



## Massachusetts Financial Services Company

# FIRM BROCHURE

April 23, 2013

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

Additional information about MFS is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a using unique identifying number, known as a CRD number. The CRD number for MFS is 110045.

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

## ***Item 2 – Material Changes***

This brochure differs from MFS' annual brochure update which was filed on March 30, 2012, in the following material respects:

- The *Methods of Analysis, Investment Strategies and Risk of Loss* section (Item 8) of the brochure has been updated to (i) reflect certain updates to the risk factors applicable to the various strategies listed in the *Fees and Compensation* section, and (ii) reflect MFS' practices with respect to the trading of certain swaps.
- Various updates have been made to the *Brokerage Practices* section (Item 12), including updates to the disclosure under the caption "Soft Dollars" relating to changes to the soft dollar practices of the MFS Global Group (as defined in the brochure).

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## *Item 4 – Advisory Business*

Massachusetts Financial Services Company, d/b/a MFS Investment Management ("MFS"), is an investment adviser registered with the SEC. MFS is also the parent company of other companies that manage investments. In this brochure, we refer to MFS and these other direct and indirect subsidiaries collectively as the "MFS Global Group". MFS and its predecessor organizations have a history of money management dating from 1924 and the founding of the first U.S. mutual fund. MFS is an indirect, majority owned subsidiary of Sun Life Financial Inc. ("SLF"), a diversified financial services company. As of December 31, 2012, MFS managed approximately \$205 billion in client assets and the MFS Global Group managed approximately \$319 billion.

MFS provides investment advisory services to a broad range of institutional clients and pooled investment vehicles. MFS institutional clients include, among others, pension and profit sharing plans, charitable organizations and sovereign wealth funds. 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 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 primarily manages long-only investment strategies. To a lesser extent, MFS also manages some strategies that may employ both long and short positions as a principal strategy and designated as an alternative strategy by MFS' Investment Management Committee (each, an "Alternative Strategy"). MFS charges an asset-based management fee and performance-based fee in connection with an Alternative Strategy. The MFS Global Group employs portfolio management teams, which may include personnel of various Participating Affiliates (as defined in Item 8, *Methods of Analysis, Investment Strategies and Risk of Loss*), 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. The MFS Global Group may also permit employees, including the managers of the Alternative Strategy portfolios, to invest in an Alternative Strategy. See Item 8, *Methods of Analysis, Investment Strategies and Risk of Loss*, and Item 10, *Other Financial Industry Activities and Affiliations* for more information on Participating Affiliates; and see Item 12, *Brokerage Practices*, for a discussion of the potential conflicts of interest associated with the management of long-only and Alternative Strategies side-by-side and how MFS mitigates the conflicts.

MFS has 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 it invests. MFS also seeks to promote acceptance and implementation of the UNPRI within the investment industry and reports 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 legally binding 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. As such, MFS will introduce ESG-driven restrictions into a client's portfolio only as directed by a client or to comply with applicable law. Please refer to Item 17, *Voting Client Securities*, for more information about 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, investment risks, 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.

## *Item 5 – Fees and Compensation*

MFS serves as the investment adviser to the MFS Funds, providing them 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 have typically ranged from 0.33% to 1.05% of assets under management on an annual basis depending on each MFS Fund's investment mandate. 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 and are negotiable. The percentage typically depends upon the type of investment mandate. MFS' representative fee schedule for different mandates for Institutional Accounts is as follows:

<b><u>Type of Mandate</u></b>	<b><u>Standard Investment Advisory Fee</u></b>
Research Equity, Utilities	0.65% to 0.45% of average month end assets
Large Cap Growth, Growth Equity	0.60% to 0.45% of average month end assets
Large Cap Value, Core Equity	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 Extension	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
Global Equity, International Equity, International Concentrated Equity or Global Concentrated Equity	0.85% to 0.60% of average month end assets
European Equity, European Value	0.70% 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

