2017 MFS® Sustainable Investing Annual Report

Table of contents

1 A Message from the CEO

2 An introduction to MFS' investment integration and proxy voting activities

5 Investment integration: The year in review

8 Proxy voting: Our global scorecard

14 MFS' global engagement program

20 Appendix

21 Additional resources and contact information

A message from MFS CEO and chief investment officer

Over the last decade, sustainable investment practices have moved from a topic of interest in certain regions to a global movement that is impacting all facets of the investment management industry.

Since establishing our responsible investing committee in 2009, MFS' sustainability efforts have grown and evolved. We have expanded our team of sustainable investment and proxy voting experts to help our analysts and portfolio managers better assess the growing impact that environmental, social and governance (ESG) issues have on the securities we own. We have also added a selection of ESG research providers to assist us in generating additional insights.

Our investment process has always focused on in-depth, bottom-up analysis to assess the long-term sustainability of cash flows for the companies we own. While we believe our investment team has always analyzed the most material ESG topics, it is clear that a more systematic approach to sustainable investing has enhanced our research efforts and portfolio management decisions.

This report is intended to provide our clients, employees and other stakeholders with a better understanding of the ways our sustainable investing efforts have impacted our investment decisions, engagement activity and proxy voting. We hope it will help you to understand the many ways we are actively employing sustainability insights to improve outcomes for our clients.

Sincerely,

Michael Roberge
CEO and Chief Investment Officer

An introduction to MFS' ESG investment integration and proxy voting activities

At MFS, sustainable investing encompasses our investment team's ESG integration process as well as our proxy voting and engagement activities.

Investment integration overview

Our investment team relies on deep fundamental research and a long-term perspective to select companies that can produce sustainable returns throughout an entire economic cycle. This investment process naturally encourages each analyst and portfolio manager to assess all material investment factors — including ESG topics — as part of the investment decision-making process.

Although our overall investment approach focuses on the sustainability of the companies we own, we believe that a different perspective is required to truly appreciate and understand certain ESG and sustainability topics. As a result, in 2009 we formed the MFS Responsible Investing Committee and established the MFS Policy on Responsible Investing to support the implementation of a systematic ESG integration process. Since that time, MFS has hired two investment professionals who are focused exclusively on integrating ESG topics into our broader research platform. In 2017, we established the MFS Sustainability Group. This group includes MFS' president, asset class CIOs and Chief Risk Officer as well as other senior investors and leaders from our distribution teams. Its purpose is to further accelerate the implementation of sustainable investing practices across the firm.

ESG-dedicated investment professionals

Rob Wilson – Research Analyst

Rob Wilson is MFS' research analyst focused on ESG topics. Before joining MFS in April 2013, Rob worked as an equity analyst at a large, US-based investment management firm. He earned a BS in business administration from Boston University and an MBA from the University of Chicago.

Jeff Marsh – Research Associate

Jeff Marsh is MFS' research associate dedicated to ESG topics. Jeff joined MFS' ESG research effort in September 2016. Previously, he worked as a research associate on MFS' energy sector team and quantitative team. He earned a BA in government from Hamilton College.

Effective integration requires global collaboration

The goal of ESG integration cannot be accomplished by building a separate ESG team. At MFS®, ESG integration means the entire investment team is considering these topics as part of their overall research process. MFS research analysts and portfolio managers analyze and engage management teams on ESG topics that may be material for the securities they cover or hold. Simultaneously, the investment team also benefits from collaborating with our ESG-dedicated professionals, who often provide new insights and differentiated perspectives on a wide variety of topics and securities. This collaboration supports and enhances our ability to identify and assess ESG risks and opportunities, however, is important to note that the majority of our ESG insights originate from within the broader investment team rather than being generated by our ESG-dedicated investment professionals.

"As portfolio managers, we're continually trying to assess the long-term sustainability of the cash flows of the companies we own. We independently question many management teams about their compensation practices, the impacts of various social and environment issues and other ESG topics. Although analyzing ESG topics is a natural part of our investment process, we have found great value in Rob and Jeff's research. It helps us to better understand the potential risk/return profile of specific securities, and in some cases their work has led us to change portfolio positioning. Over the past few months, Rob has worked with Gaurav Tewary — an industry analyst based in Singapore — to evaluate a series of ESG concerns related to an Indian company. The risks that Rob identified enabled Gaurav to engage with the firm's management team on a broad set of ESG topics, and their collaborative efforts helped us to better understand the risk/return profile of the security."

— JEFF CONSTANTINO, CO-PORTFOLIO MANAGER, MFS GLOBAL GROWTH EQUITY

JEFF CONSTANTINO

GAURAV TEWARY

Proxy voting overview

MFS believes that robust, active ownership practices can help protect and enhance long-term shareholder value. Active ownership is about being thoughtful and diligent in exercising our voting rights and engaging with the companies in our portfolios on a variety of issues. Environmental, social and governance issues can impact the value of an investment, so we consider these factors when developing our proxy voting and engagement practices.

Proxy voting professionals

Lindsey Apple – Senior Proxy Analyst

Lindsey Apple is a senior proxy analyst on MFS' Corporate Governance and Proxy Voting team. Her responsibilities include proxy voting and issuer engagement focusing on board governance and relevant environmental and social issues, with particular expertise in compensation and governance topics. Prior to joining the firm in 2012, Lindsey was an associate at a Boston-based law firm. She received a BS from the University of New Hampshire and a JD from Suffolk University Law School. She is a member of the board of directors of the Li-Fraumeni Syndrome Association and of BASIC (Building a Sustainable Investment Community).

Margaret Therrien – Proxy Analyst

Margaret Therrien is a proxy analyst on MFS' Corporate Governance and Proxy Voting team. She is responsible for analyzing certain compensation and ESG trends and risks faced by issuers, as well as day-to-day proxy voting. Prior to joining MFS in January 2016, Margaret worked at a biotechnology company as a credit risk analyst. She has also worked in academic research, examining trends in corporate governance. She earned a BS in business administration from Boston University.

How proxies are voted

HEIDI W. HARDIN

MFS maintains its own publicly available proxy voting policies and procedures (the MFS Proxy Policies), which guide all of our proxy voting decisions. The administration of the MFS Proxy Policies is overseen by the MFS Proxy Voting Committee (the MFS Proxy Committee). The MFS Proxy Committee consists of senior members of our Global Investment and Client Support and Legal departments. In order to mitigate the potential for material conflicts of interest, the MFS Proxy Committee does not include individuals whose primary duties relate to client relationship management, marketing or sales.

The MFS Proxy Committee is chaired by our general counsel, Heidi W. Hardin. Heidi is an executive vice president and general counsel at MFS Investment Management®. She leads the Legal, Compliance and Enterprise Risk Management departments and is a member of the firm's Management Committee.

As a general matter, MFS portfolio managers and investment analysts have limited involvement in most votes cast by MFS. This approach is designed to promote consistency in the application of MFS' voting guidelines, to promote consistency in voting on the same or similar issues (for the same or for multiple issuers) across all client accounts and to minimize the potential for proxy solicitors, issuers or third parties to attempt to exert inappropriate influence on the vote. However, in certain types of votes (*e.g.*, mergers and acquisitions, proxy contests, capitalization matters, potentially excessive executive compensation issues or certain shareholder proposals) a representative of the MFS Proxy Committee consults with the MFS investment team to gain greater knowledge of the company's strategy and historic performance. The MFS Proxy Committee ultimately determines the manner in which all proxies are voted.

Use of proxy advisory firms

To assist in executing our proxy voting activities, MFS has entered into an agreement with Institutional Shareholder Services, Inc. (ISS) to perform various administrative proxy services, such as vote processing and recordkeeping functions. ISS also provides research reports containing important information about our portfolio companies that assist us in determining how to vote our shares. ISS research reports also contain vote recommendations that we may use to identify (i) circumstances in which a board may have approved excessive executive pay; (ii) environmental and social shareholder proposals that warrant consideration; and (iii) circumstances where a company is not in compliance with local governance best practices. MFS also receives research reports from Glass, Lewis & Co. on all such issues, as well as from other third-party research providers.

