MFS MERIDIAN® FUNDS – PRUDENT WEALTH FUND

A global equity fund managing market exposure and seeking undervalued, quality companies

Luxembourg – Registered SICAV

Effective 1 August 2016 this fund was closed to new investors, with very limited exceptions

Strategy

The MFS Meridian® Funds – Prudent Wealth Fund is a flexible multi-cap global equity fund. The Fund is an equity based strategy which seeks to mitigate market risk via a conservative investment approach – by favouring quality names (which are those we believe have durable above-average growth and returns whose prospects are not reflected in their valuation) and with the ability to use other instruments (cash, fixed income securities, derivatives, etc.) to help mitigate downside risk. The Fund follows a disciplined bottom-up investment approach and is managed in a benchmark agnostic manner. Over a full market cycle we seek to outperform the MSCI World Index (net div). The Fund's investment objective is to seek capital appreciation, measured in US Dollars.

Important risk considerations

The fund may not achieve its objective and/or you could lose money on your investment in the fund.

Stock: Stock markets and investments in individual stocks are volatile and can decline significantly in response to or investor perception of, issuer, market, economic, industry, political, regulatory, geopolitical, environmental, public health and other conditions.

Bond: Investments in debt instruments may decline in value as the result of, or perception of, declines in the credit quality of the issuer, borrower, counterparty, or other entity responsible for payment, underlying collateral, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile. In addition, debt instruments entail interest rate risk (as interest rates rise, prices usually fall), therefore the Fund's share price may decline during rising rates. Funds that consist of debt instruments with longer durations are generally more sensitive to a rise in interest rates than those with shorter durations. At times, and particularly during periods of market turmoil, all or a large portion of segments of the market may not have an active trading market. As a result, it may be difficult to value these investments and it may not be possible to sell a particular investment or type of investment at any particular time or at an acceptable price. The price of an instrument trading at a negative interest rate responds to interest rate changes like other debt instruments; however, an instrument purchased at a negative interest rate is expected to produce a negative return if held to maturity.

Value: The portfolio's investments can continue to be undervalued for long periods of time, not realize their expected value, and be more volatile than the stock market in general.

Derivatives: Investments in derivatives can be used to take both long and short positions, be highly volatile, involve leverage (which can magnify losses), and involve risks in addition to the risks of the underlying indicator(s) on which the derivative is based, such as counterparty and liquidity risk.

Please see the prospectus for further information on these and other risk considerations.

Performance Summary

Q1 2025

The performance drivers relative to the benchmark, the MSCI World Index (net div), are as follows:

During the period, the underweight position and stock selection in information technology as well stock selection in industrials, consumer discretionary, communication services and financials contributed to relative returns. Additionally, the portfolio’s position to ETFs (gold-related) and short-term US Government securities positively impacted relative returns.

No exposure to energy and utilities as well as an underweight position in health care negatively impacted relative performance. Additionally, the portfolio's position in currency forwards, used for hedging, and the portfolio's exposure to index options as well as stock selection in real estate detracted from relative performance.

The hallmark of our strategy is to grow the real value of capital while limiting losses when markets fall in the context of a full-market cycle, rather than trying to shoot the lights out and perform strongly at all times. Our approach has always been a preference to lag the market in periods of frenzied excitement rather than risk material losses during abrupt market declines as we aim to provide our investors with a level of market exposure which is appropriate to the circumstances.

We continue to keep a close eye on any valuation inefficiencies; prepared to take advantage of opportunities as they emerge. The Fund's equity investments continue to be focused on durable companies which we believe can provide long-term earnings growth and durable profit margins. The Fund's cash and cash equivalents are a combination of shorter-term US Treasury Bonds and traditional cash instruments all invested for purpose of dampening portfolio volatility and providing readily investable cash for future investment opportunities.

Significant Impacts on Relative Performance – Top three contributors – stocks:

During the first quarter of 2025, the top contributors were:

- Stock exchange operator **Euronext** (Netherlands)
- Aerospace and defense company **Thales** (France)
- Not owning technology company **Nvidia** (United States)

Significant Impacts on Relative Performance – Top three detractors – stocks:

During the first quarter of 2025, the top detractors were:

- Real estate company **LEG Immobilien** (Germany)
- Not owning financial conglomerate **Berkshire Hathaway** (United States)
- Technology company **Alphabet** (United States)

Positioning

The first quarter of 2025 was quite unusual: While the MSCI World Index declined, led by the S&P 500 and the "Magnificent Seven" stocks, the Prudent funds increased in value.

