater credit risk due to the possibility that taxation supporting the project or assets will be discontinued, revenues for the project or from the assets will be insufficient, or annual appropriations for lease payments will not be made.

This does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Growth, Global Value, European Equity, Global Equity, International Research, International Concentrated Research, Global Concentrated Equity, International Growth, International Equity, International Value, Asia Pacific, Small Cap Equity and Mid Cap Equity.

### Currency Risk

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 does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield, Municipal Fixed Income and Limited Maturity Fixed Income.

### Geographic Concentration Risk

A relatively large percentage of an account's assets may be invested in issuers located in a single country, a small number of countries, or a particular geographic region. Accordingly, the account's performance could be closely tied to the market, currency, economic, political, regulatory, geopolitical or other conditions in those countries or that region and could be more volatile than the performance of more geographically diversified accounts. The account's performance may be more vulnerable to the reliance by such countries or regions on a few industries or commodities and to changes in international trade, trade barriers, and exchange controls. In the case of an account invested in securities issued by a particular government or municipality, other conditions that could affect performance include constitutional or statutory limits on such issuer's ability to raise revenues or increase taxes, anticipated or actual budget deficits or other financial difficulties, or changes in the issuer's credit quality.

This does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield, Core Fixed Income, Core Plus, Fixed Income, Core Plus Fixed Income, Municipal Fixed Income and Limited Maturity Fixed Income.

### Foreign Risk

Investments in securities of foreign issuers, securities of companies with significant foreign exposure, and foreign currencies can involve additional risks relating to market, economic, political, regulatory, geopolitical, or other conditions. Exposure to foreign markets through issuers or entities providing credit support can also involve increased risks due to adverse changes in such conditions. Political, social, and economic instability, the imposition of currency or capital controls, or the expropriation or nationalization of assets in a particular country can cause dramatic declines in that country's economy.

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. Further 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, political, regulatory, geopolitical, or other conditions than the U.S. market.

This does not represent a principal risk of the Municipal Fixed Income mandate.

#### Emerging Markets Risk

Emerging markets investments in particular 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, less developed legal, regulatory, and accounting systems, 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 does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Large Cap Value, Blended Research US Core, Blended Research Global Equity 130/30, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield, Municipal Fixed Income and Limited Maturity Fixed Income.

#### Derivatives Risk

Derivatives can be used to take both long and short positions (i.e., the value of a derivative can be positively or negatively related to the value of the underlying indicator(s) on which the derivative is based). Derivatives can be highly volatile and involve risks in addition to 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, and therefore, 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 an account. If the value of a derivative does not correlate well with the particular market or other asset class the derivative is intended to provide exposure to, the derivative may not have the effect anticipated. 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.

#### Swap Risk

The swaps market is largely unregulated. It is possible that developments in the swaps market, including potential government regulations, could adversely affect MFS' ability to implement an account's investment strategy and/or the account's ability to terminate its existing swap agreements or to realize amounts received under such agreements. It may not be possible for an account to initiate a swap



agreement transaction or liquidate a position at an advantageous time or price, which may result in significant losses. Total return equity swaps are subject to the risks associated with the underlying security or securities as well as the risk of the counterparty not fulfilling its obligations under the agreement.

The Blended Research Global Equity 130/30 mandate is the sole mandate for which this represents a principal risk.

#### Leveraging Risk

Certain transactions and investment strategies can result in leverage. The use of leverage involves investment exposure in an amount exceeding the initial investment. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. In transactions involving leverage, a relatively small change in an underlying indicator can lead to significantly larger losses to an account. Leverage can cause increased volatility by magnifying gains or losses. For instance, investing the proceeds from short positions in long positions involves leverage. To the extent that investments are purchased with the proceeds from short sales, an account's value will increase or decrease at a greater rate than a comparable unleveraged account. If the investment income or gains earned from the investments purchased with the proceeds from short sales fails to cover the expenses of leveraging, the account's net asset value is likely to decrease more quickly than if the account were not leveraged.

#### Investment Selection Risk

The MFS analysis of an investment can be incorrect and its selection of investments can lead to an investment focus that results in the account underperforming other accounts with similar investment strategies and/or underperforming the markets in which the account invests.

#### Counterparty and Third Party Exposure Risk

Transactions involving a counterparty other than the issuer of the instrument, 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 to perform in accordance with the terms of the transaction.

#### Liquidity Risk

Certain investments and types of investments are subject to restrictions on resale, may trade in the over-the-counter market or in limited volume, or may not have an active trading market. In addition, at times all or a large portion of segments of the market may not have an active trading market. As a result, it may not be possible to sell a particular investment or type of investment at any particular time or at an acceptable price.

### Prepayment/Extension Risk

Many types of debt instruments, including mortgage-backed securities, asset-backed securities, certain corporate bonds and certain derivatives, and municipal housing bonds, 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 called or 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. As a result, the maturity of the debt instrument is extended, 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 does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Growth, Global Value, European Equity, Global Equity, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Asia Pacific, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield and Emerging Market Debt.

### 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. 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 account and the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market.