<b><u>Type of Mandate</u></b>	<b><u>Standard Investment Advisory Fee</u></b>
Emerging Markets Equity	0.95% to 0.80% of average month end assets
Asia Pacific ex Japan	0.75% to 0.65% of average month end assets
Latin American Equity	1.00% to 0.80% of average month end assets
UK Equity	0.60% to 0.40% of average month end assets
Small Cap Growth Equity	0.90% to 0.75% of average month end assets
Mid Cap Growth Equity	0.75% to 0.70% of average month end assets
Technology Equity	0.80% to 0.65% 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 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
Emerging Market Debt Local Currency	0.65% to 0.55% of average month end assets
Domestic Balanced	0.55% to 0.40% of average month end assets

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

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 incentive portion of the compensation. 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 incentive portion 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 incentive portion is charged until the loss has been recouped, subject to certain adjustments. In certain instances, incentive compensation is based on rolling periods of up to three years and may be charged as frequently as quarterly after the initial account year. The value of performance-based fees charged to accounts managed by MFS can be far in excess of the value of asset-based fees charged to other accounts.

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, the client's domicile, and the 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 manage a group of related accounts for a client and may agree to aggregate assets in all related client accounts for purposes of attaining fee breakpoints under any applicable fee schedule.

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 in addition to 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 Item 12, *Brokerage Practices*). No portion of such charges, fees or commissions shall be applied as an offset to reduce the amount of advisory fees owed by a client to MFS. In addition, when Institutional Account assets are invested in an MFS Fund or in an exchange-traded fund ("ETF"), while the client does not pay us a separate advisory fee for these shares as explained above, the Institutional Account 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 Item 12, *Brokerage Practices*, for a discussion of fees related to MFS' selection of brokers and order allocation practices. Assets invested in non-MFS Funds or other commingled or pooled investment vehicles are included in calculating the value of the account for purposes of computing fees. The same assets are also subject to additional advisory and other fees and expenses, as set forth in the offering documents of those pooled investments. These additional fees are paid by the investment vehicle, but ultimately borne by investors. Clients, in effect, pay two sets of advisory fees for these investments—one to us and another to the managers of each mutual fund or commingled investment vehicle. To the extent that we



invest any client's assets in shares of an MFS Fund, however, the client receives a credit to its 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 as discussed above.

## ***Item 6 – 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 charged such fees over accounts charged only asset-based fees in order to generate greater management fees. The MFS Global Group's allocation policies (see Item 12, *Brokerage Practices*, below) address such potential conflicts of interest by prohibiting the MFS Global Group from unfairly favoring one type of 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* or equitable rotation basis, as described in Item 12, *Brokerage Practices*, below.

## *Item 7 – 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, charitable organizations, corporations, state or municipal government entities, 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. Client relationships are governed by investment advisory agreements that set forth the terms under which MFS will provide its services. MFS may accept an account below the relevant minimum if special circumstances warrant. For example, a client with multiple accounts above the required minimum may be allowed to open another account below the minimum account size. MFS, in its sole discretion, reserves the right to decline any account and reserves the right to close any account that falls below the minimum account size or for any other reason.

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

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

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

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

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

#### 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 represents a principal risk of all mandates except the following: High Yield, Core Fixed Income, Core Plus Research Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income, Emerging Market Debt and Emerging Market Debt Local Currency.

### 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity and Technology Equity.

### Company Risk

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

This represents a principal risk of all mandates except the following: Core Fixed Income, Core Plus Research Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income, Emerging Market Debt and Emerging Market Debt Local Currency.

### Value Company Risk

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

This represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Utilities, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, European Equity, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Technology Equity, Strategic Core Fixed Income, Opportunistic Fixed Income, High Yield, Core Fixed Income, Core Plus Research Fixed Income, Municipal

Fixed Income, Limited Maturity Fixed Income, Emerging Market Debt and Emerging Market Debt Local Currency.

#### 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 represents a principal risk of all mandates except the following: Research Equity, Core Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Strategic Core Fixed Income, Opportunistic Fixed Income, High Yield, Core Fixed Income, Core Plus Research Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income, Emerging Market Debt, Emerging Market Debt Local Currency, and Domestic Balanced.

#### Small Cap Risk

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

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

#### Mid Cap Risk

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

The following mandate is the sole mandate for which this represents a principal risk: Mid Cap Growth Equity.

