



Investment Update
August 2025

MFS Meridian® Funds –

Prudent Capital Fund

How are tariffs likely to impact the Prudent portfolio?

Since Liberation Day, this has been the most common question that we have received from clients. With more tariffs being proposed each week, we have inevitably spent a good deal of time thinking about how tariffs could potentially impact each name in the portfolio.

As stewards of your capital, we try to be as transparent as possible with you about the risks embedded in your Prudent portfolio. Tariffs are clearly a real concern for many of our clients and partners at present (as well as for the businesses in which we are shareholders), so we want to provide you with a detailed overview of where we see potential vulnerabilities in the equity portfolio, and how we are managing and monitoring those risks.

Included below is a brief discussion of each of the major sectors that we own in the portfolio as of June 30, 2025.

Non-Bank Financials

The largest category of business in the portfolio is currently non-bank financials, within which our largest positions are:

- **Euronext**, the largest European equities stock exchange
- **Deutsche Boerse**, Europe's main venue for trading and clearing interest rate derivatives
- **Brasil Bolsa Balcao ("B3")**, Brazil's sole stock exchange, which is also dominant across all other categories of exchange-traded assets in Brazil
- **S&P Global**, the global credit rating agency and owner of the S&P 500 Index

In the case of the exchanges (Euronext, Deutsche Boerse and B3), these tend to be regional monopolies with little exposure to cross-border flows of goods and services. Interestingly, a second-order effect of President Trump's tariff proposals appears to have been to (a) create increased volatility in financial markets (which drives greater trading activity on exchanges), and (b) to drive capital flows out of US markets and into European financial markets. While this effect may not continue long term, in the short term, our exchanges have been indirect beneficiaries of the US tariff proposals.

Additionally, in the case of B3 specifically, while there is unlikely to be much direct effect on the business from tariffs, it is possible that in the short term, very aggressive tariff proposals on Brazil could cause capital flight from Brazil, lowering trading volumes and weakening the currency for a time. However, longer term, we see little direct impact from US tariffs on B3's business.

Regarding S&P Global, again, it is difficult to see any direct effect from the proposed tariffs. Companies will still want to issue bonds, those bonds will still need to have credit ratings, and the credit rating industry is largely controlled by two businesses (S&P Global and Moody's). We do not see any reason why this should change in the foreseeable future.



Online Classifieds

This is the second largest sector allocation in the portfolio. We own **Rightmove** (which enjoys a near monopoly position in UK residential real estate listings), **Scout24** (the equivalent real estate listing monopoly in Germany) and **Auto Trader** (which enjoys an approximately 75% share of the car listings market in the UK).

As with the exchanges and S&P Global, these are businesses that enjoy regional monopolies in growing markets with unregulated pricing power. While tariffs may ultimately impact global growth, it seems very unlikely that US tariffs would impact how many people list their homes for sale in the UK or Germany, or how much Rightmove or Scout24 can charge for those listings.

Digital Marketing

In the digital marketing space, we own **Alphabet** (which owns Google and YouTube) and **Meta** (which owns Facebook, Instagram and WhatsApp). These are the two largest digital marketing platforms on the planet.

While it is not obvious how things play out from here, it is possible that these two businesses could be affected by the proposed tariffs. For example, Chinese companies selling direct to US consumers might see demand for their products impacted by the tariffs (and so be willing to bid less for adverts on Google Shopping or on Facebook/Instagram).

Perhaps more importantly, because these are such hugely profitable businesses, it is possible that an entity like the EU could respond by imposing a digital services tax on sales made by these companies within the European Single Market.

In both cases these are risks that we are monitoring.

Travel

Our travel exposure is primarily through two names: **Booking.com** and **Amadeus**.

Booking.com is the largest online travel agent globally, and it typically enjoys monopoly/duopoly positions in most of the countries in which it operates. It receives a percentage-based commission for each hotel booking that is made through its platform.

Amadeus provides software to airlines globally and processes over 50% of all global air travel volumes outside China. Amadeus receives a small fee for each passenger that is processed through its software. So again, a monopoly-like business, operating in growing markets with unregulated pricing power.

Given that the revenue of both businesses is primarily driven by global travel volumes (for Amadeus, the number of passengers boarding planes; for Booking.com, the number of nights booked at hotels), which tariffs should not directly impact, both businesses seem relatively well insulated.

Defence and Aerospace

Our main aerospace and defence exposure is via **Safran** and **Thales**.

Safran, through its CFM joint venture with General Electric, supplies 75% of the world's narrow-body jet engines. There are expected to be specific carve-outs from the tariffs for essential parts of the aerospace complex, but were Safran impacted, we expect that, due to its monopoly-like position and unregulated pricing power, it would be able to pass the bulk of any tariff costs through to its customers.

Thales is a specialist defence business that is the sole provider of various systems for programs like the Rafale Fighter Jet. Most of its sales are outside the US, so we would expect the impact of tariffs to be minimal. On the contrary, to the extent the current policies alienate countries that currently purchase arms from the US, the tariffs might actually help Thales.



Health Care

Our two main holdings here are **BioMerieux** and **Agilent**.

BioMerieux controls around 70% of the market for molecular diagnostic testing machines, but the US is its largest market, so tariffs might well impact its business.

Agilent is a US-based business that is a leading supplier of life sciences instruments, with dominance in gas chromatography. China is a major market for Agilent, so it is potentially vulnerable to retaliatory tariffs on sales into the Chinese market. However, much of what Agilent sells into China is already produced in Asia, so the overall impact of such retaliatory tariffs should be minimal.