This does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Growth, Global Value, European Equity, Global Equity, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Asia Pacific, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield and Emerging Market Debt.

### Inflation-Adjusting Risk

Interest payments on inflation-adjusted debt instruments can be unpredictable and vary based on the level of inflation. If inflation is negative, principal and income both can decline. In addition, the measure of inflation used may not correspond to the actual rate of inflation experienced by a particular individual.

This does not represent a principal risk of the following mandates: Large Cap Growth, Growth Equity, Research, Core Equity, Union Standard Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity 130/30, Global Growth, Global Value, European Equity, Global Equity, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Asia Pacific, Small Cap Growth, Mid Cap Growth, High Yield, Municipal Fixed Income and Emerging Market Debt.

### Utilities Concentration Risk

The account's performance will be closely tied to the performance of utilities issuers and, as a result, can be more volatile than the performance of more broadly diversified accounts. The price of stocks in the utilities sector can be very volatile due to supply and/or demand for services or fuel, financing costs, conservation efforts, the negative impact of regulation, and other factors.

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

### 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. Because a short position loses value as the security's price increases, the potential loss on a short sale is unlimited. The lender of the security may terminate a short sale, thereby requiring an account, if the account is unable to borrow the same security from another lender, to buy replacement shares at the security's then-current market price or pay the lender an amount equal to purchasing the security to close out the short position. It may not be possible to close out a short position at any particular time or at an acceptable price. An account must normally repay the lender an amount equal to any dividends or interest that accrues while a loan is outstanding. In addition, to borrow a security, the account may be required to pay a premium. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of premiums, dividends, interest or expenses the account may be required to pay in connection with a short sale.

The Blended Research Global Equity 130/30 mandate is the sole mandate for which this represents a principal risk.

### Investment Strategy Risk

MFS may be unable to fully implement an account's investment strategy due to a lack of available securities or counterparties, regulatory restrictions on short sales, swaps or other derivative instruments, or for other reasons. For example, MFS may not be able to borrow a security that it seeks to sell short or otherwise establish a short position at a particular time or at an acceptable price. MFS' strategy may involve leverage and may not be successful, resulting in greater losses or lower positive returns than if the account held only long positions. The value of an account's long positions may decline at the same time as the value of securities sold short or the value of the indicators underlying the account's short positions increases, thereby increasing the potential losses to and volatility of the account. Because a short position loses value as the security's price increases, the potential loss on a short position is unlimited.

The Blended Research Global Equity 130/30 mandate is the sole mandate for which this represents a principal risk.

## *Disciplinary Information*

MFS does not have any criminal or civil actions to report or any self-regulatory organization proceedings to report. MFS reports the following administrative proceedings:

- 1) On September 4, 2003, the SEC entered an order settling an administrative proceeding in which the SEC alleged that MFS failed to establish, maintain, and enforce adequate written policies and procedures reasonably designed to prevent the misuse of non-public information, in violation of Section 204A of the Advisers Act. In particular, the SEC found that MFS' policies and procedures failed to address the use of consultants by MFS or the handling of information obtained from consultants, particularly with respect to debt securities and government securities. MFS neither admitted nor denied the SEC's findings. Under the settlement, MFS paid a civil money penalty of \$200,000, was required to cease and desist from violations of Section 204A of the Advisers Act, and was censured. MFS was also required to review its policies, procedures, and practices in connection with Section 204A, adopt suitable policies and procedures to comply fully with Section 204A, and provide a report to the SEC detailing such compliance measures. In reaching this settlement, the SEC considered MFS' cooperation and MFS' reimbursement of an impacted broker-dealer in the amount of \$717,858.
- 2) On February 5, 2004, MFS reached agreements with the SEC, Office of the Attorney General of the State of New York ("NYAG"), and State of New Hampshire Bureau of Securities Regulation ("NH") to settle proceedings involving allegations of false and misleading information regarding market timing in the prospectuses of several mutual funds for which MFS served as investment adviser.

Under the terms of the settlements, MFS paid \$225 million to the SEC, which was comprised of a \$50 million civil penalty and \$175 million in disgorgement. Pursuant to the settlement order, the settlement pool was distributed to shareholders of the affected mutual funds in accordance with a plan of distribution developed by an independent distribution consultant and approved by the SEC. MFS agreed with the NYAG to cease and desist from violations of the Martin Act and to reduce its management fees charged to certain mutual funds over the ensuing five years in the aggregate amount of approximately \$25 million per year. MFS further agreed to pay an administrative fine of \$1 million to NH, to be used for investor education purposes, and to pay \$100,000 to defray the costs of investigation. Under the settlements, MFS also agreed to certain additional compliance, corporate governance, and disclosure-related undertakings.

MFS' former chief executive officer, John W. Ballen, and former president, Kevin R. Parke, were also parties to the February 5, 2004 SEC settlement order relating to market timing. Messrs. Ballen and Parke, who resigned their positions with MFS on February 13, 2004, agreed to a prohibition from serving as an employee, officer, or trustee of any registered investment company for three years. Messrs. Ballen and Parke also agreed to a suspension from association with any investment adviser or registered

investment company of nine and six months, respectively. Pursuant to the settlement, Mr. Ballen paid \$57,736.56 in disgorgement, prejudgment interest of \$6,322.32, and a civil money penalty of \$250,000. Mr. Parke paid \$58,853.02 in disgorgement, prejudgment interest of \$6,230.97, plus a civil money penalty of \$250,000.