Notwithstanding the above use of our proxy advisory firms, MFS analyzes all proxy issues independently and within the context of the MFS Proxy Policies. MFS does not actively seek to vote in line with our proxy advisory firm benchmark policy recommendations. Proxy advisory firm research reports are one important input in our comprehensive analysis, which includes other essential sources of information that help us determine what vote we believe to be in the best, long-term economic interest of our clients (*i.e.*, proxy materials, engagement, other third-party information, etc.). MFS also has due diligence procedures in place to help ensure that the research we receive from our proxy advisory firms is accurate and reasonably addresses any potential material conflicts of interest.

Investment integration: The year in review

At MFS, our approach to ESG integration has always been built upon a foundation of in-depth, bottom up research on individual securities. We strongly believe this bottom up, materiality-driven approach, rather than one based heavily on ESG ratings, leads to true ownership of ESG issues among our industry analysts and portfolio managers. Additionally, our ESG-dedicated investment team members, Rob Wilson and Jeff Marsh, both began their careers as "traditional" research analysts, so they understand investment materiality and can use that understanding to assist the broader team in modeling and valuing ESG factors. As part of their work they have developed a detailed and comprehensive ESG integration strategy designed to enable the broader investment staff to better understand how ESG issues can impact their decision-making process. The framework for this strategy is supported by both analytic and systematic elements.

Analytic

- Security-specific research
- Regional, Sectoral and thematic research
- Weekly ESG insights
- ESG portfolio dashboards

Systematic

- Semiannual risk reviews led by quantitative team
- Distribution of external ESG rating changes
- Distribution of low-rated securities reports
- ESG tab in research notes for all companies/issuers

Analytic:

Security-specific research

Our ESG-dedicated investment professionals collaborate with our analysts and portfolio managers to assess the materiality of ESG factors for specific securities as part of the fundamental research process. This security specific research is the foundation of our ESG integration process.

Assessing both risks and opportunities

Our ESG-related research provides us with knowledge to better understand risks and opportunities. Recently, one of our large portfolio holdings, which is covered by Tokyo-based equity analyst Joe Skorski, announced that it was being investigated under the United States Foreign Corrupt Practices Act (FCPA). Fortunately, our ESG-dedicated analyst had extensively researched FCPA violations at other companies. This research helped the team understand the typical scenarios and key factors related to FCPA violations, which have occasionally led to fines in the billions. In this situation, however, our research indicated the risk of a large fine being imposed on the company was very low. Our ability to quickly assess this situation provided our portfolio managers with an opportunity to purchase the stock at a discount after an initial decline on the FCPA news. Subsequently the stock recovered as the market realized that the FCPA risk was unlikely to prove material.

Our unwavering dedication to long-term, active management leads our investment team to consider risks and opportunities that may arise over the course of several years, not just the next few quarters. As a result, our investment team is always trying to understand how seemingly small changes today could impact a company's long-term sustainability.

For example, Jeanine Thomson, one of our Singapore-based analysts who covers Chinese consumer discretionary companies, recently outlined a Chinese fast food chain's decision to trial a new restaurant format that would deliver more health conscious eating options. Management's recognition of the need for innovation and healthier eating options gave Jeanine additional confidence in the quality of the management team and their ability to adapt to long-term trends, which supported her buy rating on the security.

JEANINE THOMSON

Improving investment outcomes

In early 2017, Jeff Marsh — our ESG research associate — worked with Richard Offen, our US equity analyst covering the government IT services industry, to identify a major risk to the valuation of a company under his coverage. Jeff's detailed, bottom-up ESG research identified a series of data security failures by the company.

These failures led Richard to question the company's risk management and internal control practices. As a result of this work and a great deal of other research performed by Richard, our team chose not to own the security. This decision proved to be a good one, as the company announced in June that it was being investigated by the US government in relation to internal control issues. This announcement was followed by a significant drop in its stock price.

"Jeff highlighted a risk that the market had consistently overlooked. His decision to raise the concern regarding data security allowed me to make a better decision on this company. Rob and Jeff's research often influences my investment process. We consistently collaborate on a variety of topics and securities, which has allowed me to better understand my coverage universe."

— RICHARD OFFEN, MFS US EQUITY ANALYST

RICHARD OFFEN

Regional, sectoral and thematic research

To build upon the strong foundation of security-specific ESG research conducted by our investment team, our ESG research analyst and research associate consistently share a variety of regional, sector-based and thematic research with the broader investment team. This research has frequently helped us improve our upside/downside scenario modeling, adjust our base case assumptions and implement ESG-specific valuation adjustments. The research has also led to a variety of changes in portfolio positioning.

In 2017, our ESG research analyst and research associate produced a series of presentations that covered thematic ESG topics relevant to several specific regions in which MFS invests.

- In the United States, they constructed an analysis of CEO change-in-control incentives and M&A roadblocks. This analysis provided the investment team with additional insights into whether a given company might pursue a corporate transaction.
- In Japan, they produced a governance structure scoring model for equities that assessed both absolute performance on certain governance measures and improvements in those measures. As a result, our analysts and portfolio managers were able to better assess the sustainability of recent capital allocation improvements among certain Japanese companies.
- In Europe, they conducted an analysis of board tenure and director "overboarding" for our European team.

Ongoing thematic research

For the past several years, Rob Wilson has been working with the broader investment team to assess the sustainability of the tax rates paid by our portfolio companies. This research has improved our understanding of the potential impact of tax-related regulatory changes on company earnings and helped us assess the risk tolerance of various corporate boards. More recently, it has helped us to model potential US tax reform scenarios. In January 2017, our technology sector team devoted one of its meetings to gaining a better understanding of these tax reform scenarios. The meeting was a joint effort between our ESG research analyst and our individual sector analysts, who each provided earnings impact assessments for the scenarios presented. We have used our expertise in this area to help other investors, as outlined later in the section on engagement.

Similarly, Rob has helped to facilitate to our investment team's research on climate issues through the creation of a stranded assets model. The model assesses the risk of stranding for each energy type and certain midstream/industrial assets using a set of five factors: project attributes (*e.g.*, extraction cost, depletion rate), resource availability (*e.g.*, pipelines, water, labor), stakeholder interests (*e.g.*, environmental risk, social concerns), demand factors (*e.g.*, renewable disruption and global demand growth) and regulatory profile (*e.g.*, likely impact from carbon price/tax regulations). The model provided a framework for our analysts and portfolio managers in their consideration of the risks associated with asset stranding and the ongoing fossil fuel divestment movement. It has also been used to help frame our discussions with management teams when we have engaged with companies we perceive to have particular risks or opportunities related to asset stranding.

Weekly ESG insights

At its core, we believe ESG integration is about two things: developing concrete investment insights that can be applied at the security level and creating structures that encourage the broader investment team to consistently approach and analyze new ESG topics. One way that MFS has created consistency is through our ESG Weekly note. This note features in-depth, thematic research on a single topic and is distrubited across the entire investment platform. Examples of topics that have been covered include a company's social license to operate, child and slave labor, rising sea levels and a wide range of governance issues. This weekly note, coupled with Rob and Jeff's ongoing bottom-up research and sector, thematic and regional projects, has created a lot of visibility for ESG issues across our investment organization and helps ensure that the team is consistently interacting on ESG topics.