#### 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, industry, political, regulatory, geopolitical, and other conditions. Certain 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 asset-backed securities, the price of the debt instrument also depends on the credit quality and adequacy of the underlying assets or collateral as well as whether there is a security interest in the underlying assets or collateral. Enforcing rights, if any, against the underlying assets or collateral may be difficult.

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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity and Technology 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Large Cap Value, Blended Research US Core Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Municipal Fixed Income, Limited Maturity Fixed Income and Domestic Balanced.

#### Geographic Concentration Risk

A large percentage of an account's assets may be invested in issuers located in a single country, a small number of countries, and/or a particular geographic region. Accordingly, the account's performance could be closely tied to the market, currency, economic, political, regulatory, geopolitical and other conditions in those countries or that region and could be more volatile than the performance of more geographically diversified accounts. 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Large Cap Value, Blended Research US Core Equity, Small Cap Growth Equity, Mid Cap Growth Equity, High Yield, Core Fixed Income, Core Plus Research Fixed Income, Municipal Fixed Income, Limited Maturity Fixed Income and Domestic Balanced.

#### Foreign Risk

Investments in securities of foreign issuers, securities of companies with significant foreign exposure, and investments in foreign currencies can involve additional risks relating to market, economic, industry, political, regulatory, geopolitical, and other conditions. Political, social, and economic 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. Economies and financial markets are becoming more connected, which increases the likelihood that conditions in one country or region can adversely impact issuers in different countries or regions. Less stringent regulatory, accounting, and disclosure requirements for issuers and markets are more common in certain foreign countries. Enforcing legal rights can be difficult, costly, and slow in certain foreign countries, and can be particularly difficult against foreign governments. Changes in currency exchange rates can affect the U.S. dollar value of foreign currency investments and investments denominated in foreign currencies. Additional risks of foreign investments include trading, settlement, custodial, and other operational risks, and withholding and other taxes. These factors can make foreign investments, especially those in emerging markets, more volatile and less liquid than U.S. investments. In addition, foreign markets can react differently to market, economic, political, regulatory, geopolitical, and other conditions than the U.S. market.

This represents a principal risk of all mandates except 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, greater custody and operational risk, 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Large Cap Value, Blended Research US Core Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Municipal Fixed Income, Limited Maturity Fixed Income and Domestic Balanced.

#### Derivatives Risk

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. Derivatives can involve leverage. Derivatives can be complex instruments and can involve analysis and processing that differs from that required for other investment types used by 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.

#### Leveraging Risk

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

#### Investment Selection Risk

MFS' investment analysis, its development and use of quantitative models, and its selection of investments may not produce the intended results and/or can lead to an investment focus that results in the account underperforming other accounts with similar investment strategies and/or underperforming the markets in which the account invests.

### Counterparty and Third Party 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 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Technology Equity, High Yield, Emerging Market Debt and Emerging Market Debt Local Currency.

### 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Technology Equity, High Yield, Emerging Market Debt and Emerging Market Debt Local Currency.

#### Inflation-Adjusted Debt Instrument 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 represents a principal risk of all mandates except the following: Large Cap Growth, Growth Equity, Research Equity, Core Equity, Utilities, Large Cap Value, Blended Research US Core Equity, Blended Research Global Equity Extension, Global Growth, Global Value, European Equity, European Value, Global Equity, Global Research, International Research, International Concentrated Equity, Global Concentrated Equity, International Growth, International Equity, International Value, Emerging Markets Equity, Asia Pacific ex Japan, Latin American Equity, UK Equity, Small Cap Growth Equity, Mid Cap Growth Equity, Technology Equity, High Yield, Municipal Fixed Income, Emerging Market Debt and Emerging Market Debt Local Currency.

#### Utilities Concentration Risk

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

Issuers in the utilities sector are subject to many risks, including the following: increase in fuel and other operating costs; restrictions on operations, increased costs, and delays as a result of environmental and safety regulations; coping with the impact of energy conservation and other factors reducing the demand for services; technological innovations that may render existing plans, equipment or products

obsolete; the potential impact of natural or man-made disasters; difficulty in obtaining adequate returns on invested capital; difficult in obtaining approval of rate increases; the high cost of obtaining financing, particularly during periods of inflation; increased competition resulting from deregulation, overcapacity, and pricing pressures; and the negative impact of regulation.