3) On March 31, 2004, MFS settled an SEC administrative proceeding in which the SEC alleged that MFS failed to disclose adequately certain arrangements known as "strategic alliances" with various broker-dealers, which related to MFS' allocation of brokerage commissions, and the potential conflict of interest created by such arrangements. Under the terms of the settlement, in which MFS neither admitted nor denied wrongdoing, MFS agreed to pay a \$50 million civil penalty, as well as \$1.00 (One Dollar) in disgorgement, to the SEC, which was then distributed to certain mutual funds for which it served as investment adviser pursuant to a plan approved by an independent distribution consultant. Also as part of the settlement, MFS agreed to retain an independent compliance consultant to review its disclosure to the Boards of Trustees and shareholders of such funds concerning strategic alliances between MFS or its affiliates and broker-dealers or other financial advisers who support the sale of shares in the funds. The allocation practices that were the subject of this proceeding had been discontinued by MFS in November 2003.

## ***Other Financial Industry Activities and Affiliations.***

As described above in the *Advisory Business* section, MFS is part of the MFS Global Group, which consists of investment advisers with investment professionals located in Japan, Australia, Singapore, Mexico, Brazil, Canada, the United Kingdom, as well as the United States. The investment professionals of each investment adviser contribute to the management of all client portfolios in the MFS Global Group. Supervision of such portfolio management is the responsibility of the officers and employees of MFS. In addition, MFS' trading personnel are responsible for implementing portfolio management decisions relating to client accounts.

MFS has retained the services of investment professionals from one or more of the investment advisers in the MFS Global Group to provide portfolio management and trading services to MFS' clients pursuant to the MOU (discussed above in the *Methods of Analysis, Investment Strategies and Risk of Loss* section), by and among MFS, MFSI and each of the Participating Affiliates. 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.** MIL is a wholly-owned subsidiary of MFS organized under the laws of Bermuda. MIL provides investment management and distribution services for various investment products and services, including distribution of products advised or sub-advised by MFSI or MFS.
- **MIL UK.** MIL UK is a wholly owned subsidiary of MIL 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 MFS and/or its affiliates act as an investment adviser or sub-adviser.
- **MFS Lux.** MFS is a 99.9% owner of MFS Lux and MIL is a 0.1% owner of MFS Lux. MFS Lux is a *société anonyme* organized under Luxembourg law. MFS Lux provides management services or investment advice to certain non-U.S. registered investment products for which MFS and/or its affiliates act as investment manager.
- **MIMKK.** MIMKK is a wholly-owned subsidiary of MFS organized under the laws of Japan. MIMKK provides investment advisory services for certain non-U.S. registered products or non-U.S. clients for which MFS and/or its affiliates act as investment adviser or sub- adviser.

In addition to the Participating Affiliates, MFS also has arrangements material to its advisory business or

its clients with the following affiliated entities:

#### MFSI

MFSI acts as investment adviser for separately managed institutional accounts and as sub-adviser for certain registered and foreign investment companies. MFSI also provides advisory services through a Private Portfolio Management ("PPM") program to certain individual and institutional investors. Some clients of MFSI may be shareholders of some of the MFS Funds. In such cases, the client receives a credit to its account equal to the amount of the management fee paid by the relevant MFS Funds to MFS or its affiliates attributable to the client's investment in the MFS Fund.

#### MBL

MBL, a wholly-owned subsidiary of MFS, is an investment adviser headquartered in Toronto, Ontario, Canada and registered in each of the provinces and territories of Canada. MBL is also registered as an investment adviser with the SEC. MBL provides services to pension, foundation and personal wealth accounts based in Canada and outside of Canada. These accounts are actively managed through the use of Canadian mutual funds, private pooled investment funds and/or individual securities. MBL also participates in wrap fee programs for non-U.S. clients.

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

MFD, a registered broker-dealer and wholly-owned subsidiary of MFS, acts as distributor for most of the registered open-end management investment companies for which MFS acts as the primary investment adviser. One of MFS' management persons—Martin Beaulieu, its Vice Chairman—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 limited purpose 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 participants. MFSI provides client introductions and client servicing support to MHTC for its collective investment trusts.

#### 1924 Capital Management, LLC

1924 Capital Management, LLC, a wholly-owned subsidiary of MFS, is a Delaware limited liability company that serves as the general partner of certain privately offered funds employing Alternative Strategies. MFS serves as the investment manager to these funds. Please refer to the sections *Performance Based Fees and Side by Side Management*; *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*; and *Brokerage Practices* for a discussion of the manner in which MFS addresses potential conflicts of interest posed by the Alternative Strategies.



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

MFS and its affiliates may act as investment manager to numerous client accounts and may give advice or take action with respect to any client account, or for its own account, that differs from action taken on behalf of other accounts. MFS and its affiliates are not obligated to recommend, buy, or sell, or to refrain from buying or selling, any security that MFS or its affiliates may buy or sell for its or their own account or for the account of any other client.