To limit the degree of downside capture when markets decline, we aim to manage the Prudent portfolios with a relatively low beta. However, during a market selloff, it is very rare indeed for the Prudent portfolios to achieve a negative correlation to the broader market. This was not a trick that we expected to pull off.

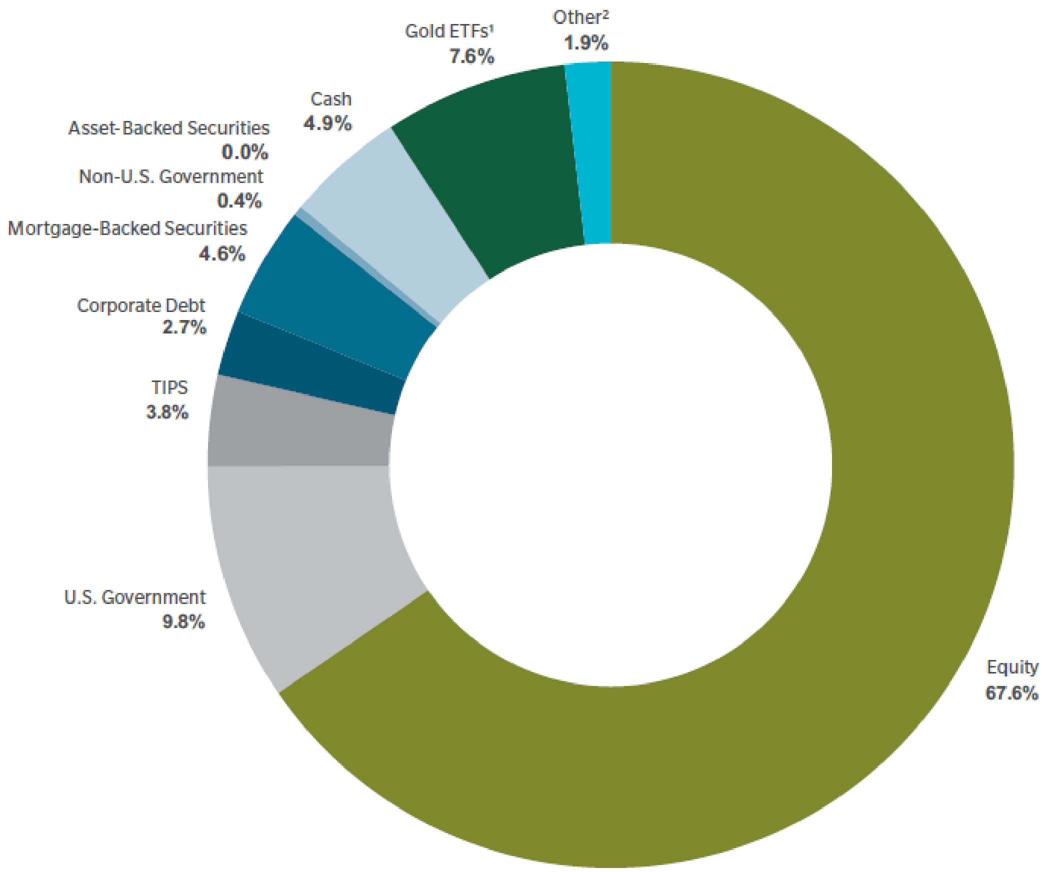
Perhaps more bizarrely, Prudent's gains in the first quarter were primarily driven by the equity holdings: Our credit and gold holdings all contributed, but most of the portfolio's increase in value this year has come from the equity holdings increasing in value at the same time as MSCI World declined.

We would like to claim that this negative correlation was the product of some genius or foresight on our part, but unfortunately much of the relative performance is explained by good fortune: The decline in US equity markets just happened to occur at the same time as news in Europe became more positive. As discussed in our previous letters, when US valuations became extreme in 2024, we exited most of our US holdings. At the same time, several world-class businesses in Europe had become very cheap, so the proceeds from selling down our US holdings were mainly reinvested into European equities.

As events played out, we were fortunate to have significant exposure to European stocks at a time when capital flows into the US turned negative, for the first time in several years, at the same time as capital flows for European stocks turned positive, for the first time in three years (for context, weekly capital flows into European equities have been consistently negative since Russia invaded Ukraine in March 2022).

How has the equity weight of the portfolio changed?

On 1 January 2025 the equity weight of the portfolio was 63%. During the first quarter the equity weight gradually increased and then declining to about 68%, where it sits as of the end of March.