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

#### Technology Concentration Risk

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

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

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

#### Latin American Market Risk

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

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

### Asia Pacific Risk

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

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

### European Market Risk

The economies of countries in Europe are in all stages of economic development and include both emerging and developed markets. Most developed countries in Western Europe are members of the European Union (EU), and many are also members of the European Economic and Monetary Union (EMU). European countries can be significantly affected by the tight fiscal and monetary controls that the EMU imposes on its members. Several EMU countries are facing significant deficit and budget issues, which may have a negative impact on all the economies in Europe and the stability of the Euro. Unemployment in Europe has historically been higher than in the United States. Eastern European countries generally continue to move toward market economies. However, their markets remain relatively undeveloped and can be particularly sensitive to social, political and economic conditions. European Equity and European Value are the sole mandates 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. It may not be possible to close out a short position at any particular time or at an acceptable price. Short sales can involve leverage. Investing the proceeds from short sale positions in other securities subjects an account to the risks of the securities purchased with the proceeds in addition to the risks of the securities sold short.

The Blended Research Global Equity Extension and the Technology Equity mandates are the sole mandates for which this represents a principal risk.

### Extension Strategy Risk

MFS may be unable to fully implement an account's extension strategy (i.e., long/short equity 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.

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

### Issuer Focus Risk

Because an account may invest a relatively large percentage of the account's assets in a single issuer or small number of issuers, the account's performance could be more closely tied to that one issuer or those issuers, and could be more volatile than the performance of more diversified accounts.

The following mandates are the sole mandates for which this risk represents a principal risk: International Concentrated Equity, Global Concentrated Equity, Emerging Markets Equity and UK Equity.

### Frequent Trading Risk

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

## *Item 9 – Disciplinary Information*

MFS has no criminal or civil actions or 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 were discontinued by MFS in November 2003.

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

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

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, 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 distribution services outside the United States for various investment products and services, including distribution of products advised or sub-advised by MFSI or MFS. Through its Singapore branch, MIL also provides investment advice outside the United States for certain separate account clients advised or sub-advised by MFS or MFSI.
- **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. As a Participating Affiliate within the MFS Global Group, MIL UK also provides investment research, advice and management services with respect to various U.S. registered products or U.S. clients, including those for which MFS and/or its affiliates acts as an investment adviser or sub-adviser.

- **MIMKK.** MIMKK is a wholly-owned subsidiary of MFS organized under the laws of Japan. MIMKK provides investment advisory services and related distribution services for certain non-U.S. registered products or non-U.S. clients for which MFS and/or its affiliates act as investment adviser or sub-adviser. As a Participating Affiliate within the MFS Global Group, MIMKK also provides investment advisory services and related distribution services outside the United States for certain U.S. registered products or U.S. clients for which MFS and/or its affiliates act as investment adviser or sub-adviser.
- **MFS MB.** MFS MB, an indirect wholly-owned subsidiary of MFSI, is an investment adviser headquartered in Toronto, Ontario, Canada and registered in each of the provinces and territories of Canada. MFS MB provides services to pension corporate, foundation and other non-retail accounts based in Canada. These accounts are actively managed through the use of Canadian mutual funds, private pooled investment funds, and/or individual securities offered and sold to non-U.S. persons. MFS MB also participates in wrap fee programs for certain non U.S. clients. MFS MB provides investment advisory services for certain non-U.S. registered and unregistered commingled products or non-U.S. clients for which MFS MB and/or its affiliates acts as investment adviser or sub-adviser. As a Participating Affiliate within the MFS Global Group, MFS MB also provides investment advisory services outside the United States for certain U.S. registered products or U.S. clients for which MFSI and/or its affiliates act as investment adviser or sub-adviser.
- **MFS Lux.** MFS is a 99.9% owner of MFS Lux and MIL is a 0.1% owner of MFS Lux. MFS Lux is a société à responsabilité limitée organized under Luxembourg law. MFS Lux provides management services outside the United States to certain non-U.S. registered investment products for which MFS acts as investment manager.
- **MIL HK.** MIL HK is a wholly-owned subsidiary of MIL and provides investment management and marketing support services outside the United States.