Certain accounts invested in Alternative Strategies to which MFS provides investment management may be beneficially owned by MFS or its officers and employees. MFS' management of Alternative Strategies presents these potential conflicts: 1) charging a performance-based fee (MFS has an incentive to favor a performance-based fee account to maximize fee revenue and to create a good track record to maximize distribution opportunities); 2) investment of proprietary assets (MFS invests proprietary assets in Alternative Strategies and therefore has an incentive to favor its investments to maximize its return); 3) portfolio manager investment in an Alternative Strategy (a portfolio manager has an incentive to favor accounts in which he/she is invested in order to maximize the return of his/her investment); and 4) the management of Alternative Strategies and long-only strategies by the same portfolio management teams (conflicts between the long and short strategies, e.g., short sale of a security that is owned long in another portfolio managed by the same portfolio management team) (so-called "side-by-side management"). Please also refer to the sections *Performance Based Fees and Side by Side Management*; and *Brokerage Practices* for discussions of the manner in which MFS addresses such potential conflicts of interest.

MFS has also established and seeded several Proprietary Accounts (as defined in the *Brokerage Guidelines* section below), 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 an account's investment style to clients (each, an "MFS Pilot Fund") (an MFS Pilot Fund may also include client money in certain circumstances). MFS may purchase on behalf of one or more client accounts the same securities or other financial instruments as those held in an MFS Pilot Fund. Such client accounts may be managed similarly to the Pilot Fund or pursuant to a different investment style than the MFS Pilot Fund.

Further, employees of MFS may invest or otherwise have an interest in securities owned by or recommended to MFS' clients. Such employees may invest or otherwise have an interest, either directly or indirectly, in private funds that may invest in securities held in other client accounts.

As the situations described above may give rise to potential conflicts of interest, MFS has implemented policies and procedures relating, among other things, to portfolio management and trading practices, personal securities transactions, and insider trading. These policies and procedures are intended to avoid such conflicts of interest with clients and to resolve them appropriately if they do occur.

The MFS Investment Management Code of Ethics (the "Code") includes standards of business conduct requiring MFS' 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 Code is to ensure that the interests of clients are always placed first. Accordingly, in governing the personal trading of MFS employees, including its officers and employee directors, the Code 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. Except as permitted by the Code, all employees are obliged to report personal and beneficially owned accounts as well as transactions and holdings in Covered Securities (as that term is defined in the Code), including mutual funds managed and sub-advised by MFS. However, neither MFS nor any of its employees is obligated to refrain from investing in securities held by the accounts that it manages except to the extent that such investments violate applicable law, the Code, or other policies of MFS.

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

Portfolio Managers (as defined in the Code) are prohibited from trading a security for their personal account (i) for seven calendar days after a transaction in the same or equivalent security in a client account managed by the Portfolio Manager and (ii) for seven calendar days before a transaction in the same or similar security in a client account managed by the Portfolio Manager if the Portfolio Manager has reason to believe that such client account was 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 personally buying and selling, or 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 mutual fund 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 Code. Violations of the Code are reviewed with MFS' Code of Ethics Oversight Committee, 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.

The Code is intended to limit the investment activities of Access Persons and Investment Personnel (as defined in the Code) so that it is not detrimental to clients of MFS. Please also refer to *Brokerage*

*Practices*, below, for a discussion of MFS' practices with respect to potential conflicts arising from the recommendation or disposition of securities for both client accounts and accounts beneficially owned by institutions within the MFS Global Group.

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

#### **Inside Information Policy**

MFS also maintains an Inside Information Policy that establishes procedures to prevent the misuse of material, nonpublic information concerning an issuer of securities by MFS and its officers, directors and employees. The Inside Information Policy is incorporated by reference into the Code of Ethics. The policy provides that if MFS or any of its related persons obtains material, nonpublic information concerning an issuer of securities, MFS may be prohibited from communicating such information to clients or otherwise using such information for clients' benefit. For purposes of the policy "using" material, nonpublic information for the benefit of clients includes trading activity while in possession of such information.

#### **Investment in MFS' Parent Company**

As a matter of corporate policy, and in accordance with applicable law, MFS has adopted a policy of not investing the assets of any client in shares of SLF.

## ***Brokerage Practices***

The following is a general discussion of MFS' brokerage practices, which are subject to variation by specific direction of the client; MFS may accept advisory accounts for which MFS must utilize only brokers chosen by the client if the client agrees to waive MFS' obligation to seek best execution of the client's transactions or advisory accounts for which clients may impose reasonable limits upon its discretion. Specific decisions to purchase or sell a client's portfolio securities are made by individuals affiliated with MFS. Any such individual may serve other clients of MFS or any affiliate of MFS in a similar capacity.