Both businesses enjoy significant pricing power, and both positions are small in the context of the overall portfolio, so our hope would be that, if necessary, both businesses should be able to pass through much of the cost of any tariffs.

Building Materials

Our main positions in the building materials sector are via **Howden's Joinery** (a vertically integrated, business-to-business supplier of kitchens, based in the UK), **Legrand** (a leading supplier of low voltage electrical components) and **James Hardie** (the dominant supplier of fibre cement products in the US).

The fact that building materials suppliers typically import various materials to produce their finished products (*e.g.*, chemicals, components, etc.) means that it is likely that the sector will see some impact from tariffs, at least in terms of higher input costs.

However, all three of these businesses enjoy very strong market positions, and historically all three have exhibited strong pricing power. Our hope would be that, to the extent their input costs or end-market sales are impacted by tariffs, they would be able to pass much of that cost through to the end customer.

Telecoms

This is an easy one. We own two businesses in this space, both of which are essentially single-country operators. **Hellenic Telecom** is the dominant telecom provider in Greece (best wireless spectrum, best wireless tower network and best broadband and fibre network), while **INWIT** owns and operates the largest and most comprehensive wireless tower network in Italy.

Tariffs should be largely irrelevant for these businesses.

Transport and Logistics

Our main transport and logistics exposure is via **Canadian National Railway** and **Knorr-Bremse**.

To the extent tariffs reduce the volume of trade between the US and Canada, or the volume of goods from Asia imported to the US via Canada's ports, that would be a headwind for Canadian National Railway. The business would not go away, but in the near term, lower volumes would certainly be a headwind to future revenue growth.

Knorr-Bremse's main business is the supply of braking systems for trains. It boasts technological leadership in its field and enjoys a roughly 50% share of the global market for train braking systems. In addition to enjoying strong pricing power, Knorr-Bremse is a global business, and much of what it produces is manufactured close to its end customers. As such, management believes that the impact of any tariffs should be relatively minimal.



Semiconductors

Our main exposure to semiconductors is via **Samsung**, a Korean business that enjoys a strong position in the global DRAM memory market. Some parts of Samsung's business may be impacted by tariffs; however at present it seems likely that the most important part — the memory chips — will ultimately benefit from a partial or full exemption.

Software and Business Services

Within the business-to-business services category, our main holdings are **Sage Group PLC** and **Edenred**.

Sage is a UK-based business that provides accounting and Enterprise Resource Planning (ERP) software to small and mid-sized enterprise (SME) customers. It has a large customer base in the US, and North America represents around 45% of revenue for the company. While the tariffs may affect Sage's SME customer base, the fact that the Trump administration is focused on sales of physical goods into the US market, rather than sales of software, gives us hope that the direct impact on Sage will be relatively limited.

Edenred is a closed-loop payment processing business, operating primarily in Europe and South America. The nature of Edenred's business, coupled with its geographical footprint, should mean that the tariffs will have little direct impact on Edenred's business.

Retail and Consumer Discretionary

Our exposure to the retail and consumer discretionary categories is mainly via three positions:

- **Zalando**, which operates Europe's largest online fashion retailing and e-commerce platform
- **Jeronimo Martins**, which operates Poland's largest and lowest-cost supermarket chain
- **Nintendo**, the famous Japanese producer of video games and gaming consoles

Zalando and Jeronimo are largely intermediaries. They essentially buy goods from third party suppliers and then sell and distribute them to consumers. It is unlikely that either of these businesses will see much impact from US tariffs.

Nintendo, however, will likely be affected by US tariffs. The US is Nintendo's largest single market, typically representing around 40% of sales for the company. Tariffs on Japan or Vietnam (where much of Nintendo's manufacturing capacity is based) would put Nintendo in the uncomfortable position of having to either raise prices on its consoles and sales of physical game cartridges, or to absorb some of the costs of tariffs directly, which would hurt the company's margins. To make matters worse, while Nintendo's sales of software are increasingly digital (and therefore exempt from the current tariff proposals), Nintendo just launched their Switch 2 console, so we are entering a period during which the company's sales of physical products into the US is likely to be cyclically elevated.

Given the above, why haven't we sold our Nintendo holding? While US tariffs might well hurt the profitability of Nintendo hardware sales in the short term, the long-term profitability for Nintendo will be driven by (a) how many people around the world own a Nintendo console, and (b) how much those users spend on digital purchases through their Nintendo consoles. In other words, the long-term value of Nintendo will be determined by the size of its user base and the propensity of those users to purchase software either from Nintendo (i.e., games developed and sold directly by Nintendo's development studios) or from third-party developers selling via Nintendo's platform. For context, when a consumer buys a non-Nintendo game on the Nintendo Switch, Nintendo earns a "platform fee" or royalty. The gross margin on incremental software purchases from Nintendo are therefore probably in the region of 90% to 100% — far higher than the margins that Nintendo earns on its hardware sales.



Despite the tariff news, the Nintendo Switch 2 appears on track to be the most successful console launch in history, with retailers across many countries sold out of both physical stock and pre-orders. Taking a long-term view (e.g., looking out three to five years), that positive news flow sounds more important to us than the shorter-term headwinds from tariffs on console sales.

Closing Thoughts

The future is hard to predict, but it is quite possible, in our view, to prepare for it. While the impact of tariffs may be uncertain, we believe the vast majority of the Prudent portfolio should be well insulated from any direct impact and illustrates the value of a prudent approach.

As long-term investors, we embrace the concept of looking ahead and continue to stay disciplined and diversified. Our belief is that investing in companies with durable business models, underpinned by durable cash flows and managed for long-term success, will generate attractive risk-adjusted returns for clients. ▲

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