Systematic:

While analytic ESG research is at the core of ESG integration at MFS, we also implement a number of systematic processes to augment our analytic research and help manage risk:

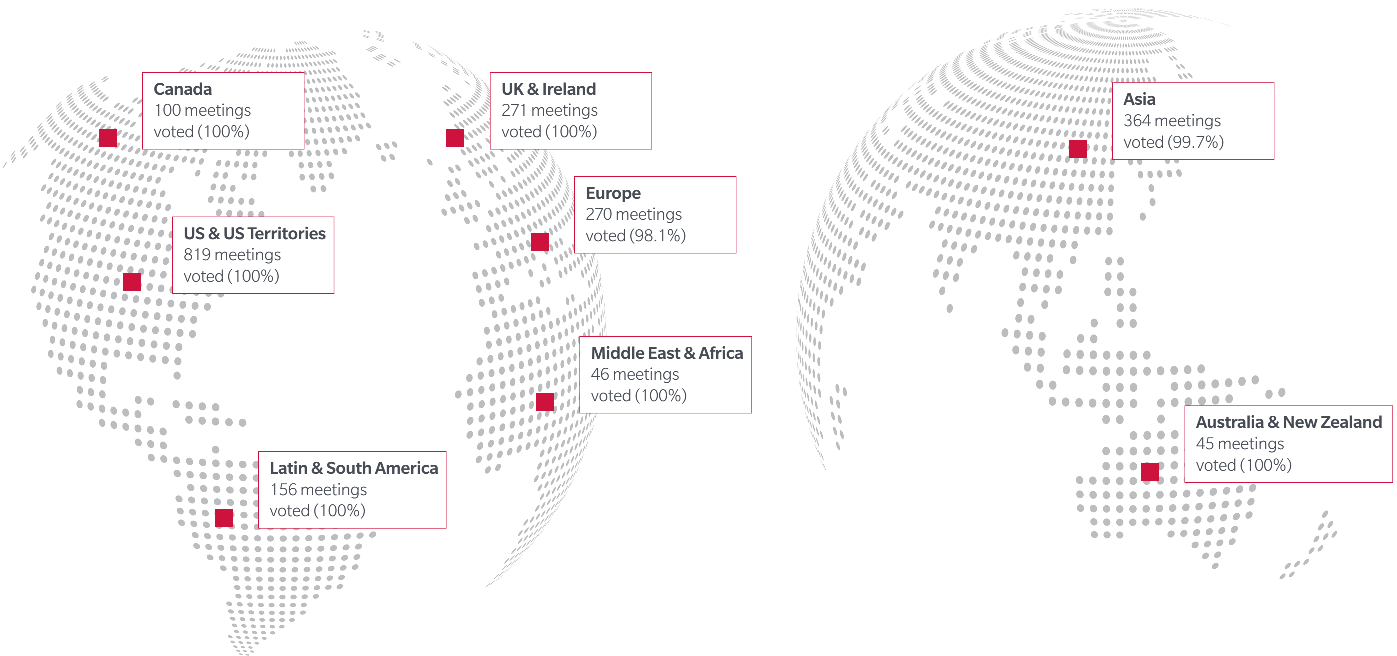
- Changes in third-party ESG ratings are disseminated on an ongoing, systematic basis.
- Issuers that receive the lowest ratings from third-party ESG research providers are systematically highlighted to covering analysts and portfolio managers.
- Internal and external ESG research for each issuer is included in a dedicated tab within our global research system.

MFS' quantitative team also helps drive consideration of ESG topics among the investment team through their semiannual portfolio risk review process. The semiannual portfolio reviews are conducted by our Chief Risk Officer, who is also MFS' head of Quantitative Solutions, and our global asset class CIOs. The review covers a wide variety of topics including ESG ratings. During these semiannual reviews, our portfolio managers are presented with a list of the lowest ESG-rated securities in their portfolios, the trend of their portfolio's ESG score vs. its benchmark, ESG rating changes in their portfolios, and other ESG-related data points. These quantitative-based reviews have often led to follow up research and additional collaboration between our ESG research analyst and associate and the broader investment team.

Proxy voting: Our global scorecard

Each year, MFS is eligible to vote at a large number of shareholder meetings, which include a variety of ballot items. We typically seek to exercise all of our voting rights. However, there may be limited situations where we do not exercise our voting rights. These situations may be the result of restrictions on the trading of voted securities (share blocking), operational constraints (*e.g.*, the late delivery of proxy materials), voting impediments (*e.g.*, overly burdensome power-of-attorney requirements) or government sanctions that legally preclude us from voting certain proxies (*e.g.*, US economic sanctions).

During the 2017 proxy period, MFS was eligible to vote on over 24,000 ballot items at more than 2,000 shareholder meetings across 57 markets. MFS voted shares at approximately 99% of these meetings, with the remaining meetings not voted due to share-blocking concerns (five meetings) or government sanctions that legally precluded us from voting (one meeting). The following map illustrates the number of meetings we voted throughout the world during the 2017 proxy period, along with the overall percentage of meetings we voted shares within each region.



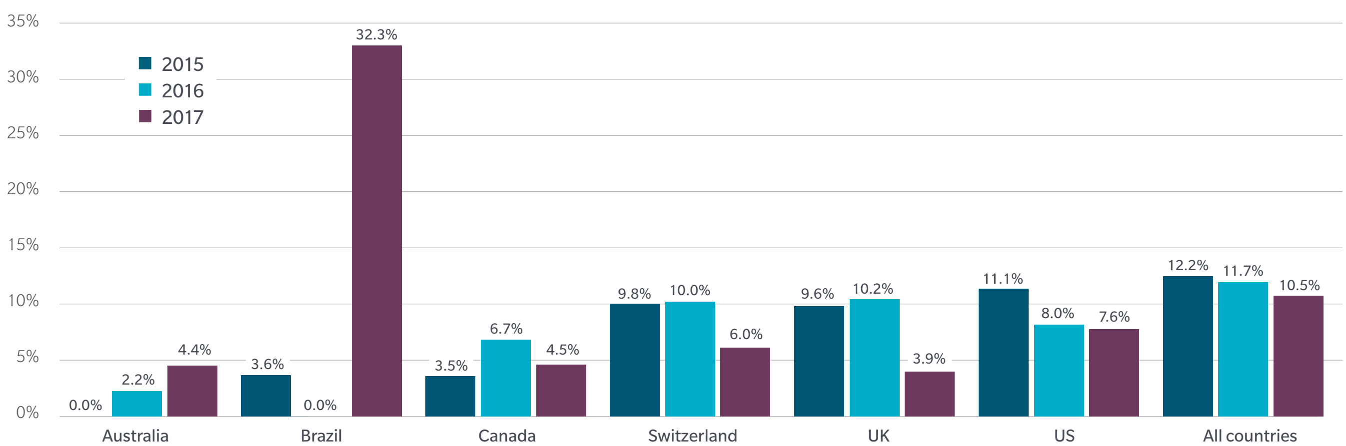
We vote with management's recommendation on a large majority of proxy items due to our confidence in the management teams of most of the companies we own. There are instances, however, where we may disagree with management's view on a particular ballot item and vote against its recommendation. In the 2017 proxy period, MFS voted against management's recommendation on approximately 6% of all ballot items globally, and cast a vote against management's recommendation on at least one ballot item at approximately 32% of all shareholder meetings.

These statistics are similar to those in the 2016 proxy period (1 July 2015–30 June 2016), during which MFS voted against management's recommendation on approximately 6.5% of all ballot items and cast a vote against management's recommendation on at least one ballot item at 34% of all shareholder meetings.