As of 31-Mar-25
-3.1% Hedges.
Short positions, unlike long positions, lose value if the underlying asset gains value.
[1] Top 3 ETF Exposure(s) (if applicable): ISHARES PHYSICAL GOLD ETC and VANECK JUNIOR GOLD MINERS UCITS ETF
[2] Other consists of: (i) currency derivatives and/or (ii) any derivative offsets.
The Global Industry Classification Standard (GICS®) was developed by and/or is the exclusive property of MSCI, Inc. and S&P Global Market Intelligence Inc. ("S&P Global Market Intelligence"). GICS is a service mark of MSCI and S&P Global Market Intelligence and has been licensed for use by MFS. MFS has applied its own internal sector/industry classification methodology for equity securities and non-equity securities that are unclassified by GICS.

While the current level of equity exposure is slightly higher than it has been for several years, that is largely because the businesses we own have been reporting strong results, and so their shares have been increasing in value. With 6% to 7% of the portfolio in gold, and approximately 20% of the portfolio in relatively low risk fixed income instruments, we still have plenty of dry powder if markets decline further.

As MSCI World remains expensive, and appears to be declining, would it make sense to reduce Prudent's equity exposure to closer to 50%?

In general, when markets are very expensive (*e.g.*, over 90% more expensive than their long-term history), it is probably rational to keep Prudent's equity exposure at the low end of the range (close to the 60% lower bound threshold).

In that scenario, if MSCI World were to fall significantly (say 20%), it would then typically make sense for us to increase Prudent Wealth's exposure to at least 70%: As equities become cheaper, the risk/reward in those stocks improves, so the size of the equity bet in the portfolio should increase.

However, in the current situation, because the stocks we own increased in value as the broader market declined, the equity weight in the Prudent portfolios has increased meaningfully despite MSCI World only falling 7% to 8% so far. In other words, if this were a normal drawdown, we probably would not have increased the equity weight so much, so quickly.

So, what to do?

We believe the starting point for all equity discussions should be valuation. If we look at consensus earnings expectations for MSCI World, we can back out a price-to-earnings multiple for the overall market. This is a very imperfect exercise, but it provides a starting point for comparing the valuation of MSCI World to Prudent's equity portfolio.

On 1 January 2025, both MSCI World Index and the Prudent equity portfolio appeared to be trading on approximately 20x consensus earnings estimates for December 2025. Coming into the year, we felt pretty good about owning a portfolio trading on a similar multiple to MSCI World: We feel we were essentially paying an average price (a market multiple) for a collection of significantly above average businesses.

At this point we should clarify what we mean by "above average businesses." Fund managers throw terms like "high quality business" around as though the meaning is a defined legal term, but for such words to have any meaning, we must be precise in our definitions.

Thus, when we say that we own "above average businesses," we are specifically referring to a collection of businesses that on average

- enjoy superior market structures (typically monopolies or duopolies, operating in growing markets, or businesses consistently winning share in fragmented markets)
- exhibit historical revenue growth that is similar to or better than the median business in MSCI World
- exhibit superior gross profit margins (usually reflecting superior pricing power) to the median business in MSCI World
- exhibit above average operating profit margins to the median business in MSCI World
- demonstrate returns on invested capital that exceed the level of returns achieved by the median business in MSCI World
- exhibit above average rates of cash conversion
- operate with below average levels of financial leverage (typically reflected in low Net Debt/EBITDA ratios)

As things stand at the end of March, after first quarter market moves, the MSCI World Index now trades on around 19x to 20x estimates of December 2025 earnings, falling to 17x to 18x by December 2026. By comparison, taking consensus earnings estimates from Bloomberg, we believe that the Prudent equity portfolio now trades on roughly 21x to 22x consensus earnings estimates for December 2025 (say a 10% to 15% premium to MSCI World), falling to 18x to 19x for December 2026 (we would estimate a 5% to 10% premium). Note that, on consensus numbers, the magnitude of Prudent's premium to MSCI World is currently expected to shrink over time because investment bank analysts following Prudent's businesses believe that the companies Prudent owns should grow their earnings per share faster than MSCI World.

It is also worth noting that analysing an entire portfolio based on a single metric (the price-to-earnings ratio) is not an exact science. For example, because we own a relatively concentrated portfolio, valuations anomalies in a small number of names can have a significant impact on the overall portfolio's price-to-earnings multiple. Our current portfolio includes meaningful holdings in names like Nintendo, Estée Lauder and Zalando. For each of these names we believe that current margins (and therefore earnings) are temporarily very depressed. In such circumstances, a static price-to-earnings ratio is probably not a helpful way to think about valuation. Indeed, if we need a shorthand to discuss the valuation level of names with depressed margins, we typically express the opportunity in terms of the company trading on a low Enterprise Value-to-Sales ratio, rather than a Price-to-Earnings ratio.

