



# MFS Meridian® Funds - European Value Fund

(A1EUR Share Class)

Fourth quarter 2023 investment report

Portfolio characteristic data are based on unaudited net assets.

MAY LOSE VALUE - NOT GUARANTEED

See important disclosures on final page of presentation.

**See the fund's offering documents for more details, including information on fund risks and expenses.**

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Country and region information contained in this report is based upon MFS classification methodology which may differ from the methodology used by individual benchmark providers. Performance and attribution results are for the fund or share class depicted and do not reflect the impact of your contributions and withdrawals. Your personal performance results may differ.

All characteristics and weightings do reflect the effect of exposure/weightings for hedging of hedged share classes.

Portfolio characteristics are based on equivalent exposure, which measures how a portfolio's value would change due to price changes in an asset held either directly or, in the case of a derivative contract, indirectly. The market value of the holding may differ.

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PRPEQ-EVF-31-Dec-23

## Fund Risks



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.

**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.

**Geographic:** Because the portfolio may invest a substantial amount of its assets in issuers located in a single country or in a limited number of countries, it may be more volatile than a portfolio that is more geographically diversified.

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

# Disciplined Investment Approach



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## Investment objective

The fund's investment objective is capital appreciation, measured in Euros. The fund invests at least 70% of its assets in European equity securities.

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## Goal

Outperform the MSCI Europe Index (net div) over full market cycles with an emphasis on downside risk management.

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## Strategy

### Analyze rather than forecast

*Many market participants attach too much weight to forecasts, which often prove inaccurate, particularly at inflection points.*

- We seek an analytical advantage by evaluating the long-term quality, improvement potential and intrinsic value of businesses.

### Invest rather than speculate

*Many market participants speculate on near-term information and over-react to short-term newsflow.*

- We invest on a long term time horizon. Our global research platform, collaborative investment approach and compensation structure are all aligned with this timeframe.

### Focus on downside risk

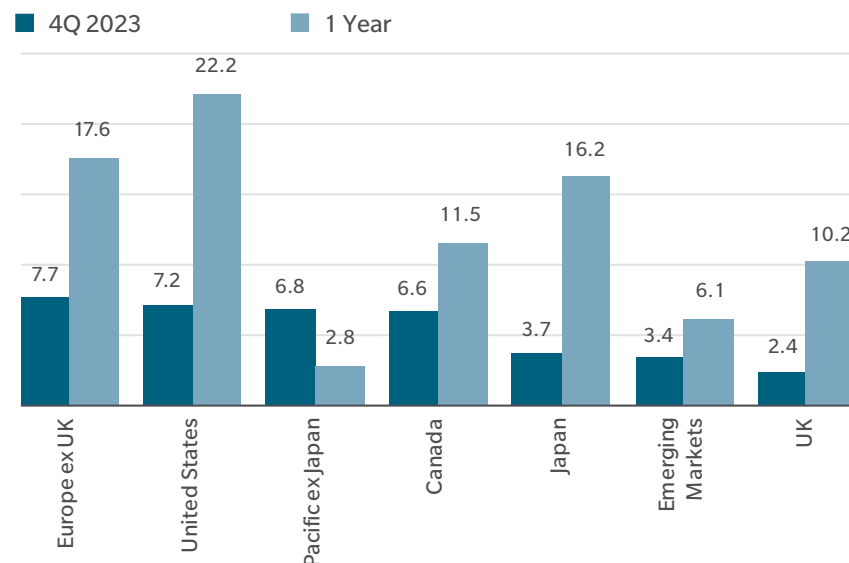
*Many market participants overemphasize upside potential vs. downside risk.*

- We manage capital by seeking to avoid stocks with substantial downside risk, and only invest where we believe valuations more than compensate for inherent risks.
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# Market Overview

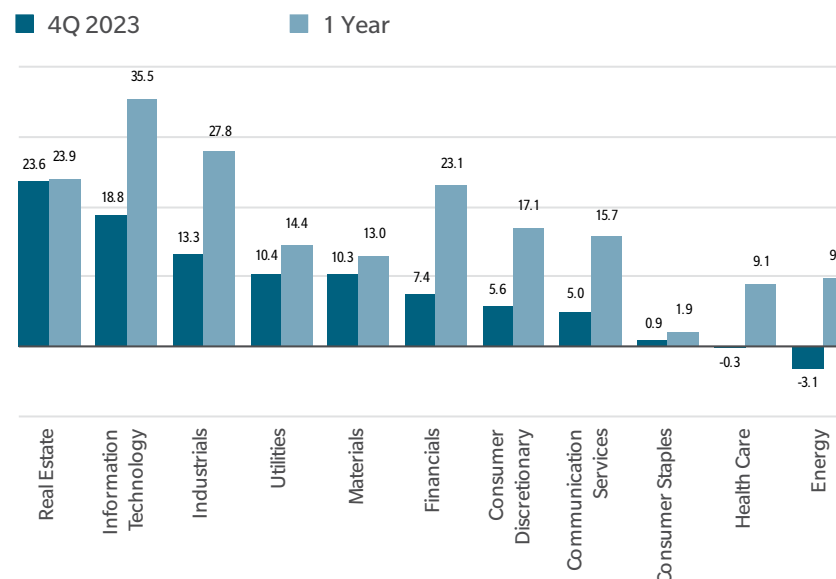


Region performance (%) (EUR) as of 31-Dec-23



Source: FactSet. Region performance based on MSCI regional/country indexes.