Executive pay

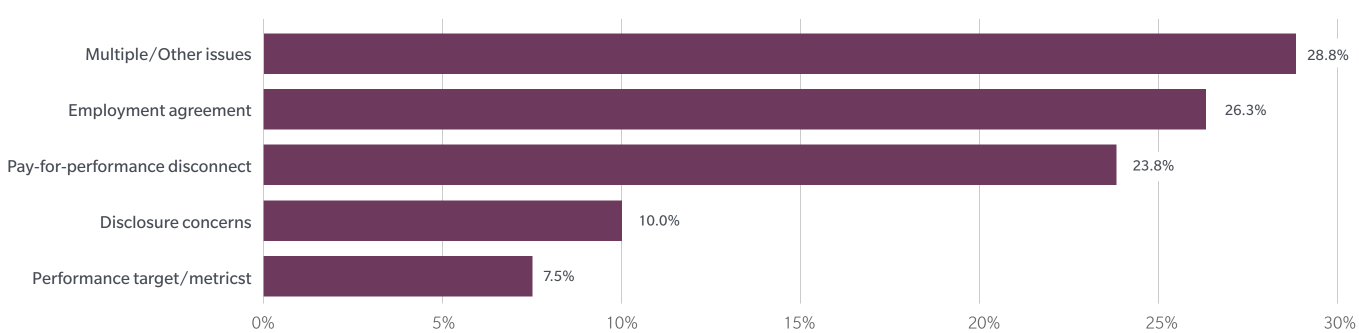
MFS believes that competitive pay packages are necessary to attract, motivate and retain executives. However, MFS also recognizes that certain executive pay practices may be excessive and not in the best, long-term interests of shareholders. Many markets in which MFS invests (including those markets identified in the table below) require or recommend an advisory or binding vote on the company's executive pay program ("Say on Pay"). The European Union Shareholder Rights Directive II requires Say on Pay votes in all countries in the European Union. Regardless, in recent years, more markets have adopted binding pay votes (*e.g.*, the United Kingdom, France and Switzerland). MFS believes Say on Pay votes can be an effective mechanism to express our view on a company's pay practices, and can help ensure that executive pay practices are aligned with shareholder interests.

2017 global compensation scorecard: How often MFS voted against executive pay



During the 2017 proxy period, MFS voted on the approval of approximately 1,300 executive compensation proposals globally, voting against or abstaining on such proposals approximately 10.5% of the time. This compares with the 2016 proxy period, in which MFS voted against or abstained on such proposals globally 11.7% of the time. As illustrated in the graph below, the reasons for not supporting the executive compensation practices ranged from an overall disconnect between the company's performance and its executive pay practices to concerns relating to poor disclosure. While we have seen some improvement in global executive pay practices in terms of aligning pay with performance and enhanced disclosure, we continue to monitor the companies in our portfolios to ensure that executive compensation is properly aligned with shareholder interests and general market practices.

Primary reason for deeming pay excessive



2017 was the seventh year that Say on Pay votes were required at the annual shareholder meetings in the United States. Overall, shareholders again expressed general satisfaction with the executive pay practices at these companies. According to Institutional Shareholder Services' 2017 US Proxy Season Review, average shareholder support for these votes increased to approximately 92% — the highest average level of support since the implementation of the requirement of a Say on Pay vote in 2011. Only 1.3% of companies received less than majority support from 1 January through 30 June 2017.

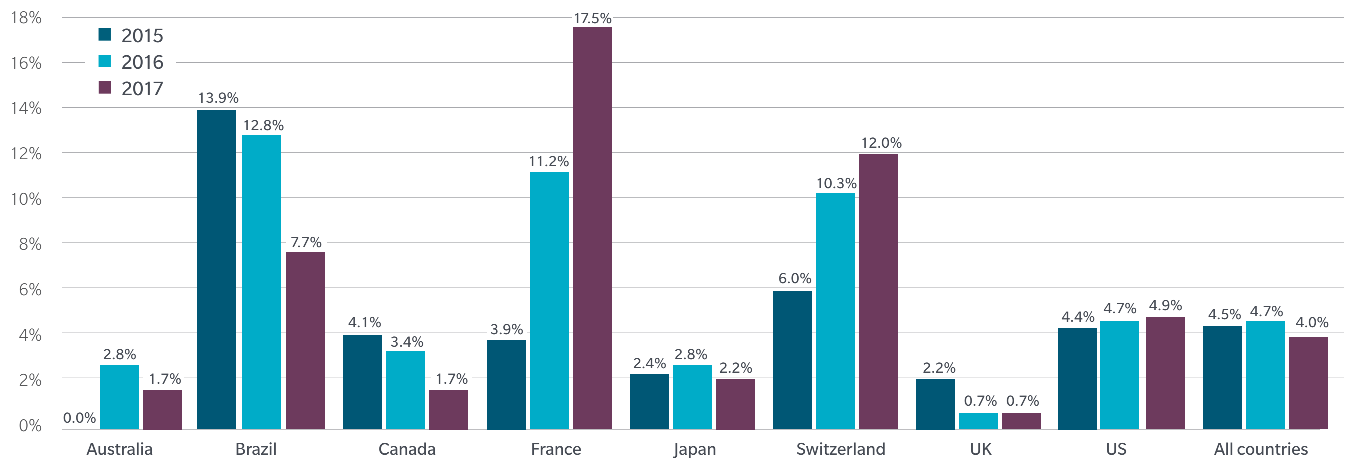
MFS voted on over 600 US Say on Pay votes during the 2017 proxy period. MFS voted against approximately 8% of US Say on Pay proposals (about the same as 2016) for reasons such as new employment agreements with problematic provisions, inappropriate perquisites and an overall disconnect between the company's performance and its executive pay practices. MFS may also vote against certain board nominees if we determine that particularly egregious or excessive executive compensation practices have occurred (although this typically applies only to US companies). Among the 8% of US companies at which we deemed compensation to be excessive, we also voted against at least one director approximately 12% of the time (seven instances) for approving particularly egregious or excessive executive pay. Some US companies also asked shareholders at their 2017 shareholder meetings to vote on the preferred frequency of advisory votes on executive compensation (every 1, 2 or 3 years). We believe it is important to have the ability to vote annually on the short- and long-term compensation plans proposed for executives by a company's board of directors. We think this is the most effective way to spur engagement with the companies we own and to curb future excessive executive compensation practices. MFS voted for annual Say on Pay votes at all of the US meetings in which we were eligible to vote.

Director elections

Overall, MFS did not support director nominees approximately 4.4% of the time across all markets (compared with 5.8% of the time in the 2016 proxy period). MFS believes that boards of directors should be accountable to shareholders on a variety of issues. Reasons for voting against board nominees include a lack of independence, attendance issues or disclosure concerns. In addition, MFS may also vote against board nominees if the board has not taken responsive action on an issue of concern to shareholders. For example, if a shareholder proposal to adopt majority voting received majority approval at a prior shareholder meeting and the board does not adopt it, then MFS will typically vote against the entire board's reelection at future annual shareholder meetings. Similarly, if a significant number of shareholders have expressed dissatisfaction with the company's executive pay program and the company has not made significant changes to its compensation program, then MFS may vote against the compensation committee and/or full board.

In the 2017 proxy period, MFS voted against board members at approximately six companies for failing to adequately respond to shareholder concerns (compared with 10 companies in the 2016 proxy period). MFS also maintains a list of directors that we believe do not warrant support at any company based on their poor corporate governance track records.

2017 global director scorecard: How often MFS voted against directors



Specific ESG issues can also have an impact on our votes on director elections. For example, MFS may withhold support from certain directors due to governance concerns such as failure to implement a majority-supported shareholder proposal, limiting shareholder rights without seeking shareholder approval or failing to maintain effective internal controls over financial reporting.

Shareholder proposals

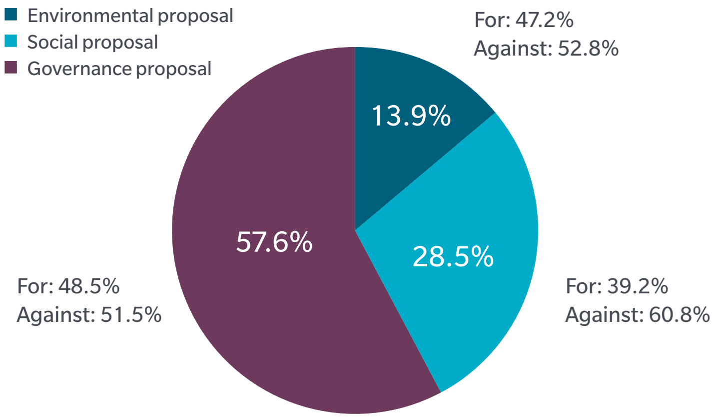
Shareholder proposals are a tool often used by shareholders to seek positive change on ESG issues. In the 2017 proxy period, more than 700 proposals were submitted to companies by shareholders seeking a vote on a wide variety of ESG issues. The topics of climate change, board diversity and proxy access were among the highlights in 2017.