### **Trading Venues and Methods**

MFS 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 (for purposes of the discussion in this subsection, each a "broker"). MFS also utilizes electronic trading methods, including Electronic Communications Networks ("ECNs") or Alternative Trading Systems ("ATs"), often at a commission charge that is lower than that charged by a full-service broker. When making trading decisions, MFS selects venues and methods in order to seek best execution for client transactions. These decisions are influenced by a number of factors including, but not limited to, the perception of market momentum, liquidity at various price points and anonymity. Transaction costs may include market impact costs and opportunity costs as well as commission costs. 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. Foreign securities are typically subject to a 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-dealer.

### **Selection of Brokers**

Except as discussed below with respect to clients who have limited MFS' brokerage discretion, MFS 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 broker-dealers at competitive rates. MFS seeks to deal with executing broker-dealers that can provide high-quality execution services.

MFS 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 of the security, the amount of the commission, the timing and impact of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved, the willingness of the broker-dealer to commit capital, the need for anonymity in the market, and the quality of services rendered by the broker-dealer in other transactions, including the quality of the research provided by the broker-dealer.

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 security is traded and its relative liquidity. As noted above, MFS may utilize numerous brokers and trading venues and strategies in order to seek the best execution for client transactions. MFS periodically and systematically reviews the performance of the broker-dealers 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, information provided to the investment adviser, and accommodation of the investment adviser's special needs. MFS may employ outside vendors to provide reports on the quality of broker-dealer 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-dealer, including ECNs, or on a principal basis at net prices without commissions, but which include compensation to the broker-dealer in the form of a mark-up or mark-down, depending on where MFS 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 MFS on tender or exchange offers. Such soliciting or dealer fees are in effect recaptured by the clients.

MFS 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 account.

### **"Soft Dollars"**

In allocating brokerage, MFS 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)"), MFS may cause clients to pay a broker or dealer that provides "brokerage and research services" (as defined by Section 28(e)) to MFS an amount of commission for effecting a securities transaction for clients in excess of the amount other brokers or dealers would have charged for the transaction if MFS 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 or dealer viewed in terms of either a particular transaction or MFS' overall responsibilities to the client and its other clients. "Commissions," as interpreted by the SEC, include fees paid to brokers for trades conducted on an agency basis, and certain mark-ups, markdowns, commission equivalents and other fees received by dealers in riskless principal transactions.

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 accounts; and
- effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or required in connection therewith by applicable rules.

Such research services can include:

- 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").

If MFS 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), MFS may allocate the costs of such service or product accordingly in its reasonable discretion. MFS will allocate Trade Commissions and/or Pooled Commissions (as each is defined below) to Research Firms (as defined below), only for the portion of the service or product that MFS 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 MFS for no consideration other than brokerage or underwriting commissions. In determining whether a service or product qualifies as "brokerage and research services", MFS evaluates whether the service or product provides lawful and appropriate assistance to MFS 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 MFS by brokers. The determination and evaluation of the reasonableness of the

brokerage commissions paid is based primarily on the professional opinions of the persons responsible for the placement and review of portfolio transactions and the investment professionals who utilize the Research provided by the brokers.

MFS has entered into client commission agreements with broker-dealers that execute, clear or settle securities transactions on behalf of clients ("Executing Brokers") which provide for the Executing Brokers to pool a portion of the Commissions paid by MFS' 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 MFS ("Research Providers"). Because a Research Provider may play no role in executing client securities transactions, any Research prepared by that Research Provider may constitute third party research. MFS may use brokerage commissions, including Pooled Commissions, from client portfolio transactions to acquire Research, subject to the procedures and limitations described in this discussion.

From time to time, MFS prepares a list of Research Providers that have been found to provide valuable Research ("Research Firms") as determined periodically by certain members of the MFS Global Group's investment staff ("Research Vote"). Executing Brokers are eligible to be included in the list of Research Firms. MFS uses the Research Vote as a guide for allocating Pooled Commissions.

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"). To the extent that payments for Research to a Broker Provider (other than Executing Brokers) are made pursuant to Trade Commissions, MFS, 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. MFS, as well as other members of the MFS Global Group, ordinarily pays Executing Brokers for Research solely with Trade Commissions, even if the Research Vote would indicate that an Executing Broker should receive Pooled Commissions in addition to Trade Commissions. The Research Vote is also used as a guide for allocating cash payments made by MFS or other members of the MFS Global Group from their own resources, if any, to Research Firms. Neither MFS nor any client has an obligation to any Research Firm if the amount of Trade Commissions and/or Pooled Commissions paid to the Research Firm is less than the applicable non-binding target. MFS, 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.

In certain instances, MFS provides discretionary investment management services to a client of MBL or of a Participating Affiliate pursuant to a delegation of investment management authority or pursuant to a sub-advisory agreement between MBL or the Participating Affiliate and MFS. MBL or 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 Services Authority or Canadian national instruments that govern money managers' use of client commissions. MFS' portfolio management activities on behalf of non-U.S. clients of MBL or Participating Affiliates, pursuant to MFS' 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 MBL or Participating Affiliates. Therefore, MFS 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, MFS and MFSI will not utilize Other Compensation generated in transactions effected on behalf of MFS' or MFSI's clients to purchase Research.