If we strip out just the three names mentioned above, the weighted average P/E multiple of the portfolio falls from 21x to 22x to more like 18x to 19x (moving from a premium to a slight discount to MSCI World), which again looks very reasonable.

Is a 10% to 15% premium reasonable, in light of the superior financial characteristics of Prudent's equity holdings?

We think that the current premium is reasonable, in part because when we look at our individual holdings on an individual name-by-name basis, we can typically still reach a 15% IRR over the next three to five years.

Predictions about the future are difficult, so when we are estimating future returns, we try to ensure that our forecasts are based on reasonable assumptions regarding revenue growth, margin expansion and exit multiple.

In terms of why we believe that a 15% IRR is a sensible threshold to aim for, looking at Bloomberg, the compounded annual rate of return on MSCI World since 1 January 1969 is approximately 8%. When making new equity investments, if we attempt to underwrite to an IRR of 15%, our hope is that we can get a few names wrong but still achieve above market returns in the equity portfolio over the long term.

And just to offer a qualitative dimension, we spent much of February and March working through year-end results of the names that we own in the Prudent funds. In general we have been very pleased with the results that our companies have been reporting and, more often than not, having read through the financial results and management commentary (and in many cases directly met with the management teams), we actually found ourselves wanting to add more to our existing holdings rather than sell them (interestingly this was particularly the case for our European holdings, where valuations remain reasonable, and many macro headwinds seem to be becoming tailwinds).

Again, at the margin, that qualitative analysis gives us some additional comfort that the slight premium we are paying for the equity portion of Prudent remains reasonable.

Would it make sense to trim or exit the names that have gone up?

We have looked at this issue on a case-by-case basis.

Agilent: In the first quarter we significantly reduced our holding in Agilent (a leading life sciences business) on valuation grounds. It is a great business, but as the stock approach the $150 level we didn't feel that recent growth rates justified the premium multiple. Agilent remains in the portfolio primarily because we couldn't bring ourselves to sell the whole position (great industry, great business, great management team, great balance sheet, etc.), but the position today is so small as to be largely inconsequential to the overall portfolio.

Sonova: We also largely exited our holding in leading hearing-aid producer Sonova, again mainly on valuation grounds: The stock had re-rated significantly, and we just didn't feel that the current growth rates justified a price-to-earnings ratio of nearly 30x.

Heineken: Finally, in the case of Heineken Holdings, we exited our position not because of the valuation (which remains reasonable), but rather because we developed reservations about the long-term growth potential and competitive positioning of the company. If a thesis is not tracking, then we have clearly gotten something wrong. If we are wrong, then we have a responsibility to admit our mistake, sell the stock and redeploy the capital into more attractive ideas. So that is what we did here.

In contrast to the above sales, there are several stocks that were up significantly during Q1, but which continue to look attractive to us.

Euronext: In the case of Euronext, the dominant European stock exchange and our largest position, the stock is up 122% from its July 2023 lows, and yet valuation still looks very reasonable. In some respects, this speaks to just how cheap European equities became during 2023 and 2024.

Thales: Thales is another example: The stock returned about 80% in Q1-25, and yet still only trades on approximately 25x consensus earnings expectations for the financial year ending December 2025, and earnings growth expectations for the years 2026 to 2030 seem likely to increase significantly in the months ahead.

For context, Thales is one of Europe's leading defence contractors, specialising in aeronautical systems, missile targeting systems, drones, radar etc.

For the last 30 years European governments have significantly under-invested in their defensive capabilities, but with the US now threatening to step back from NATO, European governments may have no choice but to significantly increase their defence spending.

However, 30 years of under-investment cannot be cured by one or two years of elevated spending. Rather, restoring Europe's defensive capabilities will now take years (possibly decades) of significant over-investment (NATO members are supposed to spend 2% of GDP on defence; rebuilding Europe's military capabilities will therefore take many years of governments spending far in excess of the 2% minimum threshold).

In the short term, this increase in defence spending will likely benefit the traditional arms manufacturers, many of whom have already benefited from the Ukraine war (e.g., producers of guns, missiles, bullets, tanks etc.) as European governments that have been supplying Ukraine rebuild their stocks of ammunition.