Environmental issues

During the 2017 proxy period, shareholder proposals relating to environmental issues typically either centered on increased disclosure relating to the impact of climate change (*e.g.*, sustainability reports) or specific reductions in greenhouse gas emissions. MFS generally supports proposals that request more disclosure on the impact of environmental issues on a company's operations unless it is unduly restrictive or the company has already provided sufficient information on the topic. We believe such disclosure can help investors analyze the potential risks associated with climate change issues. Overall, MFS supported approximately 47% of proposals relating to environmental issues during the 2017 proxy period (compared with 44% in the 2016 proxy period).

2017 has been a breakthrough year for climate change resolutions, with three proposals registering majority support for the first time at Exxon Mobil, Occidental Petroleum and PPL. The proposals relate to the business impact of the Paris Agreement's 2°-Celsius limit on global warming, typically requesting regular reporting to assess the impact of long-term climate change on these companies' asset portfolios, as well as strategic planning that incorporates the financial risks of a low-carbon economy. Average support for these proposals rose to 45.4% in 2017 from 38% in 2016, indicating increased support from shareholders on certain climate change resolutions. During the 2017 proxy period, MFS supported 100% of proposals requesting assessments of the potential financial impact of policies enacted to achieve the 2-degree scenario.

2017 global shareholder proposal scorecard: How MFS voted on shareholder proposals



Social issues

MFS voted on 148 social-related shareholder proposals during the 2017 proxy period. Shareholder requests for increased disclosure on a company's political contributions were at center stage yet again in the 2017 proxy period, accounting for over 40% of shareholder proposals in this category. Proposals typically focused on increased disclosure of the oversight mechanisms used to oversee corporate political spending. MFS generally supports such shareholder proposals unless the company already provides publicly available information that is sufficient to enable shareholders to evaluate the potential risks that political contributions may pose to the company.

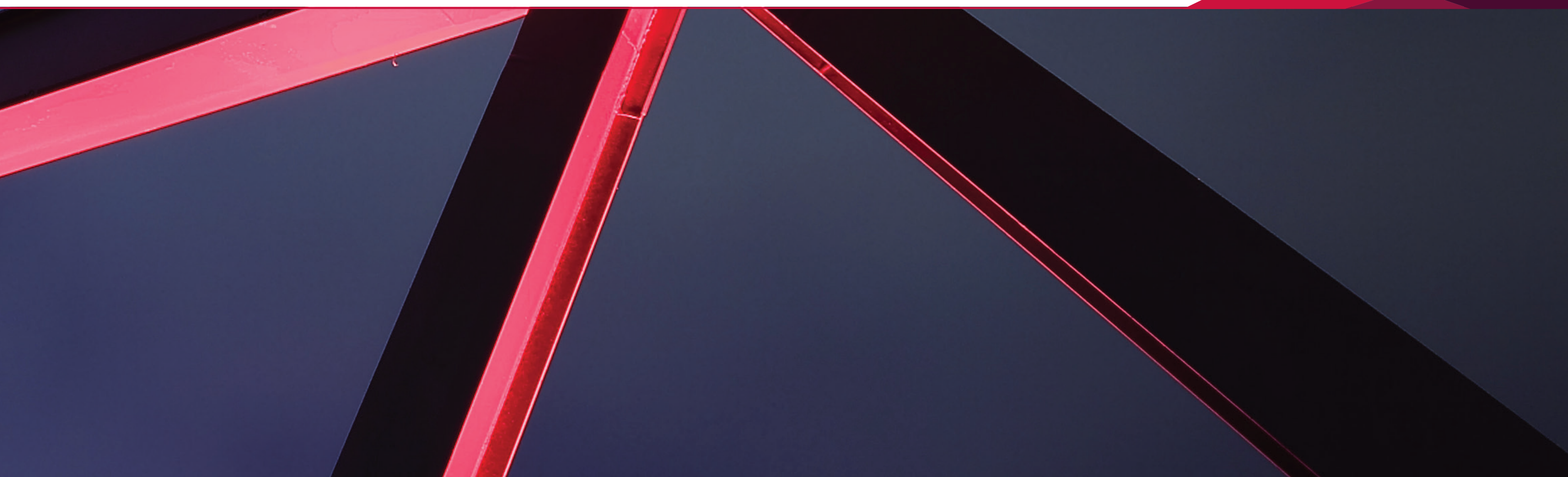
Other social issue–related proposals included requests for reports addressing board diversity and gender pay gaps. During the 2017 proxy period, MFS supported most proposals requesting the reporting of a company's policies and goals with respect to diversity at both the board and workplace level in hopes of encouraging companies to continue exploring this important issue. Many of the diversity-related proposals focused on the publication of diversity reports that include information on companywide diversity policies and workforce composition metrics. Additionally, proposals seeking the adoption of a formal diversity policy with respect to board composition, along with information on efforts undertaken to promote diversity at the board level, were popular. MFS supported 67% of the diversity-related proposals that we reviewed in the 2017 proxy period. MFS evaluates such proposals on a case-by-case basis and typically supports proposals when we believe that a company's disclosure or data measurement falls short of standard market practices and when such disclosure is not materially duplicative of existing, publicly available information. While we acknowledge that engagement is often a productive manner in which to voice our support for an issue, we believe that voting is a powerful tool to effect change where we do not see meaningful progress. Overall, MFS supported approximately 39% of proposals relating to social issues during the 2017 proxy period (compared with 41% in the 2016 proxy period).

Corporate governance issues

Corporate governance is typically the most abundant topic within the shareholder proposal universe. During the 2017 proxy period, the most common shareholder proposal related to the ability of certain shareholders to nominate a certain number of board nominees and have such nominees included in the company's proxy statement ("proxy access"). Generally, these proposals sought a proxy access right for shareholders who continuously held at least 3% of the company's stock for at least three years. We generally supported proposals that we believed provided a meaningful mechanism to participate in the director nomination process, with safeguards against unnecessary disruption to the company. MFS supported 100% of proxy access proposals during the 2017 proxy period at companies that had not yet initially adopted proxy access. We believe such a right can serve as a valuable tool to effect positive change. Overall, MFS voted on 299 governance-related shareholder proposals around the globe during the 2017 proxy period, supporting approximately 52% of such proposals (compared with 49% in the 2016 period). Overall, a majority of the proxy access–related proposals sought to amend the threshold criteria for qualifying shareholders in existing proxy access bylaws. These proposals, referred to as proxy access "fix it" proposals, did not fare as well as the proposals seeking initial adoption of proxy access, receiving around 29% support on average. MFS supported 17% of the fix it proposals in the 2017 proxy period.