Sector performance (%) (EUR) as of 31-Dec-23



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of MSCI Europe Index constituents are broken out by MSCI defined sectors.

## Global Equities market review as of 31-Dec-2023

- The global equity market, as measured by the MSCI All Country World Index, rallied in 2023 with a strong finish in Q4, driven by anticipation of an economic soft landing and interest rate cuts in 2024.
- Changing interest rate expectations and investor enthusiasm in artificial intelligence were key drivers to the strong outperformance of large growth stocks in 2023.

- Market concentration reached historically high levels, with performance dominated by a handful of US mega-cap stocks.
- Despite positive sentiment, the equity market may be vulnerable to economic, political and geopolitical risks, and the lagged effects of higher interest rates and tighter credit standards may continue to weigh on the economic and earnings outlook.

# Performance



## MiFID II Performance Standard

| Performance results (%) A1EUR shares 12 month rates of total return as of the period ended: | With maximum 6% sales charge | Without sales charge | Benchmark^ |
|---|------------------------------|----------------------|------------|
| 31-Dec-19   | 20.12                        | 27.78                | 26.05      |
| 31-Dec-20   | -2.43                        | 3.80                 | -3.32      |
| 31-Dec-21   | 15.42                        | 22.79                | 25.13      |
| 31-Dec-22   | -20.16                       | -15.06               | -9.49      |
| 31-Dec-23   | 2.79                         | 9.35                 | 15.83      |

## Performance results (%) A1EUR shares average annual rates of total return as of 31-Dec-23

| Calendar year returns        | 2014  | 2015  | 2016  | 2017  | 2018   | 2019  | 2020  | 2021  | 2022   | 2023  |
|------------------------------|-------|-------|-------|-------|--------|-------|-------|-------|--------|-------|
| With maximum 6% sales charge | 6.14  | 7.86  | -6.31 | 7.86  | -11.19 | 20.12 | -2.43 | 15.42 | -20.16 | 2.79  |
| Without sales charge         | 12.92 | 14.75 | -0.33 | 14.74 | -5.52  | 27.78 | 3.80  | 22.79 | -15.06 | 9.35  |
| Benchmark^                   | 6.84  | 8.22  | 2.58  | 10.24 | -10.57 | 26.05 | -3.32 | 25.13 | -9.49  | 15.83 |

The source for all fund data is MFS. Source for benchmark performance: SPAR, FactSet Research Systems Inc.

Start of Class Performance: 01-Oct-02. Fund Inception Date: 01-Oct-02.

Other share classes are available for which performance and expenses will differ.

**All financial investments involve an element of risk. The value of investments may rise and fall so you may get back less than originally invested.**

For periods of less than one-year returns are not annualized.

Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different.

**Past performance is not a reliable indicator for future results.**

Performance results reflect ongoing charges and any applicable expense subsidies and waivers in effect during the periods shown. All historic results assume distributions within the fund and/or the share class are reinvested.

The Fund's benchmark is indicated for performance comparison only.

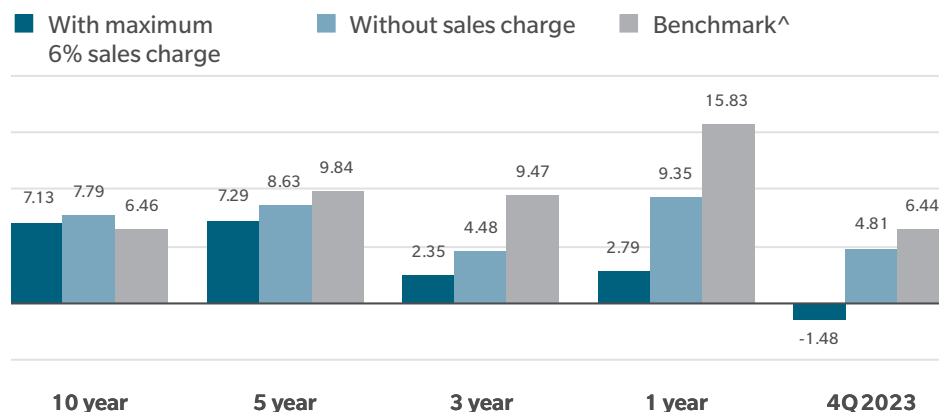
^ MSCI Europe Index (net div)

The Markets in Financial Instruments Directive (MIFID) is the EU legislation that regulates firms who provide services to clients linked to financial instruments.