The advisory fee paid by MFS' clients is not reduced as a consequence of MFS' 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 the Research acquired with Trade Commissions or Pooled Commissions, MFS 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, MFS may have an incentive to select or recommend a broker-dealer based on its interest in receiving the Research rather than the client's interest in receiving most favorable execution. The Research received may be useful and of value to MFS or other members of the MFS Global Group in serving both the client accounts that generated the commissions and other clients of MFS 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 MFS in connection with the clients whose account generated the brokerage commissions.

## **Order Aggregation and Allocation Practices**

### ***Trade Opportunities***

As a part of MFS' duty to seek best execution, MFS 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 accounts. To address these circumstances, MFS has adopted the trading allocation policies described below. These policies apply in instances where investments may be appropriate for more than one client or account of MFS, MFSI 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 account and that no client or account of MFSI, MFS or other MFS Global Group member is improperly favored over any other client or account. 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.

Generally, investment opportunities are allocated pro rata among accounts with the same or similar investment objectives managed by a portfolio manager based on the size of the account (or relevant



portion thereof) (each, an "Account"). For purposes of MFS' trading allocation policies, the MFS Global Group defines a *pro rata* allocation of an investment opportunity among similarly-managed accounts as one that, after giving effect to the allocation among those accounts, the relevant portion of the accounts will have similar portfolio characteristics. In making *pro rata* allocations of investment opportunities, MFS permits allocations to be weighted (a) to counterbalance disparities in positions or portfolio characteristics among similarly managed accounts, (b) to account for cash availability and expected flows for similarly managed accounts, (c) prospectus restrictions, account guideline restrictions or other restrictions, and (d) tax reasons (collectively, "Deviation Reasons"). It will not be a violation of MFS' trading allocation policies if similarly managed accounts are not allocated a *pro rata* portion of an investment opportunity as a result of MFS' implementation of one or more Deviation Reasons.

Equity Accounts will be deemed to have similar characteristics if after giving effect to the execution the weighting of a portfolio security held in a similarly managed account 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 a Deviation Reason will not by itself constitute a violation of this policy 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 account 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..

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

As a general matter, MFS will not allocate an investment opportunity to "Proprietary Accounts" until it has first been allocated to client Accounts. MFS defines Proprietary Accounts as those Accounts: (i) owned beneficially solely by a member of the MFS Global Group; (ii) in which MFS officers and employees or Trustees/Managers of any of the registered investment companies for which MFS serves as the primary investment adviser are principally the beneficial owners; or (iii) invested in an Alternative Strategy that is twenty-five percent (25%) or more owned by a member of the MFS Global Group, its officers and employees and that the IMC has determined in its discretion to be an alternative account. Proprietary Accounts are not eligible for new issue allocations ("New Issue Restriction") and may receive secondary allocations only after client accounts have received their full allocations ("Secondary Restriction"). Furthermore, short sales, or purchases to cover short positions, for Proprietary Accounts may be effected only after regular-way sales or regular-way purchases, respectively, for client accounts ("Short Sale Restriction").

The allocation policies currently exclude two types of Proprietary Accounts from some or all of these restrictions. Any Proprietary Account that has been established and seeded with not more than \$25 million in a commingled vehicle advised or maintained by a member of the MFS Global Group and that is available for purchase by unaffiliated third parties ("New MFS Funds") is excluded from the scope of the New Issue Restriction, the Secondary Restriction and the Short Sale Restriction. Any MFS Pilot Fund is excluded from the scope of the Secondary Restriction and the Short Sale Restriction. MFS may manage Accounts that are beneficially owned by SLF or one or more of its subsidiaries not controlled by MFS. Such Accounts are not Proprietary Accounts 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 accounts may not be identical, even in similarly managed accounts. This could occur, for example, as a result of an account'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 account are generally effected independently, unless MFS determines to purchase or sell the same investments for several accounts at approximately the same time.

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

### ***IPO Allocation***

MFS maintains specific written guidelines regarding allocation of investments acquired in 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 from client Accounts exceed the available shares in such an Equity Limited Offering. These guidelines generally ensure that similarly mandated Accounts receive similar allocations. Asset weightings for each Account are calculated based on the following "categories": large-, mid- and small-capitalization; and U.S. and non-U.S. holdings. Capitalization ranges are based upon definitions established by Lipper Analytical Services. Allocation is generally *pro rata* based upon the Account's asset weighting in the category relevant to the particular offering.

In the event that a portion of the available investments in an Equity Limited Offering remains unallocated after all Accounts have received a full allocation, the allocation of the unallocated investments to each Account will be based on the total weighting of all equity assets of each Account. This allocation approach will be employed until all of the investments received in the Equity Limited Offering have been allocated.

MFS follows similar procedures 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") and secondary issues of fixed income investments, based on the percentage of assets each Account holds in the specific asset type of the fixed income offering at time of order (e.g., high yield, investment grade corporate, emerging market, high grade government municipal or bank loan). The percentage of assets in an asset type held by an Account with a particular asset bias that is in "ramping mode" (i.e., an Account that is not yet fully invested) shall be deemed to be the percentage of assets in such asset type that would be held by such Account were that account fully invested (i.e., consistent with how the portfolio is expected to look when it becomes fully invested). This may result in an Account in "ramping mode" receiving a larger relative amount of investments in such an offering than would an Account 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 Accounts for the fixed income investments is greater than what is available for purchase.