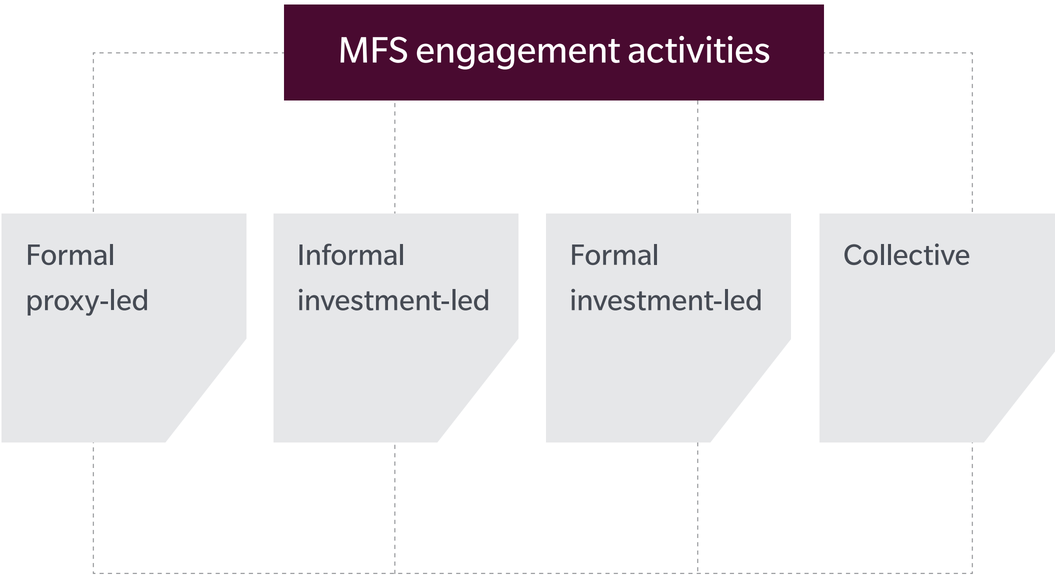
During the 2017 proxy season, MFS voted in favor of:

- 100% of proposals to declassify the board
- 100% of proposals seeking majority voting in director elections
- 100% of proposals to act by written consent
- 100% of proposals to call special meetings
- 100% of proposals to eliminate supermajority voting rights
- 100% of proposals to provide certain shareholders the ability to nominate a certain number of board nominees (also known as proxy access)



MFS' global engagement program

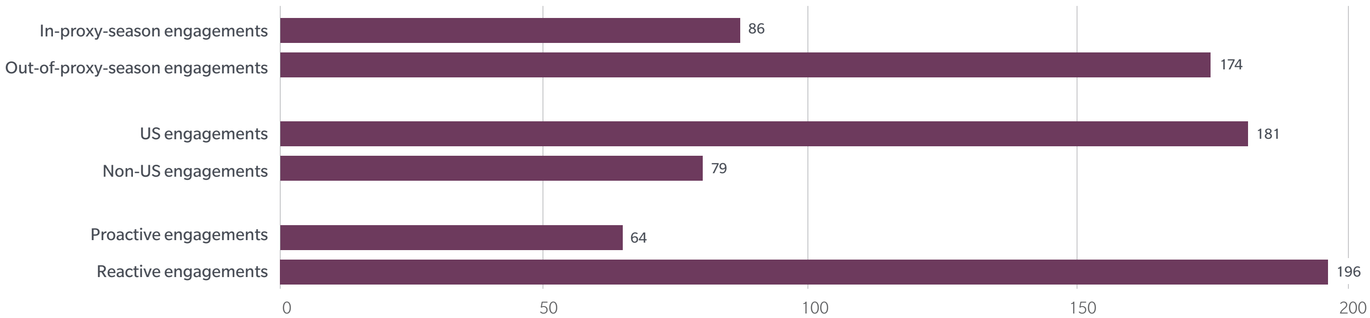
MFS engages with portfolio companies in four primary ways.



Formal proxy voting engagement

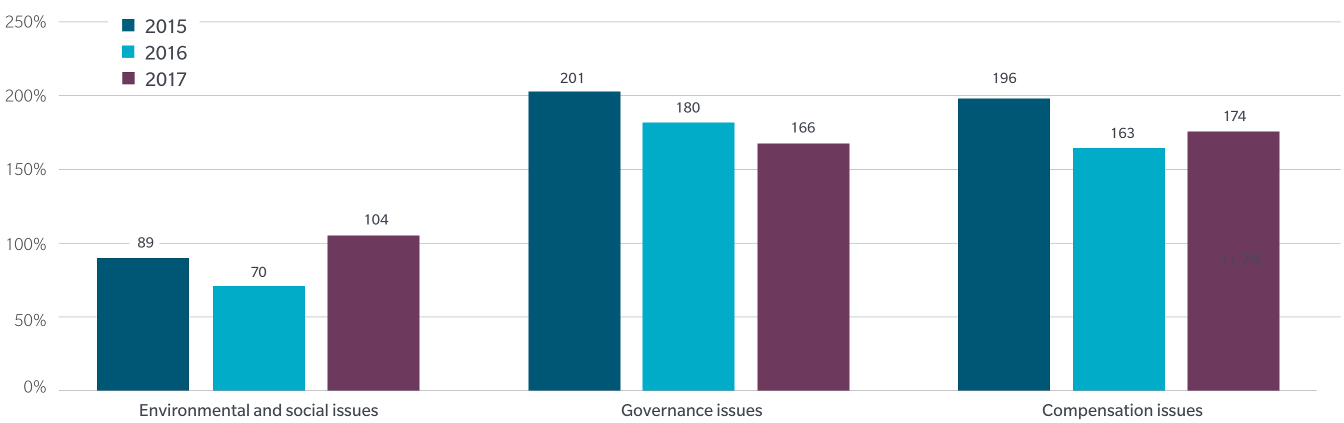
We believe open communication with companies on proxy voting issues is an important aspect of our ownership responsibilities. The MFS proxy team's goals when engaging with companies are to (i) explain the rationale behind our proxy votes; (ii) exchange views on relevant ESG issues; and (iii) potentially effect positive change with respect to such issues. As such, members of MFS' proxy team engaged with senior management and/or board members from 185 distinct portfolio companies (260 engagements in total) in 16 different markets during the 2017 proxy period (please refer to the Appendix for a list of these companies). This figure compares with 269 overall engagements with 185 distinct portfolio companies during the 2016 period. During the 2017 proxy period, engagements were prompted by MFS approximately 34% of the time (proactive engagement) and by our portfolio companies 66% of the time (reactive engagement).

2017 engagement statistics



While each engagement may cover multiple topics, executive pay and other corporate governance issues accounted for a majority of our engagement activity. Moreover, a significant number of engagements (104) related to environmental and social issues. Topics in this category included board diversity, climate change-related reporting and political contribution disclosure. US companies represented 70% of our engagements, while non-US companies represented 30%. We are generally open to engaging with companies on any proxy issue in order to make more informed voting decisions.

Engagement topics



The MFS Proxy Committee also maintains a letter-writing initiative that focuses on certain important ESG issues. This year, we sent letters to the board of directors of 21 portfolio companies that (i) had at least one director receive less than majority support from shareholders; (ii) received significant dissent on its executive compensation practices; or (iii) had at least one shareholder proposal receive majority support from shareholders. These letters encourage the boards of our portfolio companies to respond to these vote results in a meaningful way. For example, if 30% or more of shareholders expressed concern over executive pay at the prior annual shareholder meeting, then we expect the board to make adjustments to the pay plan prior to the next annual shareholder meeting. We also expect any shareholder proposal that receives majority support to be implemented prior to or at the next shareholder meeting. We believe that these letters help the boards focus on issues about which shareholders have given a clear indication of concern. The letters also establish vote transparency with the boards and indicate our willingness to engage on these important issues moving forward.

We have continued to develop this initiative by adding the subject of gender diversity at the board level as an additional priority within our letter-writing campaign. While the subject of board diversity has been a significant part of our engagement discussions for several years, we plan to formally articulate our preference for a gender-diverse board, especially in instances where progress has been inadequate. We will seek to understand how the board of directors contemplates gender diversity in the context of board recruitment, as well as the company's policies and practices as they relate to gender diversity. We believe that our commitment to driving gender diversity at the board level is a critical and important aspect of our stewardship responsibilities.

Formal and informal investment team engagement

Our investment team engages with companies on a consistent basis, sharing ideas and asking ESG-related questions of management teams during in-house meetings, investment conferences and conversations in other settings. We view these meetings as informal engagement opportunities, as the discussion is not always focused on driving corporate change, but rather is often about gaining a better understanding of the risk/return profile of the company's securities. Importantly, these engagements often lead to follow-on conversations about other ESG topics, which suggests that our consistent focus on the subject during management meetings demonstrates to issuers that we consider ESG issues to be essential in understanding the overall investment case of the company.