# Executive Summary



Performance results (%) A1EUR shares average annual rates of total return as of 31-Dec-23



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^ MSCI Europe Index (net div)

| Sector weights (%) as of 31-Dec-23 | Portfolio | Benchmark^^ |
|------------------------------------|-----------|-------------|
| <b>Top overweights</b>             |           |             |
| Industrials                        | 20.9      | 16.0        |
| Consumer Staples                   | 15.0      | 11.6        |
| Utilities                          | 6.8       | 4.3         |
| <b>Top underweights</b>            |           |             |
| Health Care                        | 8.0       | 15.3        |
| Energy                             | 0.9       | 5.7         |
| Materials                          | 6.0       | 7.2         |

^^ MSCI Europe Index

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The MFS Meridian Funds - European Value Fund underperformed the MSCI Europe Index (net div) in the fourth quarter of 2023.

| Contributors   | Detractors   |
|--|--|
| <ul style="list-style-type: none"> <li>Energy - Underweight position</li> <li>Individual stocks: <ul style="list-style-type: none"> <li>Dassault Systemes Se</li> <li>Ryanair Holdings Plc</li> <li>Novozymes A/S</li> <li>AstraZeneca PLC (not held)</li> <li>Infineon Technologies Ag</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Industrials - Stock selection</li> <li>Health Care - Stock selection</li> <li>Financials - Stock selection</li> <li>Individual stocks: <ul style="list-style-type: none"> <li>Burberry Group Plc</li> <li>Asml Holding Nv (not held)</li> </ul> </li> </ul> |

# Performance Results



Performance results (%) A1EUR shares average annual rates of total return as of 31-Dec-23

| Period  | With maximum<br>6% sales<br>charge | Without<br>sales charge | Benchmark^ | Excess return with<br>maximum sales charge<br>vs benchmark | Excess return without<br>sales charge<br>vs benchmark |
|---------|------------------------------------|-------------------------|------------|--|---|
| 4Q 2023 | -1.48                              | 4.81                    | 6.44       | -7.92  | -1.63   |
| 3Q 2023 | -11.60                             | -5.96                   | -2.06      | -9.54  | -3.90   |
| 2Q 2023 | -4.34                              | 1.77                    | 2.31       | -6.65  | -0.54   |
| 1Q 2023 | 2.48                               | 9.02                    | 8.61       | -6.13  | 0.42  |
| 2023    | 2.79                               | 9.35                    | 15.83      | -13.04   | -6.48   |
| 2022    | -20.16                             | -15.06                  | -9.49      | -10.67   | -5.57   |
| 2021    | 15.42                              | 22.79                   | 25.13      | -9.71  | -2.34   |
| 2020    | -2.43                              | 3.80                    | -3.32      | 0.89   | 7.12  |
| 2019    | 20.12                              | 27.78                   | 26.05      | -5.93  | 1.73  |
| 10 year | 7.13                               | 7.79                    | 6.46       | 0.67   | 1.34  |
| 5 year  | 7.29                               | 8.63                    | 9.84       | -2.54  | -1.21   |
| 3 year  | 2.35                               | 4.48                    | 9.47       | -7.12  | -4.99   |
| 1 year  | 2.79                               | 9.35                    | 15.83      | -13.04   | -6.48   |

The source for all fund data is MFS. Source for benchmark performance: SPAR, FactSet Research Systems Inc.

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Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different.

**Past performance is not a reliable indicator for future results.**

^ MSCI Europe Index (net div)



## Performance Drivers - Sectors



| Relative to MSCI Europe Index (EUR) - fourth quarter 2023 |                        | Average relative weighting (%) | Portfolio returns (%) | Benchmark returns (%) | Sector allocation <sup>1</sup> (%) | + Stock selection <sup>2</sup> (%) | + Currency effect (%) | = Relative contribution (%) |
|---|------------------------|--------------------------------|-----------------------|-----------------------|------------------------------------|------------------------------------|-----------------------|-----------------------------|
| <b>Contributors</b>                                       | Energy                 | -5.3                           | 2.2                   | -3.1                  | 0.5                                | 0.0                                | 0.0                   | 0.6                         |
|   | Utilities              | 1.6                            | 12.5                  | 10.4                  | 0.0                                | 0.1                                | -0.0                  | 0.2                         |
|   | Communication Services | -0.8                           | 9.3                   | 5.0                   | -0.0                               | 0.1                                | 0.0                   | 0.1                         |
|   | Information Technology | -0.6                           | 21.0                  | 18.8                  | -0.0                               | 0.1                                | 0.0                   | 0.1                         |
|   | Real Estate            | 0.4                            | 23.2                  | 23.6                  | 0.1                                | 0.0                                | -0.0                  | 0.1                         |
| <b>Detractors</b>   | Industrials            | 4.9                            | 6.9                   | 13.3                  | 0.3                                | -1.1                               | -0.1                  | -0.9                        |
|   | Health Care            | -6.6                           | -9.2                  | -0.3                  | 0.5                                | -0.9                               | -0.0                  | -0.5                        |
|   | Financials             | 0.3                            | 5.0                   | 7.4                   | -0.0                               | -0.4                               | -0.0                  | -0.4                        |
|   | Consumer Staples       | 3.7                            | 0.2                   | 0.9                   | -0.2                               | -0.1                               | 0.0                   | -0.3                        |
|   | Materials              | -1.0                           | 8.5                   | 10.3                  | -0.0                               | -0.0                               | -0.1                  | -0.1                        |
|   | Consumer Discretionary | 1.7                            | 5.0                   | 5.6                   | -0.0                               | -0.2                               | 0.1                   | -0.1                        |
|   | Cash                   | 1.5                            | —                     | —                     | -0.1                               | —                                  | -0.0                  | -0.1                        |
| <b>Total</b>  |                        |                                | <b>5.0</b>            | <b>6.5</b>            | <b>1.0</b>                         | <b>-2.3</b>                        | <b>-0.1</b>           | <b>-1.5</b>                 |

<sup>1</sup> Sector allocation is calculated based upon each security's price in local currency.