Exceptions to the Equity Limited Offering and Fixed Income Limited Offering allocation guidelines may be made in limited circumstances: (1) where fewer than ten shares (or other applicable minimum board lot or, for fixed income offerings, minimum denomination) would be allocated to an Account, the Account will receive the full board lot or minimum denomination if it would have received 6 to 9 shares or at least 50% of the minimum denomination through a *pro rata* allocation and will receive no allocation if it would have received fewer than six shares or less than half of the minimum denomination; (2) where excess shares are obtained due to a participating Account reaching its portfolio manager's level of interest before exhausting its *pro rata* allocation, additional shares may be allocated to other participating Accounts; (3) where necessary to allow for reasonable rounding of allocations; and (4) as otherwise determined by MFS to be appropriate and equitable to client accounts. The guidelines also prohibit allocations of Equity Limited Offerings or Fixed Income Limited Offerings to: (1) PPM Accounts advised by a member of the MFS Global Group; or (2) any Account 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.

Additionally, the MFS Global Group generally limits aggregate ownership by all Accounts that the MFS Global Group manages to a 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 Accounts falls below the maximum level. Consequently, Accounts may be unable to acquire certain investments in which the portfolio manager might wish to invest.

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 MFS by a FINRA member, MFS intends to allocate such investments as described herein and consistently with FINRA Rule 5130 and FINRA Rule 5131, which provides that brokers, their affiliates and certain other "restricted persons" may not be able to participate in new issues, or may be limited as to the extent of their participation. Only accounts that MFS 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.

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

MFS may aggregate similar trades (*e.g.*, buy orders for a particular security) or “cross” opposing trades (*e.g.*, a buy order and a sell order for a particular security). Consistent both with Section 206 of the Advisers Act and Rule 17a-7 under the Investment Company Act of 1940, as amended (the “1940 Act”), MFS has adopted procedures regarding purchases or sales of securities between eligible accounts managed by MFS, or purchases or sales of securities between an account managed by MFS and one managed by MFSI. 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.
- 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 accounts, MFS has imposed a blanket prohibition on cross transactions between an MFS Fund and another account if MBL is exercising investment discretion with respect to the security that would otherwise be crossed.

MFS 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 Accounts (other than New MFS Funds or 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 and confirms the order before any additional orders are placed for other Accounts, 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 Accounts are received by the 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 still 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 the MFS Global Group's trading allocation

policies, and the remaining balance of the order will be executed separately. 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 Accounts 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, are generally allocated among Accounts *pro rata* based on the amount of each client Account's order. The MFS Global Group may use reasonable procedures to allocate commissions arising from aggregated trades on a fair and equitable basis.

In certain circumstances, such as a buy in for failure to deliver, MFS is not able to select the broker-dealer who will transact to cover the failure. For example, if an account sells a security short and is unable to deliver the securities sold short, the broker-dealer through whom the account sold short must deliver securities purchased for cash, i.e., effect a "buy in," unless it knows that the account either is in the process of forwarding the securities to the broker-dealer 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-dealer through whom the securities were sold. If the broker-dealer effects a buy-in, MFS will be unable to control the trading techniques, methods, venues or any other aspect of the trade used by the broker-dealer.

If MFS believes that it is not permitted to execute portfolio trades with certain broker-dealers or otherwise by reason of an affiliation of the client with the broker-dealer, or if the client has directed its brokerage to a particular broker-dealer (other than the one through which the aggregated trade is to be executed), such trades may be segregated from other client trades through such broker-dealers. The practice of clients instructing MFS to direct brokerage transactions for their accounts to a broker or brokers selected by the client is sometimes referred to as "directed brokerage" or commission recapture. Certain mutual fund clients may enter into arrangements with certain brokerage firms that provide for the fund to receive a credit for part of the brokerage commission paid by the fund, which is applied against expenses of the fund. Where a client directs MFS to execute through particular broker-dealers, the client generally negotiates commission rates on transactions executed through such broker-dealers, and MFS does not evaluate the brokerage services provided to the client. A portion of the commission paid to the broker for execution of trades for the client's account may be recaptured by such client. Any benefits derived from directed brokerage and commission recapture arrangements will inure to the benefit of the client whose transactions those benefits were derived.

Clients also should understand that directing brokerage for execution limits or removes MFS' 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 selected by MFS for executing other clients' orders for the same security generally will not be combined with, and generally will be placed after, orders for the same securities for other accounts managed by MFS. Accordingly, directed transactions and transactions not aggregated with other client transactions by reason of an affiliation of the client with relevant broker-dealer 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 MFS' duty to seek best execution, the direction by a client of a particular broker to execute transactions or 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 may result in higher commissions, greater spreads or less favorable prices than might be the case if MFS could negotiate commission rates or spreads freely, or select executing brokers or dealers based on best execution.