However, in the long term, European governments will have to shift their focus to modern warfare. That will mean significant investment into jet fighters, drones, long range missile systems, space surveillance and cyber security. In other words, all of the areas in which Thales excels. Given that backdrop, it seems likely that Thales will soon be in position where it enjoys strong order book visibility going out five to ten years. Importantly, that future revenue growth should be largely uncorrelated with the broader economic cycle, which adds a nice diversification element to the Prudent portfolios.

Knorr-Bremse: Knorr-Bremse is another meaningful European position that re-rated significantly during Q1-25, returning over 20% in a very short period of time. For those unfamiliar with Knorr-Bremse, it is the world's leading manufacturer of brakes for trains, enjoying a roughly 50% global market share. Knorr-Bremse's market share is even stronger in the high-speed rail market, where trains travel in excess of 300 kilometres per hour, and it is very important indeed that the brakes work!

The great thing about brakes is that they are a small part of the cost of operating and maintaining a train, but they are also rather essential. And while the useful life of a train may be 30 years or more, the brakes wear out more quickly and need to be regularly replaced.

The sale of replacement brakes (commonly referred to as "After Market Sales" in the investment industry) is a hugely profitable business for Knorr-Bremse, and to some extent you see this in the profitability of the business: At a group level Knorr-Bremse generates gross margins of over 50%. To oversimplify somewhat, a 50% gross margin implies that a business makes a product for input costs of $50 and sells it for $100 — a 100% markup. That magnitude of pricing power is very, very rare for industrial businesses, and implies that there is something unique about this business.

Even after the recent share price increase, on a three- to five-year view, Knorr-Bremse's stock continues to look very attractive to us. The stock trades on approximately 19x consensus estimates of December 2025 earnings, and 17x December 2026 estimates. The balance sheet is in great shape. The revenue line is growing nicely, and we believe that the market is really underestimating the long-term margin potential of the business.

While the valuation multiple is reasonable based on consensus earnings estimates, there is at least one point that we think the market does not at all appreciate at all: When the Russia-Ukraine war commenced in March 2022, Knorr-Bremse's margins took a significant hit. Prior to 2022, Knorr-Bremse had a hugely profitable business supplying and maintaining the braking systems for Russian trains. Even for analysts who follow the business closely, few seem to appreciate that Knorr-Bremse's Russian division was among the most profitable operations in the entire company. When sanctions were imposed on Russia the profits of Knorr-Bremse's Russian business went to zero almost over night.

Most of our investment case for Knorr-Bremse is focused on the long-term growth prospects and margin potential of the business. However, we are also conscious that, should the Russia-Ukraine war end, and sanctions on Russia be lifted, there will be an entire fleet of trains in Russia that have been running on Knorr-Bremse brakes, that are all likely to require replacement in the coming years. That range of potential outcomes is also not currently reflected in 2025 or 2026 earnings estimates

Following the recent selloff, are valuation multiples in the US more reasonable?

Overall, the US market continues to look very expensive. In previous letters and presentations, we have shared our historical studies of how valuation has affected subsequent returns for the S&P 500.

By way of reminder, we look at equity market valuations through three lenses:

i. **Is the price-to-earnings multiple of the market expensive relative to history?**
   This is pretty straight forward and is how most market commentators look a long-term valuation trend.
ii. **Is the enterprise value-to-sales multiple of market expensive relative to history?**
   The EV/Sales multiple takes into account the fact that corporate earnings are very sensitive to bottom line profit margins. For context, profit margins can be artificially inflated toward the end of an economic cycle. This can create a risky situation where market valuations appear reasonable on a price-to-earnings basis, but that subsequently proves misleading because, as the economy enters recession, profit margins collapse.
iii. **Are equities expensive relative to lower risk fixed income instruments?**
   All valuation is relative. If one can achieve a higher expected return in a lower risk instrument, then it seems credible that the higher risk asset may be mispriced.

For the purposes of our study, we analysed the relationship between equities and fixed income by taking the earnings yield on the S&P 500 (the P/E ratio, inverted) and subtracting the federal funds rate, to derive an "equity risk premium" over time. The lower the spread, the more risk equity investors are taking relative to fixed income.

By way of reminder, in each of the above three studies we found the same thing: On average, high valuations have only been predictive of low one-, three- and five-year future returns for the S&P 500 when the starting point has been an extreme level (e.g., the 10th decile, where the market is more expensive that at least 90% of its long term history).