<sup>2</sup> Stock selection is calculated based upon each security's price in local currency and included interaction effect. Interaction effect is the portion of the portfolio's relative performance attributable to combining allocation decisions with stock selection decisions. This effect measures the relative strength of the manager's convictions. The interaction effect is the weight differential times the return differential.

Attribution results are generated by the FactSet application utilizing a methodology that is widely accepted in the investment industry. Results are based upon daily holdings using a buy-and-hold methodology to generate individual security returns and do not include fees or expenses. As such, attribution results are essentially estimates and do not aggregate to the total return of the portfolio, which can be found elsewhere in this presentation. Recent geopolitical events may have impacted or disrupted the pricing of specific securities including the use of fair valuation approaches. Fair valuation practices across pricing sources index providers, pricing vendors, MFS - may not align due to security specific considerations or timing of fair valuation parameters. For instance, decisions to use stale prices vs fair value or on the level of haircut when fair valuing securities are typical sources of discrepancy between pricing sources observed during the events. This may further compound differences between attribution results and actual performance. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please email [DLAttributionGrp@MFS.com](mailto:DLAttributionGrp@MFS.com).

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# Performance Drivers - Stocks



| Relative to MSCI Europe Index (EUR) - fourth quarter 2023 |                          | Average Weighting (%) |           | Returns (%)            |           | Relative contribution(%) |
|---|--------------------------|-----------------------|-----------|------------------------|-----------|--------------------------|
|   |                          | Portfolio             | Benchmark | Portfolio <sup>1</sup> | Benchmark |                          |
| <b>Contributors</b>                                       | Dassault Systemes Se     | 2.2                   | 0.3       | 25.3                   | 25.3      | 0.3                      |
|   | Ryanair Holdings Plc     | 1.2                   | —         | 31.5                   | —         | 0.3                      |
|   | Novozymes A/S            | 1.3                   | 0.1       | 32.3                   | 32.3      | 0.3                      |
|   | AstraZeneca PLC          | —                     | 2.0       | —                      | -4.4      | 0.2                      |
|   | Infineon Technologies Ag | 2.0                   | 0.5       | 20.6                   | 20.6      | 0.2                      |
| <b>Detractors</b>   | Rentokil Initial Plc     | 1.6                   | 0.2       | -27.7                  | -27.7     | -0.5                     |
|   | Bayer                    | 1.6                   | 0.4       | -26.0                  | -26.0     | -0.5                     |
|   | Burberry Group Plc       | 1.3                   | 0.1       | -24.9                  | -24.9     | -0.4                     |
|   | Asml Holding Nv          | —                     | 2.7       | —                      | 22.2      | -0.4                     |
|   | Sanofi (Eq)              | 2.7                   | 1.1       | -11.5                  | -11.5     | -0.3                     |

<sup>1</sup> Represents performance for the time period stock was held in portfolio.

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## Significant Impacts on Performance - Detractors



| Relative to MSCI Europe Index (EUR) - fourth quarter 2023 |   | Relative contribution [%] |
|---|---|---------------------------|
| <b>Rentokil Initial Plc</b>                               | The portfolio's overweight position in pest control company Rentokil Initial (United Kingdom) detracted from relative performance. The share price fell as the company reported slowing demand for pest control services in the US and Europe amid a challenging residential consumer backdrop. The company also cut its guidance for full-year operating profits, which further pressured the stock. | -0.5                      |
| <b>Bayer</b>  | An overweight position in crop science and pharmaceuticals company Bayer (Germany) weighed on relative performance. The share price fell as the company reported below-consensus sales within its pharmaceuticals and consumer health divisions. Court judgments related to continued glyphosate litigation further dampened Bayer's profits.   | -0.5                      |
| <b>Burberry Group Plc</b>                                 | The portfolio's overweight position in luxury goods retailer Burberry Group (United Kingdom) weakened relative performance. The stock price came under pressure as the company announced slowing sales growth in multiple markets amid muted demand for luxury goods.   | -0.4                      |

## Significant Impacts on Performance - Contributors



| Relative to MSCI Europe Index (EUR) - fourth quarter 2023 |  | Relative contribution [%] |
|---|--|---------------------------|
| <b>Dassault Systemes Se</b>                               | The portfolio's overweight position in software solutions and consulting services firm Dassault Systemes (France) boosted relative results. The stock price advanced as the company reported above-consensus operating income and confirmed its fiscal year 2023 revenue guidance of high single digits. | 0.3                       |
| <b>Ryanair Holdings Plc</b>                               | The portfolio's position in discount airline operator Ryanair (Ireland) supported relative performance. The stock price rose as the company reported stronger-than-anticipated revenue and operating income, driven by strong passenger volumes and fare increases.                                      | 0.3                       |
| <b>Novozymes A/S</b>                                      | The portfolio's overweight position in biotechnology company Novozymes (Denmark) bolstered relative returns. The stock price climbed as the company reported organic revenue growth above consensus estimates, with particular strength in its Household Care and Bioenergy business segments.           | 0.3                       |