Proactive versus reactive engagement

Our investment team's informal engagements can be very detailed and extensive and are quite helpful in proactively assessing potential risks related to individual securities we own. For example, in February 2017, our team gathered to discuss a recent frontier market acquisition made by a mining company in which we held a significant stake. Research performed by Rob Wilson and Tim Clark — one of our industry analysts based in Sydney, Australia — led the broader team to question the due diligence process conducted by the mining company during the acquisition, with particular emphasis on bribery and corruption-related issues.

TIM CLARK

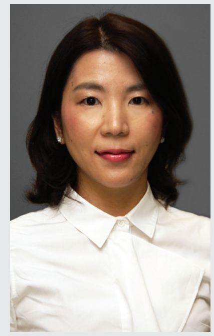
Our large ownership stake in the firm facilitated a discussion about our concerns, with both senior management and several board members. This engagement left us with several unanswered questions and failed to allay our concerns. Ultimately, Tim recommended that the security be sold because of the bribery and corruption risks associated with the acquisition and a lack of due diligence. Four months after our engagement, news sources confirmed that the acquired company may have been involved in bribery and corruption-related issues and that the mining company had initiated an internal investigation.

Although this risk has not yet impacted the company's share price, our goal is to identify companies with the best possible risk-adjusted returns for our clients, and the bribery and corruption risks identified by our ESG research led to a significant downgrade of our long-term view on the stock.

In addition to pursuing a large number of informal engagements, our investment team pursues many formal ESG engagements each year. While more limited in number than our informal engagements, these dialogues are held with C-suite executives and/or board members and typically involve a formal letter requesting specific changes or information. We have found that these more formal engagements drive considerable value both for the company and ourselves as investors.

Improving governance in Japan

Recently, we wrote a letter to a Japanese company, which we have owned continuously for more than six years, regarding our views on the evolving corporate governance landscape in Japan. The letter highlighted a variety of business and governance structure changes that we believe will help improve both the profitability and sustainability of the organization over the long term. This engagement follows similar governance-related engagements that members of our Japanese equity team, including Yuko Kikuchi and Joe Skorski, have had with companies in the health care and consumer staples sectors.



YUKO KIKUCHI

JOE SKORSKI

Collective and other forms of engagement

In addition to engaging individually with portfolio companies, MFS believes that collective engagement can generate positive impacts for both company management teams and our clients. As a result, we pursue many forms of collective engagement. MFS also participates in various industry working groups and industry organizations that seek to develop thought leadership on ESG integration and emerging proxy voting issues.

As an example, MFS is a founding signatory to the US Investor Stewardship Group (ISG). The ISG is a collective of some of the largest US-based institutional investors and global asset managers that has worked together for over two years to establish a set of best practices for asset stewardship and corporate governance. Released in early 2017, this guidance is intended to serve as the foundation for US institutional investor and boardroom conduct and aims to strengthen the dialogue between, and transparency of, companies and their long-term investors in order to advance a shared interest in sustainable growth. For more information about this initiative, please visit www.isg.org.

MFS also sends letters to regulatory agencies to encourage improved ESG practices and corporate governance reform when warranted. MFS recently sent letters to both the New York Stock Exchange and Nasdaq encouraging them to implement a majority voting standard in uncontested director elections for publicly traded operating companies.

Measuring impact

Accurately measuring the impact of our engagement activity continues to be a focus of MFS. From a broad perspective, we have observed many positive trends in the US on a variety of issues that we have engaged on with the companies we own on behalf of our clients. Majority voting structures for director elections are now present at over 87% of the constituent companies listed in the S&P 500 Index, despite being virtually nonexistent just a short time ago. Over 150 companies have adopted a meaningful proxy access right in recent years, with many more contemplating similar moves. Globally, the disclosure of proxy voting information by corporations has improved significantly. In particular, disclosure relating to executive pay, environmental impact, board diversity and political contributions has been greatly enhanced over the past several years. These trends serve as evidence that thoughtful proxy voting combined with a robust engagement program can have a positive impact on ESG issues on a broad scale.

Measuring the direct impact of specific engagements on individual companies can be a challenge because of the wide variety of responses from corporations over the long term. However, some of our engagement efforts have resulted in quick, direct and measurable responses. For example, our engagement activities contributed to positive changes in one company's corporate governance and executive remuneration practices. In another instance, in response to shareholder feedback, including MFS, a multinational agricultural company expanded its political contributions disclosure to include information regarding the oversight process of trade associations. In our view, increased disclosure of a company's political contributions practices, including board oversight mechanisms that oversee trade association transactions, is helpful in aiding shareholders' assessment of the risks and benefits associated with a company's political contribution activity.

We are also seeing improvements in the realm of board gender diversity:

- Prior to the 2017 proxy season, we engaged with a newly public Canadian telecommunications company that had an all-male board. The company was eager for shareholder input and feedback on corporate governance issues. We articulated our preference for a diverse board as well as robust and inclusive board recruitment practices. The company elected its first female director in 2017 and continues to make gender diversity a priority.
- A US-based food service company had one female on the board at the time of its 2013 initial public offering. We have engaged with this company at least annually and have communicated our views on board recruitment, refreshment and compensation structure. Presently, the board is 40% female, the company has proactively adopted proxy access and has lowered executive pay by a substantial amount.

Principles for Responsible Investment (PRI)

MFS became a signatory to the PRI in February 2010. Since that time, the PRI has been a valuable partner in our ESG integration efforts. MFS has benefited from research and guidance developed by the PRI and other signatory members as well as from the many collaborative opportunities that it affords. We have also had the opportunity to contribute to the PRI — holding periodic calls with the managing director to discuss its forward-looking agenda and participating in a variety of PRI initiatives.

For example, our ESG research analyst Rob Wilson is one of the 12 investor task force members of the PRI's tax working group, which has produced helpful investor guidance on corporate tax responsibility and disclosure.

Investors' Recommendations on Corporate Tax Disclosure

Engagement Guidance on Corporate Tax Responsibility

Our dedicated ESG research associate Jeff Marsh joined a global PRI collaboration on methane, the objectives of which are to strengthen investor understanding of methane risk exposure, to understand and communicate best practices for managing that risk, and to encourage energy and utility companies to improve their management and reduction of methane emissions and strengthen disclosure of their progress.

Rob and Jeff also contributed to a PRI study on integrating ESG and human rights issues into security valuation that was published in early 2017. The study is intended for educational purposes and as an example for other firms and investors on how they can incorporate these issues into their investment processes.

ESG Integration – How Are Social Issues Influencing Investment Decisions?

PRI assessment scores

As a PRI signatory, MFS annually participates in the PRI signatory reporting process. MFS' PRI assessment scores, as well as the median score for the applicable signatory cohort for each module, can be seen in the table below.

- Blue shaded scores indicate where MFS scored higher than the median
- Gray shaded areas represent time periods prior to the inception of a module

<table>
<tr><th rowspan="2">MODULE</th><th colspan="2">2014</th><th colspan="2">2015</th><th colspan="2">2016</th><th colspan="2">2017</th></tr>
<tr><th>MFS</th><th>MEDIAN</th><th>MFS</th><th>MEDIAN</th><th>MFS</th><th>MEDIAN</th><th>MFS</th><th>MEDIAN</th></tr>
<tr><td>Strategy and Governance[1]</td><td>B</td><td>B</td><td>B</td><td>B</td><td>A</td><td>A</td><td>A+</td><td>A</td></tr>
<tr><td>Listed Equity – Incorporation</td><td>A</td><td>B</td><td>A</td><td>A</td><td>A</td><td>A</td><td>A</td><td>A</td></tr>
<tr><td>Listed Equity – Active Ownership</td><td>A</td><td>C</td><td>A</td><td>B</td><td>A</td><td>B</td><td>A</td><td>B</td></tr>
<tr><td>Fixed Income – SSA</td><td></td><td></td><td></td><td></td><td>A</td><td>C</td><td>A</td><td>B</td></tr>
<tr><td>Fixed Income – Corporate Financial[2]</td><td rowspan="2">B</td><td rowspan="2">D</td><td rowspan="2">B</td><td rowspan="2">C</td><td>B</td><td>C</td><td>B</td><td>B</td></tr>
<tr><td>Fixed Income – Corporate Non-Financial</td><td>B</td><td>C</td><td>B</td><td>B</td></tr>
<tr><td>Fixed Income – Securitized</td><td></td><td></td><td></td><td></td><td>B</td><td>E</td><td>B</td><td>E</td></tr>
</table>

[1] Prior to 2016 the Strategy and Governance module was called "Overarching Approach."