As things stand as of March, the S&P 500 remains in or around the "high risk" zone on all three of these valuation metrics — P/E, EV/Sales, and Equity Risk Premium. With all three of these metrics telling us to wait for lower valuations in the US market, we are doing just that.

That said, the recent selloff in the US has begun to create some interesting idiosyncratic opportunities: Some large-cap tech names have been hit quite hard (down about 20% in a relatively short period of time), as have many companies that could see earnings downgrades off the back of potential US tariffs. We have been watching with interest as these stocks have sold off, and in the last week of March, we started to slowly increase our US exposure.

We won't go into detail yet, but suffice to say that the US names we have been buying are typical Prudent names: good balance sheets; monopoly/duopoly market structures, with growing volumes and unregulated pricing power; above-average gross margins, operating margins and returns on invested capital; reasonable valuation multiples, etc. All the usual characteristics that we look for.

These are still small positions, and we may wish to add further, so we will defer discussing these names until future letters.

MFS MERIDIAN® FUNDS – PRUDENT WEALTH FUND

The *views expressed in this section are those of the portfolio managers of the MFS Meridian® Funds – Prudent Wealth Fund and are subject to change at any time. These views do not necessarily reflect the views of MFS or others in the MFS organization.*

Disclosure

Please note that this is an actively managed product.

The securities and/or sectors mentioned in this presentation should not be viewed as a recommendation or advertisement to buy, sell, or hold the same. This information is directed at investment professionals only and others should not rely on it.

The Fund's benchmark is indicated for performance (including volatility) comparison only."

Index data source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

"Standard & Poor's® " and S&P "S&P® " are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones") and have been licensed for use by S&P Dow Jones Indices LLC and sublicensed for certain purposes by MFS. The S&P 500® is a product of S&P Dow Jones Indices LLC, and has been licensed for use by MFS. MFS's Products are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P, or their respective affiliates, and neither S&P Dow Jones Indices LLC, Dow Jones, S&P, their respective affiliates make any representation regarding the advisability of investing in such products.

See the fund's offering documents for more details, including information on fund risks and expenses. For additional information, call **Latin America**: 416.506.8418 in Toronto or 352.46.40.10.600 in Luxembourg. **European Union**: MFS Investment Management Company (Lux) S.a r.l. 4 Rue Albert Borschette, Luxembourg L-1246. Tel: 352 2826 12800. **U.K.**: MFS International (U.K.) Ltd., One Carter Lane, London, EC4V 5ER UK. Tel: 44 (0)20 7429 7200. **Switzerland**: REYL & Cie Ltd., Rue du Rhône 4, 1204 Geneva, Switzerland, Tél + +41-22-816-8000, www.reyl.com. **Hong Kong**: State Street Trust (HK) Limited, 68th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Tel: 852.2840.5388.

MFS Meridian Funds is an investment company with a variable capital established under Luxembourg law. MFS Investment Management Company (Lux) S.à.r.l is the management company of the Funds, having its registered office at 4, Rue Albert Borschette, L-1246 Luxembourg, Grand Duchy of Luxembourg (Company No. B.76.467). The Management Company and the Funds have been duly authorised by the CSSF (Commission de Surveillance du Secteur Financier) in Luxembourg.

The Funds are established as a "restricted foreign scheme" in Singapore; therefore, material in connection with the offer or sale of the Funds may only be distributed to persons in Singapore that are qualified under Sections 304 and 305(2) under Chapter 289 of the Securities and Futures Act.

This document has not been reviewed or approved by the Hong Kong Securities and Futures Commission.

MFS Meridian Funds may be registered for sale in other jurisdictions or otherwise offered where registration is not required.

MFS Meridian Funds are not available for sale in the United States or to US persons. Information on investors rights is made available in English and, as the case may be, in local language at meridian.mfs.com. MFS Investment Management Company (Lux) S.à r.l. may decide to terminate the marketing arrangements of this fund in accordance with the appropriate regulation.

The offering documents (sales prospectus and Key Information Documents (KIDs), or in the U.K. Key Investor Information Documents (KIIDs)) articles of incorporation and financial reports are available to investors at no cost in paper form or electronically at meridian.mfs.com, at the offices of the paying agent or representative in each jurisdiction or from your financial intermediary. KIDs are available in the following languages; Danish, Dutch, English, French, German, Italian, Norwegian, Portuguese, Spanish, and Swedish. KIIDs and the sales prospectus and other documents are available in English.

Unless otherwise indicated, logos, product and service names are trademarks of MFS and its affiliates and may be registered in certain countries.

This material is for use only in Austria, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, United Kingdom, North America, South America and Central America.