## Significant Transactions



| From 01-Oct-23 to 31-Dec-23 |                           | Sector                 | Transaction type | Trade (%) | Ending weight (%) |
|-----------------------------|---------------------------|------------------------|------------------|-----------|-------------------|
| <b>Purchases</b>            | NATIONAL GRID PLC         | Utilities              | New position     | 1.0       | 1.0               |
|                             | TELE2 AB                  | Communication Services | New position     | 0.9       | 0.9               |
|                             | QIAGEN NV                 | Health Care            | New position     | 0.5       | 0.5               |
|                             | RENTOKIL INITIAL PLC      | Industrials            | Add              | 0.4       | 1.6               |
|                             | FLUTTER ENTERTAINMENT PLC | Consumer Discretionary | Add              | 0.3       | 1.3               |
| <b>Sales</b>                | ROCHE HOLDING AG          | Health Care            | Trim             | -1.0      | 2.9               |
|                             | INFINEON TECHNOLOGIES AG  | Information Technology | Trim             | -1.0      | 1.5               |
|                             | UBS GROUP AG              | Financials             | Trim             | -0.5      | 2.2               |
|                             | LEGRAND SA                | Industrials            | Trim             | -0.5      | 1.7               |
|                             | BAYER AG                  | Health Care            | Trim             | -0.5      | 0.9               |

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# Sector Weights



| As of 31-Dec-23        | Portfolio (%) | Benchmark^ (%) | Underweight/overweight(%) | Top holdings   |
|------------------------|---------------|----------------|---------------------------|--|
| Industrials            | 20.9          | 16.0           | 4.9                       | Schneider Electric SE, Safran SA, Experian PLC   |
| Consumer Staples       | 15.0          | 11.6           | 3.4                       | Nestle SA, Diageo PLC, Heineken NV   |
| Utilities              | 6.8           | 4.3            | 2.5                       | Iberdrola SA, RWE AG   |
| Consumer Discretionary | 12.1          | 10.6           | 1.5                       | Cie Financiere Richemont SA, Amadeus IT Group SA, Cie Generale des Etablissements Michelin SCA |
| Real Estate            | 1.4           | 0.9            | 0.5                       | Vonovia SE   |
| Communication Services | 3.3           | 3.1            | 0.2                       | Cellnex Telecom SA   |
| Financials             | 17.6          | 18.0           | -0.4                      | UBS Group AG, Zurich Insurance Group AG, Deutsche Boerse AG                                    |
| Information Technology | 6.1           | 7.3            | -1.2                      | Dassault Systemes SE, Infineon Technologies AG, Capgemini SE                                   |
| Materials              | 6.0           | 7.2            | -1.2                      | Symrise AG, Novozymes AS, Croda International PLC  |
| Energy                 | 0.9           | 5.7            | -4.8                      | Aker BP ASA  |
| Health Care            | 8.0           | 15.3           | -7.3                      | Roche Holding AG, Sanofi SA, Merck KGaA  |

^ MSCI Europe Index

1.8% Cash & cash equivalents

0.1% Other. Other consists of: (i) currency derivatives and/or (ii) any derivative offsets.

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# Country Weights



| As of 31-Dec-23 | Portfolio(%) | Benchmark^ (%) | Underweight/overweight(%) |
|-----------------|--------------|----------------|---------------------------|
| Spain           | 8.0          | 4.1            | 3.9                       |
| Germany         | 16.1         | 13.1           | 3.0                       |
| Ireland         | 3.9          | 1.3            | 2.6                       |
| Switzerland     | 17.6         | 15.2           | 2.4                       |
| United States   | 2.2          | 0.0            | 2.2                       |
| Austria         | 1.4          | 0.3            | 1.1                       |
| France          | 18.8         | 18.4           | 0.4                       |
| Norway          | 0.9          | 1.0            | -0.1                      |
| Netherlands     | 5.2          | 6.9            | -1.7                      |
| Italy           | 1.4          | 4.0            | -2.6                      |
| United Kingdom  | 19.5         | 22.2           | -2.7                      |
| Denmark         | 2.3          | 5.1            | -2.8                      |
| Sweden          | 0.9          | 5.3            | -4.4                      |

^ MSCI Europe Index

1.8% Cash & cash equivalents

0.1% Other. Other consists of: (i) currency derivatives and/or (ii) any derivative offsets.

The portfolio does not own any securities in countries represented in the benchmark in the following percentages: Belgium 1.5%; Finland 1.3% and 1 country with weight less than 0.5% which totals to 0.3%.