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.

#### 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. The agreements under which MFD serves as distributor are subject to annual approval by the independent trustees of the MFS Funds.

MFS Heritage Trust Company ("MHTC")

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

## ***Item 11 – 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 their own accounts, 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 accounts 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 four 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 Item 6, *Performance Based Fees and Side by Side Management*, and Item 12, *Brokerage Practices*, for discussions of the manner in which MFS addresses such potential conflicts of interest.

MFS has also established and seeded a number of Proprietary Accounts (as defined in Item 12, *Brokerage Practices*), each with not more than \$25 million, for the purpose of establishing a performance record to enable MFS or one of its subsidiaries to offer such 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 MFS Pilot Fund or pursuant to a different investment style than the MFS Pilot Fund. Although not restricted to the same degree as trading by Access Persons discussed below, an MFS Pilot Fund is subject to special trading restrictions described more fully under the caption "Order Aggregation and Allocation Practices" in Item 12, *Brokerage Practices*, below.

Further, employees of the MFS Global Group may invest or otherwise have an interest in securities owned by or recommended to MFS' clients. Such employees may also invest or otherwise have an

interest, either directly or indirectly, in private funds that may invest in securities held in other client accounts.

As the situations described above may give rise to potential conflicts of interest, MFS has implemented policies and procedures relating to, among other things, portfolio management and trading practices, personal securities transactions, and insider trading. These policies and procedures are intended to reduce the frequency of such conflicts of interest with or among clients and to resolve them appropriately when 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. All employees are obligated to report personal and beneficially owned accounts as well as holdings and transactions in Covered Securities (as that term is defined in the Code), including mutual funds managed and sub-advised by MFS. In addition, all employees are also obligated to certify to transactions and holdings in Covered Securities except in cases where an exception has been granted by MFS' Code of Ethics Oversight Committee. 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 client portfolios that do not otherwise employ Portfolio Managers are themselves treated as Portfolio Managers.

All employees are required to certify quarterly that they have complied with the terms of the 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.

In limited circumstances, MFS' Code of Ethics Oversight Committee has the authority to grant exceptions to the provisions of the Code on a case-by-case basis.

The Code is intended to limit the investment activity 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 Item 12, *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, to which the MFS Global Group is subject, 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 policy provides that if any of the directors, officers and employees of MFS or any of its subsidiaries obtain material, nonpublic information concerning an issuer of securities, MFS is prohibited from using such information for its own and its clients' benefit. For purposes of the policy, "using" material, nonpublic information includes trading activity while in possession of such information.

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

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

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

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

### **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 section, each a "broker"). MFS also utilizes electronic trading methods, including Electronic Communications Networks ("ECNs") (including, without limitation, "Multilateral Trading Facilities" or "MTFs") and Alternative Trading Systems ("ATs"). These trading platforms often, in the case of equity transactions, execute transactions at a commission rate lower than that charged by a full-service broker. 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 which are described more specifically below. Transaction costs may include market impact costs and opportunity costs as well as commission costs (which in the United States, are typically measured in cents per share, while in most non-U.S. jurisdictions, are typically measured in basis points). Brokers, generally, are used on a full service, execution-only or direct access basis.

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

In seeking best execution, 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 or 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 involved; the willingness of the broker to commit capital; the need for anonymity in the market; and the quality of services rendered by the broker in other transactions, which may include the quality of the research provided by the broker.

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 best execution for client transactions. MFS periodically and systematically reviews the performance of the brokers that execute its transactions, including the commission rates paid to brokers by considering the value and quality of brokerage and research services provided. The quality of a broker's services is measured by analyzing various factors that could affect the execution of trades. These factors include the ability to execute trades with a minimum of market impact, the speed and efficiency of executions, electronic trading capabilities, adequacy of capital, commitment of capital when necessary or desirable, market color provided to the investment adviser, and accommodation of the investment adviser's special needs. MFS may employ outside vendors to provide reports on the quality of broker executions.