Depending on the nature of the direction, MFS may instead use "step-outs" to allow such clients to participate in aggregated trades, that is, MFS from time to time may instruct the broker-dealer that executes a transaction to allocate, or "step out", a portion of such transaction to another broker-dealer when MFS is effecting portfolio transactions on behalf of its clients. The broker-dealers to which the Executing Broker has "stepped out" would then settle and complete the designated portion of the transaction, and the executing broker-dealer would settle and complete the remaining portion of the transaction that has not been "stepped out". Each broker-dealer may receive a commission or brokerage fee with respect to the portion of the transaction that it settles and completes.

Similarly, if MFS, 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 MFS selects, MFS may be unable to control the terms or conditions of any transaction entered into under that 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 MFS.

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 Accounts, other than for New MFS Funds or Pilot Funds, will normally be effected after regular-way sales and regular-way purchases, respectively, for client Accounts. 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 Accounts (other than New MFS Funds or MFS Pilot Funds) cannot be executed until after all such orders for client accounts have been executed.

Clients of MFS may choose to have foreign currency (FX) transactions effected either through their custodian or through MFS. Where MFS has been given authority to effect FX trades for a client, MFS follows a standard process to effect such 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 account). Client account trades and flows that occur in currencies other than the operating currency will be converted to the operating currency by processing an FX transaction. MFS will direct the client's custodian bank to repatriate all income to the operating currency of the account unless directed otherwise by the client. MFS is permitted to execute FX transactions for a client account with brokers it

selects at its discretion for currency management purposes unless directed otherwise by the client. MFS recognizes that FX transactions may positively or negatively affect trades and does not seek to make currency bets on client accounts it manages. Where a client directs MFS to use its custodian to repatriate foreign currency in the client's account, the client generally negotiates commission rates on transactions executed through such custodian, and MFS generally does not evaluate the repatriation services provided to the client. The operating currency of a client account may not be the same as the reporting currency of the account.

## *Review of Accounts*

Client portfolios are managed day-to-day by employees of MFS appointed and supervised by senior employees of MFS. MFS conducts reviews of client accounts based on the nature of such accounts. 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. Reviews are conducted 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 MFS. MFS 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 MFS, customized reporting is available. Written reports are delivered via e-mail and also can be retrieved directly and securely by clients from the MFS website. MFS 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 MFS.



## *Client Referrals and Other Compensation*

Many of MFS' clients retain investment consultants to assist with the selection of investment managers, including MFS, to invest the client's assets. Typically, such investment consultants are compensated by the clients, not MFS. However, MFS may have its own relationship with the same and different investment consultants in connection with services provided by the consultants to MFS, including, without limitation, competitive universe databases, manager performance analytics, investment forums, and business or product consulting engagements. MFS may make payments to such consultants in connection with these services, and although the consultants are paid for their services to MFS, they may choose to recommend MFS' services or products to their clients. In addition, MFS provides money management services to certain investment consultants who may choose to recommend the MFS Global Group's services or products to one or more of their clients. MFS seeks to maintain arms-length relationships when receiving or providing services to investment consultants.

MFS does not currently intend to pay third party agents or other entities for the purpose of soliciting or introducing it to new US mandates for which it provides investment management services directly to the client. In the event MFS 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 MFS pays a fee. With respect to its business outside of the United States, MFS 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, and as applicable such relationships are also subject to the SEC client disclosure rules and other requirements.

## *Custody*

MFS may be deemed to have custody of advisory client cash or bank accounts and securities to the extent that they are attributable to certain foreign investment companies managed by MFS. Such account holders receive account statements from the accounts' custodian, rather than MFS or one of its Affiliates, and should carefully review such statements.

## *Investment Discretion*

Generally, MFS 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, MFS requires a client to enter into a written investment management agreement with MFS. Any limitations on MFS' discretion in the case of a particular client will be agreed in advance and set forth in the investment management agreement between MFS and such client.

In addition, the IMC of MFS (as defined in the *Brokerage Practices* section above), 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 MFS' discretionary authority. The IMC also provides ongoing oversight of investment personnel, portfolio management, research and trading.

## *Voting Client Securities*

MFS 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. MFS' 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 MFS' own corporate interests, including its institutional relationships or the distribution of MFS Fund shares.

MFS also generally votes consistently on the same matter when securities of an issuer are held by multiple client accounts, unless MFS has received explicit voting instructions from a client to vote differently on behalf of its account. From time to time, MFS may also receive comments on the MFS proxy voting policies and procedures from its clients. These comments are carefully considered by MFS when it reviews these guidelines and revises them as appropriate.

These policies and procedures are intended to address any potential material conflicts of interest on the part of MFS or its subsidiaries that are likely to arise in connection with the voting of proxies on behalf of MFS' clients. If such potential material conflicts of interest do arise, MFS will analyze, document and report on such potential material conflicts of interest and shall ultimately vote the relevant proxies in what MFS 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 MFS' proxy voting policies. MFS 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 account. The record reflects the proxy issues that MFS 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 MFS may not have voted in accordance with specific guidelines of its proxy voting policies and procedures.

## ***Financial Information***

MFS is not required to provide a balance sheet for its most recent fiscal year, as it does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

MFS is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.