# Characteristics



| As of 31-Dec-23   | Portfolio | Benchmark <sup>^</sup> |
|---|-----------|------------------------|
| <b>Fundamentals - weighted average</b>                  |           |                        |
| Price/earnings (12 months forward ex-negative earnings) | 14.8x     | 13.0x                  |
| Dividend yield  | 2.5%      | 3.3%                   |
| IBES long-term EPS growth <sup>1</sup>                  | 9.4%      | 9.9%                   |
| Return on equity (3-year average)                       | 14.7%     | 18.8%                  |
| Long term debt/capital                                  | 39.5%     | 37.7%                  |
| <b>Market capitalisation</b>                            |           |                        |
| Market capitalisation (EUR) <sup>2</sup>                | 55.4 bn   | 100.3 bn               |
| <b>Diversification</b>                                  |           |                        |
| Top ten issues  | 29%       | 22%                    |
| Number of Issues  | 62        | 425                    |
| <b>Turnover</b>   |           |                        |
| Trailing 1 year turnover <sup>3</sup>                   | 29%       | —                      |
| <b>Risk profile (current)</b>                           |           |                        |
| Barra predicted tracking error <sup>4</sup>             | 2.90%     | —                      |
| Active share  | 79%       | —                      |
| <b>Risk/reward (5 year)</b>                             |           |                        |
| Information ratio                                       | -0.25     | —                      |
| Standard deviation                                      | 15.52%    | 15.99%                 |
| Beta  | 0.93      | —                      |

<sup>^</sup> MSCI Europe Index

**Past performance is not a reliable indicator for future results.**

**No forecasts can be guaranteed.**

<sup>1</sup> Source: FactSet

<sup>2</sup> Weighted average.

<sup>3</sup> US methodology US Turnover Methodology: (Lesser of Purchase or Sales)/Average Month End Market Value; LUX methodology ((Purchases + Sales) - (Subscriptions + Redemptions))/Average Month End Assets: 12%

<sup>4</sup> Source Barra. The Barra information may not be redistributed, may not be reproduced or disseminated in any form and may not be used to create any financial instruments or products or any indices. The Barra information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Barra, each of its affiliates and each other person involved in or related to compiling, computing or creating any Barra information (collectively, the "Barra Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any Barra Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.



## Top 10 Issuers



| Top 10 issuers as of 31-Dec-23 | Portfolio (%) | Benchmark^ (%) |
|--------------------------------|---------------|----------------|
| NESTLE SA                      | 4.2           | 2.9            |
| IBERDROLA SA                   | 3.1           | 0.7            |
| SCHNEIDER ELECTRIC SE          | 2.9           | 1.0            |
| ROCHE HOLDING AG               | 2.9           | 2.0            |
| CIE FINANCIERE RICHEMONT SA    | 2.9           | 0.7            |
| SAFRAN SA                      | 2.8           | 0.6            |
| SANOFI (EQ)                    | 2.6           | 1.1            |
| DIAGEO PLC                     | 2.5           | 0.8            |
| AMADEUS IT GROUP SA            | 2.4           | 0.3            |
| CELLNEX TELECOM SA             | 2.4           | 0.2            |
| <b>Total</b>                   | <b>28.8</b>   | <b>10.3</b>    |

^ MSCI Europe Index

# Portfolio Outlook and Positioning



European equities finished the fourth quarter on a strong note, wrapping up the full year 2023 returning double-digit returns of 16% (MSCI Europe Index net dividends in EUR). This, to us, seemed a surprising result to many considering the year began with elevated concerns about stubbornly high inflation, central banks raising interest rates to post-GFC highs and the war in Ukraine still raging, leading to persistent worries about European energy supply. It finished with a remarkable rally through the final two months of the year following a step change in interest rate expectations as cooling United States (US) and European inflation data led to a pivot in US Federal Reserve (Fed) language away from the 'higher-for-longer' narrative. The market appears to believe the hiking cycle is over and is pricing in six interest rate cuts through 2024.

Since late October the 'risk on' sentiment was unmistakable as riskier pockets of the market led the charge. Cyclical stocks broadly outperformed defensives, higher beta stocks outpaced low beta, even crypto currencies (*remember those?*) surged. Looking beneath the surface of the full year performance the story was directionally similar with outperformance of more economically sensitive cyclical sectors (industrials, financials) over those typically defensive sectors (consumer staples, healthcare) while the largest components of the index have driven a significant amount of the headline performance.

A more resilient-than-expected global economy, particularly in the US, appears to have countered the tightening effect of higher interest rates, postponing the widely predicted recession, at least for now. The 2020-21 pandemic-era fiscal and monetary support enabled corporates and households to term out their debt at incredibly low rates so developed economies appear to be less interest rate sensitive than during previous hiking cycles. Huge fiscal support in the form of the Inflation Reduction Act, CHIPS Act, and EU Green Deal have underpinned corporate earnings as well as supported employment and consumer spending. However, with US budget deficit now stands at c.8% of GDP a level usually associated with wartime, so another fiscal bonanza is unlikely to be repeated. There are also nascent signs of rising corporate default rates and the wall of debt refinancing accelerates significantly from 2025. Could this be what lies behind the Fed's eagerness to pivot so aggressively? If so, it could point to a more challenging environment in 2024 than the year-end optimism suggests.

Despite the market's repricing of a 'soft landing' the unpredictable events of the last few years should warrant caution. The October 7<sup>th</sup> terror attack in Israel has reignited conflict in the Middle East and with no sign of peace in Ukraine geopolitical risk will likely remain elevated in the coming years. The addition of a divisive US Presidential election could lead to a contested result and further volatility.