In the case of securities traded in the OTC market, portfolio transactions may be effected either on an agency basis, which involves the payment of negotiated brokerage commissions to the broker, including ECNs, or on a principal basis at net prices without commissions, but which include compensation to the broker 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 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 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 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 services can include:

- access to corporate management ("Corporate Access");
- industry conferences;
- research field trips to visit corporate management and/or to tour manufacturing, production or distribution facilities;
- statistical, research and other factual information or services such as investment research reports;
- access to analysts;
- execution systems and trading analytics;
- reports or databases containing corporate, fundamental, and technical analyses;
- portfolio modeling strategies; and
- economic research services, such as publications, chart services, and advice from economists concerning macroeconomics information, and analytical investment information about particular corporations (collectively, "Research").

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 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 pay 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.

The MFS Global Group currently conducts two separate Research Votes. One Research Vote is used to allocate among Research Providers Research Commissions not attributable to clients with investment advisory agreements with MIL UK ("MFS Global Group Vote"), while the other Research Vote is used to allocate among Research Providers Research Commissions that are attributable to clients with investment advisory agreements with MIL UK ("MIL UK Vote"). The difference between the MFS Global Group Vote and the MIL UK Vote is that members of the MFS Global Group investment staff may take into account Corporate Access in the MFS Global Group Vote but may not take into account Corporate Access in the MIL UK Vote.

If 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 to Research Firms, 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 investment professionals who utilize the Research provided by the brokers.

In certain instances, MFS provides discretionary investment management services to a client of a Participating Affiliate pursuant to a delegation of investment management authority or pursuant to a sub-advisory agreement between the Participating Affiliate and MFS. 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 (“FSA”) or Canadian national instruments that govern money managers’ use of client commissions. MFS’ portfolio management activities on behalf of non-U.S. clients of 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 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 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 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 trade 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' trade 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) to account for prospectus restrictions, account guideline restrictions or other restrictions, and (d) to account for tax reasons (collectively, "Deviation Reasons"). It will not be a violation of MFS' trade 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.

Fixed income Accounts are monitored monthly for dispersion in interest rate duration and spread duration. This review identifies and validates any dispersion greater than 25 basis points for fixed income Accounts managed to a similar strategy. The review is designed to highlight inconsistencies in either dispersion type between the clone account and its designated model. Dispersion of greater than

25 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 25 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 the IMC or brought within 25 basis points within 3 months of the time that the dispersion first exceeded 25 basis points.

In monitoring any deviations from the general rule, the MFS Global Group may review several measures. In the case of two 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) beneficially owned 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: (1) not more than: (a) \$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; or (b) \$50 million in a commingled vehicle advised by a member of the MFS Global Group that is available for purchase by unaffiliated third parties and includes investments from unaffiliated third parties (collectively, "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. As such, MFS may have a conflict of interest in managing New MFS Funds to the extent that there is inadequate supply available to satisfy all client orders including a New MFS Fund. This conflict is mitigated by the fact that no New MFS Fund can receive more than its *pro rata* allocation in the event of inadequate supply. New MFS Funds and MFS Pilot Funds otherwise trade *pari passu* with MFS' client Accounts. 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 and Oversubscribed Secondary Offerings***

MFS maintains specific written policies regarding allocation of equity 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 for client Accounts exceed the available shares in such an Equity Limited Offering. These policies generally ensure that Accounts receive allocations in proportion to the relevant assets within the Account. 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 proportion that the amount of the Account's relevant assets bears to the total amount of the relevant assets held in all Accounts that submit orders.

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 policies when allocating fixed income securities issued in the new issue market, oversubscribed secondary offerings and securities with respect to which MFS Global Group portfolio manager demand exceeds MFS Global Group internal ownership limits (collectively, "Fixed Income Limited Offerings"). These policies generally ensure that Accounts receive allocations based upon the proportion that the amount of the Account's relevant assets (*e.g.*, high yield, investment grade corporate, emerging market, high grade government, municipal or bank loan) bears to the total of the relevant assets held in Accounts submitting the order. An exception to this allocation rule applies to

Accounts with a particular asset bias (e.g., high yield), Accounts with a particular asset allocation mix, and, potentially, Accounts that have experienced a significant change in investment objective that are in “ramping mode” (i.e., the Account is not yet fully invested in conformity with its investment objective). For such Accounts, the amount of relevant assets shall be deemed to be the amount 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. This discussion of ramping mode does not override the restrictions applicable to New MFS Funds and MFS Pilot Funds even when in ramping mode.