[2] Prior to 2016 "Fixed Income - Corporate" was a single module.

For more information about PRI signatory assessment, please visit https://www.unpri.org/report/about-reporting-and-assessment. To receive copies of MFS' PRI assessment and transparency reports please contact your client service representative or Mason Gregory (mgregory@mfs.com).

Appendix

Members of the MFS Proxy Voting Committee had individual meetings relating to proxy voting matters with senior representatives from the following 185 distinct portfolio companies during the 2017 Proxy Period:

3M Company
Abbott Laboratories
Accenture plc
Adobe Systems Incorporated
Advance Auto Parts, Inc.
Allergan plc
Ameren Corporation
American Electric Power Company, Inc.
American Express Company
American Tower Corporation
Amphenol Corporation
Apache Corporation
Aramark
Archer-Daniels Midland Company
Armstrong World Industries, Inc.
Avangrid, Inc.
Axalta Coating Systems Ltd.
Babcock International Group plc
Bank of America Corporation
BB&T Corporation
Bellway plc
Best Buy Co., Inc.
BP plc
Bright Horizons Family Solutions
Bristol-Myers Squibb Company
Bunzl plc
Canadian Pacific Railway Limited
Carlsberg
Carriage Services, Inc.
Caterpillar Inc.
Celgene Corporation
Cerved Information Solutions SpA
Chevron Corporation
Chubb Limited
Cigna Corporation
Cisco Systems, Inc.
Citi Trends, Inc.
Citigroup Inc.
Cobham plc
Colgate-Palmolive Company
Comcast Corporation
Community Health Systems, Inc.
Compagnie Financiere Richemont SA
Compass Group plc
Costco Wholesale Corporation
CVS Health Corporation
Danaher Corporation
Danone
Deere & Company
Delphi Automotive plc
Diageo plc
Drax Group
DTE Energy Company
Duke Energy Corporation
Dynegy Inc.
E. I. du Pont de Nemours and Company
eBay Inc.
Ecolab Inc.
Eli Lilly and Company
Elior Group
Equifax, Inc.
Equity Lifestyle Properties
Essilor International
Eversource Energy
Exelon Corporation
Express Scripts Holding Company
FirstEnergy Corp.
FleetCor Technologies, Inc.
Fluor Corporation
FMC Corporation
Franklin Resources, Inc.
Freshpet, Inc.
General Mills, Inc.
Globant, Inc.
Gran Tierra Energy Inc.
Grupo Financiero Banorte
Hiscox Ltd
Honeywell International Inc.
Huntington Bancshares Incorporated
Iberdrola, S.A.
Illinois Tool Works Inc.
Inpex Corporation
Inphi Corporation
Intercontinental Exchange, Inc.
Intertek Group plc
Intuit Inc.
Johnson & Johnson
Johnson Controls International plc
JPMorgan Chase Bank, NA
Kansas City Southern
Kellogg Company
Kobayashi Pharmaceutical Co., Ltd.
Lamprell plc
LifePoint Health, Inc.
Lockheed Martin Corporation
Manulife Financial Corporation
Masimo Corporation
MasterCard Incorporated
McKesson Corporation
Mead Johnson Nutrition Company
Merck & Co., Inc.
Merck KGaA
MetLife, Inc.
Mitel Networks Corporation
Mitsubishi Corporation
Mitsubishi UFJ Financial Group
Moneysupermarket.com Group plc
Monsanto Company
NCR Corporation
New Flyer Industries Inc.
New York Community Bancorp.
NextEra Energy, Inc.
NICE Ltd.
Novartis AG

NVIDIA Corporation
Occidental Petroleum Corporation
Omnicom Group Inc.
Oracle Corporation
Orica Ltd.
Paddy Power Betfair plc
Pentair plc
Pernod Ricard
Pfizer Inc.
Pinnacle West Capital Corporation
Pioneer Natural Resources Company
Pitney Bowes Inc.
PPL Corporation
Praxair, Inc.
PriceSmart Inc.
Prudential Financial, Inc.
Q2 Holdings, Inc.
Reckitt Benckiser Group plc
Sabre Corporation
Salesforce.com, Inc.
Samsung Electronics Co. Ltd.
Santen Pharmaceutical Co. Ltd.
SAP SE
SBA Communications Corporation
Schlumberger Limited
Schneider Electric SE
Sempra Energy
SGS SA
Sky plc
Smith & Nephew plc
State Street Corporation
Steris plc
Store Capital Corporation
Stryker Corporation
Svenska Cellulosa
Swiss Reinsurance
Terumo Corp.
The AES Corporation
The Estee Lauder Companies Inc.
The Goldman Sachs Group, Inc.
The Goodyear Tire & Rubber Company
The Governor and Company of the Bank of Ireland
The Hartford Financial Services Group, Inc.
The Procter & Gamble Company
The TJX Companies, Inc.
The Travelers Companies, Inc.
The Weir Group plc
Time Warner Inc.
Tuesday Morning Corporation
U.S. Bancorp
UBS Group AG
UltraTech, Inc.
United Rentals, Inc.
United Technologies Corporation
Unum Group
Urban Outfitters, Inc.
Ventas, Inc.
Verisk Analytics, Inc.
Verizon Communications Inc.
Visa Inc.
Washington Prime Group, Inc.
Waters Corporation
WEC Energy Group, Inc.
Wells Fargo & Company
Whitbread plc
Xcel Energy Inc.
XL Group Ltd.
Yamato Holdings Co. Ltd.
YUM! Brands, Inc.
Zimmer Biomet Holdings
ZPG plc

Additional resources and contact information

For more information about our proxy voting activities, including a complete copy of the MFS Proxy Voting Policies and Procedures, Frequently Asked Questions and previous Proxy Voting and Engagement Reports, please visit the proxy voting section of www.mfs.com.

For information on how certain MFS-sponsored pooled vehicles voted their shares at shareholder meetings, please visit www.mfs.com.

We would be happy to receive feedback from our clients on this report. Please contact your client service representative or Mason Gregory, senior analyst with ESG oversight for the MFS Investment Solutions Group, at mgregory@mfs.com with any comments or for more information.

For more than 90 years, MFS has actively managed investments – around the globe, across asset classes and through a myriad of economic and market environments. While the opportunities and challenges have changed, we have kept our long-term perspective and cultivated our robust investment platform.

Founded on integrated research, fortified by collaborative thinking and supported by active risk management, our investment platform drives information flow and effective decision-making. This is how we turn information into an analysis advantage, maintain our conviction and allow enough time for our insights to help create the long-term value that drives better outcomes for clients.

Statistics included in this report are calculated based on accounts for which MFS clients have fully delegated proxy voting authority pursuant to the MFS Proxy Voting Policies and Procedures. With the exception of the meetings voted statistics listed on page 8 of this report, all voting statistics exclude instances where MFS did not cast a vote. Statistics also do not include instances where an MFS client may have loaned shares and therefore was not eligible to vote. Statistics are calculated on a meetings-level basis. All engagement statistics listed above include only those managed by the MFS proxy team.

As an active manager, please be advised that the companies named in this report may no longer be held by an MFS client at the time that this report is published.

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