# Portfolio Outlook and Positioning



We remained focused on identifying businesses with strong balance sheets and dominant market positions providing long lasting pricing power. Those companies will be best able to absorb negative shocks and outperform their competitors. We remain confident that we are invested in businesses with the ability to navigate the changing economic landscape effectively.

Whilst the shape of the portfolio did not change materially over the period, we made a few changes to the portfolio during the quarter.

We started a new position in **National Grid**, a British multinational electricity and gas utility company. We took advantage as the stock had sold off with the utilities sector being negatively impacted by the increase in yields. In addition to attractive valuation, the UK regulatory asset base is inflation linked, the company is growing its investments in New York and New England, and overall should benefit from the energy transition.

We initiated a position in **Tele2** which we believe is an above-average quality telecommunication company operating in Sweden, one of the best telco markets in Europe. Fundamentals are now inflecting positively; Tele2's investments in network quality and brand appear to be paying off, with capital intensity coming down, so there should be scope for improvement in FCF yield.

Another new name in the portfolio during the period was **Qiagen**, a German-founded multinational company which offers advanced molecular testing solutions. It enjoys dominant market positions in sample preparation, latent TB testing (world leader in both) and molecular diagnostic testing for infectious diseases. With a strong innovation track record, the company has historically grown faster than its end market. We find valuation to be attractive together with a solid balance sheet with 1x ND/EBITDA and management has substantially improved cash conversion.

Other activity included topping up some of the recent underperformers where the long-term thesis remains intact and valuation attractive: **Rentokil, Flutter Entertainment and Croda**.

We sold our position in **St. James's Place** and **Cancom**, as the risk-reward did not seem favorable. In the former's case, the company announced a complete fee overhaul, under FCA pressure, including the elimination of exit fees, the foregoing of upfront initial product charge and a split of the charges between advice, products, and ongoing fund charges. In our view, the net result of this would be a large

## Portfolio Outlook and Positioning



reduction in the cash EPS power of the group. In the case of Cancom, management have generally executed poorly against its strategy to grow its SMR cloud management business.

We trimmed positions to reflect changing risk-reward: **Roche, Legrand, Bayer**; as well as trimmed names that had performed strongly and to manage position size: **Infineon, UBS and Amadeus**.

With regard to portfolio positioning, we take a bottom-up, fundamental approach to investing and sector positioning is an output of stock selection. Looking across the portfolio, the largest relative overweight position is in industrials, where our exposure is driven by the number of select businesses that exhibit many of the attributes we look for. Companies that fall into this category tend to have a unique or superior value proposition compared to competitors, strong market positions and are generally difficult to displace.

We continue to have a relative overweight position in consumer staples where we favour businesses that have brand value, global distribution networks, strong balance sheets and the ability to adapt to the digital environment across a number of consumer product, food and alcoholic beverage companies.

The portfolio has a modest exposure via one name and continues to have an underweight position in the energy sector whose earnings we believe are typically dependent on the level of volatility in commodity prices, face structural challenges around climate change and are exposed to embedded geopolitical risk. We believe high energy prices will at some point lead to demand destruction and incentivize faster spend into energy transition, which is worse for terminal values in the space. We have generally found more attractive investment opportunities elsewhere, such as within utilities where we have identified select durable, high-quality companies that should benefit from opportunities in networks and renewables.

Whilst the portfolio remains underweight the health care sector, we have generally been adding to it selectively over the last few years as we have found attractive investment opportunities, thus our absolute exposure to the sector has increased over time and the relative underweight has narrowed as a result. The sector is generally less vulnerable to commodity price inflation and downtrading. One of our concerns previously was around the drug price reform in the United States but our internal conclusion is that poorly positioned drugs are already experiencing significant price deflation and the government is likely to continue to allow innovators to charge a significant premium as consumers want access to the latest technologies. We continue to be selective and mindful of risks with our exposure

## Portfolio Outlook and Positioning



diversified across medical technology, life sciences and pharma names which we believe have long-term drivers of growth and attractive valuations.

We believe periods of uncertainty are often best deciphered with a combination of deep, fundamental analysis and a long-term time horizon to help identify the most likely winners and losers. We are actively collaborating and leveraging our global research platform to identify companies that meet our investment criteria: durable business models, good free cash flow generation, sound balance sheets, appropriate leverage, good corporate governance and reasonable valuations. We believe we have the experience and discipline to navigate through periods of volatility and macroeconomic uncertainty, as demonstrated by our proven track record of managing assets through various market cycles.

The commentary included in this report was based on a representative fully discretionary portfolio for this product style; as such the commentary may include securities not held in your portfolio due to account, fund, or other limits.