Exceptions to the Equity Limited Offering and Fixed Income Limited Offering allocation guidelines may be made in limited circumstances. One circumstance that can arise involves instances in which a *pro rata* allocation would result in an Account being allocated fewer than ten shares (or other applicable minimum board lot or, for fixed income offerings, minimum denomination). Under this scenario, the Account will receive the minimum board lot or minimum denomination if a *pro rata* allocation would have resulted in the Account receiving 6 to 9 shares or at least 50% of the minimum denomination through a *pro rata* allocation; the Account will receive no allocation if a *pro rata* allocation would have resulted in the Account receiving fewer than six shares or less than half of the minimum denomination. Another circumstance that can arise is that excess shares become available to MFS to allocate among Accounts because the portfolio manager of a participating Account may not want to purchase all of the shares to which the Account is otherwise entitled. Under this scenario, the additional shares may be allocated to other participating Accounts. Still other circumstances can arise; (1) where necessary to allow for reasonable rounding of allocations; and (2) 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; 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 above and consistently with FINRA Rule 5130 and FINRA Rule 5131, which provide that brokers, their affiliates and certain other “restricted persons” may not participate in new issues, or may be limited as to the extent of their participation. Only 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.

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

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

### ***Crossing***

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 (ERISA accounts are not 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 MFS MB is exercising investment discretion with respect to the security that would otherwise be crossed.

### ***Aggregation***

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 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 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 with the new orders. Allocations of the executions of such aggregated orders are generally made in proportion to the orders and otherwise made in accordance with the MFS Global Group's applicable trade allocation policies. When two or more client 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, including commissions are generally allocated among Accounts *pro rata* based on the amount of each client Account's order.

In certain circumstances, such as a buy in for failure to deliver, MFS is not able to select the broker 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 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 or will do so as soon as possible without undue inconvenience or expense. Similarly, there can also be a failure to deliver in a long transaction and a resulting buy in by the broker through whom the securities were sold. If the broker effects a buy-in, MFS will be unable to control the trading techniques, methods, venues or any other aspect of the trade used by the broker.

If MFS does not believe that it is permitted to execute portfolio trades with certain brokers or otherwise by reason of an affiliation of the client with the broker, or if the client has directed its brokerage to a particular broker (other than the one through which the aggregated trade is to be executed) or if MFS is prohibited by a client from executing trades with brokers other than brokers that the client has specifically approved for its account, such trades may be segregated from other client trades through such brokers. 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". Certain mutual fund and other institutional clients may enter into arrangements (so-called "commission recapture" arrangements) with certain brokerage firms that provide for the fund or other institutional client, as the case may be, to receive a credit for part of the brokerage commission paid by the fund or other institutional client, which is applied against expenses of the fund or other institutional client's account. Where a client directs MFS to execute through particular brokers in connection with such commission recapture arrangements, MFS negotiates commission rates on transactions executed through such brokers, while the client negotiates the portion of the commission recaptured by such client. Where a client directs MFS to execute through particular brokers, MFS does not evaluate the brokerage services provided to the client. Any benefits derived from directed brokerage and commission recapture arrangements will inure to the benefit of the client whose transactions created the benefits.

Clients also should understand that directing brokerage or allowing only certain approved brokers for execution limits or removes 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 client 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 or by reason of such broker not being on the client's approved broker list 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, the need to use a different broker-dealer to execute a client's order by virtue of an affiliation between the client and the broker-dealer or the need to use a different broker to execute a client's order by virtue of the broker-dealer not being listed on a client's approved broker list, may result in higher commissions, greater spreads or less favorable prices than might be the case if 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. In step-out transactions, MFS instructs the broker that executes a transaction to allocate, or "step out", a portion of such transaction to the broker to which the client has directed trades. The brokers to which the Executing Broker has "stepped out" would then clear and settle the designated portion of the transaction, and the Executing Broker would clear and settle the remaining portion of the transaction that has not been "stepped out". Each broker may receive a commission or brokerage fee with respect to the portion of the transaction that it clears and settles.