# Portfolio Holdings



| As of 31-Dec-23                              | Country        | Equivalent exposure (%) |
|--|----------------|-------------------------|
| <b>Cash &amp; Cash Equivalents</b>           |                | <b>1.8</b>              |
| Cash & Cash Equivalents                      |                | 1.8                     |
| <b>Communication Services</b>                |                | <b>3.3</b>              |
| Cellnex Telecom SA                           | Spain          | 2.4                     |
| Tele2 AB                                     | Sweden         | 0.9                     |
| <b>Consumer Discretionary</b>                |                | <b>12.1</b>             |
| Cie Financiere Richemont SA                  | Switzerland    | 2.9                     |
| Amadeus IT Group SA                          | Spain          | 2.4                     |
| Cie Generale des Etablissements Michelin SCA | France         | 2.0                     |
| Sodexo SA                                    | France         | 1.8                     |
| Flutter Entertainment PLC                    | Ireland        | 1.3                     |
| Burberry Group PLC                           | United Kingdom | 1.1                     |
| Zalando SE                                   | Germany        | 0.6                     |
| <b>Consumer Staples</b>                      |                | <b>15.0</b>             |
| Nestle SA                                    | Switzerland    | 4.2                     |
| Diageo PLC                                   | United Kingdom | 2.5                     |
| Heineken NV                                  | Netherlands    | 2.4                     |
| Reckitt Benckiser Group PLC                  | United Kingdom | 1.5                     |
| Pernod Ricard SA                             | France         | 1.4                     |
| Haleon PLC                                   | United Kingdom | 1.1                     |
| Beiersdorf AG                                | Germany        | 1.0                     |
| Henkel AG & Co KGaA IPS                      | Germany        | 0.8                     |
| <b>Energy</b>                                |                | <b>0.9</b>              |
| Aker BP ASA                                  | Norway         | 0.9                     |
| <b>Financials</b>                            |                | <b>17.6</b>             |
| UBS Group AG                                 | Switzerland    | 2.2                     |
| Zurich Insurance Group AG                    | Switzerland    | 2.2                     |
| Deutsche Boerse AG                           | Germany        | 2.2                     |
| London Stock Exchange Group PLC              | United Kingdom | 1.6                     |
| Erste Group Bank AG                          | Austria        | 1.4                     |
| ING Groep NV                                 | Netherlands    | 1.2                     |
| Willis Towers Watson PLC                     | United States  | 1.1                     |
| Beazley PLC                                  | United Kingdom | 1.1                     |

| As of 31-Dec-23               | Country        | Equivalent exposure (%) |
|-------------------------------|----------------|-------------------------|
| <b>Financials</b>             |                | <b>17.6</b>             |
| AIB Group PLC                 | Ireland        | 1.1                     |
| Aon PLC                       | United States  | 1.1                     |
| Julius Baer Group Ltd         | Switzerland    | 0.9                     |
| Jyske Bank AS                 | Denmark        | 0.8                     |
| Allfunds Group Plc            | Netherlands    | 0.6                     |
| <b>Health Care</b>            |                | <b>8.0</b>              |
| Roche Holding AG              | Switzerland    | 2.9                     |
| Sanofi SA                     | France         | 2.6                     |
| Merck KGaA                    | Germany        | 1.1                     |
| Bayer AG                      | Germany        | 0.9                     |
| QIAGEN NV                     | Germany        | 0.5                     |
| <b>Industrials</b>            |                | <b>20.9</b>             |
| Schneider Electric SE         | France         | 2.9                     |
| Safran SA                     | France         | 2.8                     |
| Experian PLC                  | United Kingdom | 2.2                     |
| Weir Group PLC                | United Kingdom | 1.7                     |
| Intertek Group PLC            | United Kingdom | 1.7                     |
| Legrand SA                    | France         | 1.7                     |
| Rentokil Initial PLC          | United Kingdom | 1.6                     |
| CNH Industrial NV             | Italy          | 1.4                     |
| Ryanair Holdings PLC ADR      | Ireland        | 1.4                     |
| Schindler Holding AG          | Switzerland    | 1.2                     |
| GEA Group AG                  | Germany        | 1.1                     |
| Aalberts NV                   | Netherlands    | 1.0                     |
| <b>Information Technology</b> |                | <b>6.1</b>              |
| Dassault Systemes SE          | France         | 2.3                     |
| Infineon Technologies AG      | Germany        | 1.5                     |
| Capgemini SE                  | France         | 1.3                     |
| Temenos AG                    | Switzerland    | 1.0                     |
| <b>Materials</b>              |                | <b>6.0</b>              |
| Symrise AG                    | Germany        | 2.4                     |
| Novozymes AS                  | Denmark        | 1.4                     |

# Portfolio Holdings



| As of 31-Dec-23         | Country        | Equivalent exposure (%) |
|-------------------------|----------------|-------------------------|
| <b>Materials</b>        |                | <b>6.0</b>              |
| Croda International PLC | United Kingdom | 1.3                     |
| Anglo American PLC      | United Kingdom | 0.8                     |
| <b>Other</b>            |                | <b>0.1</b>              |
| Other                   |                | 0.1                     |
| <b>Real Estate</b>      |                | <b>1.4</b>              |
| Vonovia SE              | Germany        | 0.7                     |
| LEG Immobilien SE       | Germany        | 0.7                     |
| <b>Utilities</b>        |                | <b>6.8</b>              |
| Iberdrola SA            | Spain          | 3.1                     |
| RWE AG                  | Germany        | 1.6                     |
| E.ON SE                 | Germany        | 1.0                     |
| National Grid PLC       | United Kingdom | 1.0                     |

Other consists of: (i) currency derivatives and/or (ii) any derivative offsets.

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