Similarly, if 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 the client's agreement, and the pricing and other economic terms may be less beneficial to the client than those for a similar transaction entered into under a derivatives agreement with a counterparty selected by 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 MFS 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.

### **Operating Currency Related Transactions**

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

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

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

For all accounts (regardless of whether the client has chosen to have FX transactions effected through its custodian or through MFS), the client's custodian bank will generally process FX transactions related to securities transactions and income and dividend repatriations for transactions in countries that restrict transactions in their currency due to regulatory or foreign exchange controls (i.e., so-called "restricted markets"). MFS will provide the client's custodian bank with FX instructions for all security settlements

in such restricted markets on a trade by trade basis, which instructions are in turn sent by the custodian bank to its trading desk or local sub-custodian for execution.

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

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

### **Investment Related Currency Transactions**

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

### ***Item 13 – Review of Accounts***

Client portfolios are managed day-to-day by employees of MFS appointed and supervised by senior employees of the MFS Global Group. 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. Quarterly risk reviews are conducted by both management and investment personnel, including both the Chief Investment Officer and the Chief 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.

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

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

Many of MFS' clients retain investment consultants to assist with the selection of investment managers, such as MFS. 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 pays such consultants for these services. MFS believes that the payments it makes to such consultants are fair in relation to the services purchased and not compensation for such consultants' recommendations of MFS' services or products to the clients of the consultants. 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 arm's-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. To the extent SEC client disclosure rules and other requirements are applicable to such arrangements, MFS will comply with such requirements.

## ***Item 15 – 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. To the extent that a client has instructed MFS to automatically deduct advisory fees from the client's account, MFS may be deemed to have custody of such client accounts. Such clients will receive account statements from both MFS and their custodian. Clients are urged to review and compare such statements carefully.



## ***Item 16 – 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 Item 12, *Brokerage Practices*), which is comprised of members of senior management and representatives of the equity and fixed income departments, meets on a regular basis to establish and monitor investment policies and procedures. These policies and procedures govern, among other things, the exercise of MFS' discretionary authority. The IMC also provides ongoing oversight of investment personnel, portfolio management, research and trading.

## *Item 17 – 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 the MFS Proxy Voting Committee, which is responsible for reviewing these guidelines and revising them as appropriate.

These policies and procedures are intended to address any potential material conflicts of interest on the part of 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 and document them 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 our 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.

## ***Item 18 – 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.

## *Appendix I*

**FACTS****WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?****Why?**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

**What?**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and account balances
- Account transactions and transaction history
- Checking account information and wire transfer instructions

When you are *no longer* our customer, we continue to share your information as described in this notice.

**How?**

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does MFS share?	Can you limit this sharing?
<b>For our everyday business purposes</b> —such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> —to offer our products and services to you	No	We don't share
<b>For joint marketing with other financial companies</b>	No	We don't share
<b>For our affiliates' everyday business purposes</b> —information about your transactions and experiences	No	We don't share
<b>For our affiliates' everyday business purposes</b> —information about your creditworthiness	No	We don't share
<b>For nonaffiliates to market to you</b>	No	We don't share

**Questions?**

Call **800-225-2606** or go to **mfs.com**.

## Who we are

<b>Who is providing this notice?</b>	MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., MFS Fund Distributors, Inc., MFS Heritage Trust Company, and MFS Service Center, Inc.
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## What we do

<b>How does MFS protect my personal information?</b>	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.
<b>How does MFS collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>▪ open an account or provide account information</li> <li>▪ direct us to buy securities or direct us to sell your securities</li> <li>▪ make a wire transfer</li> </ul> <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>▪ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>▪ affiliates from using your information to market to you</li> <li>▪ sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>

## Definitions

<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.</i></li> </ul>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>MFS does not share with nonaffiliates so they can market to you.</i></li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>▪ <i>MFS doesn't jointly market.</i></li> </ul>

## Other important information

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.