



# MFS® Global New Discovery Fund

(Class R6 Shares)

Fourth quarter 2023 investment report

**NOT FDIC INSURED MAY LOSE VALUE NOT A DEPOSIT**

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus, or summary prospectus, containing this and other information, contact MFS or view online at [mfs.com](https://mfs.com). Please read it carefully.

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PRPEQ-GND-31-Dec-23

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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.

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.

## 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.

**International:** Investments in foreign markets can involve greater risk and volatility than U.S. investments because of adverse market, currency, economic, industry, political, regulatory, geopolitical, or other conditions.

**Mid-cap:** Investments in mid-cap companies can be more volatile than investments in larger companies.

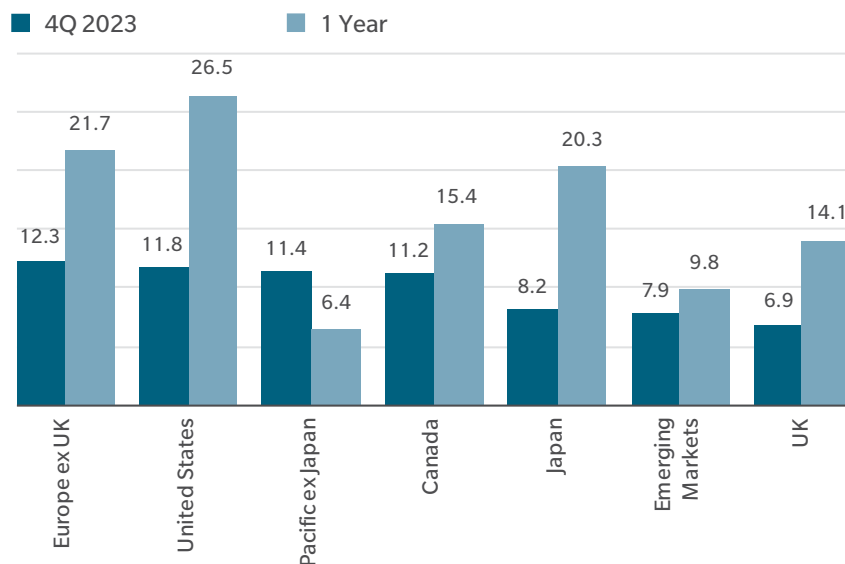
**Small-cap:** Investments in small-cap companies can be more volatile than investments in larger companies.

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

# Market Overview

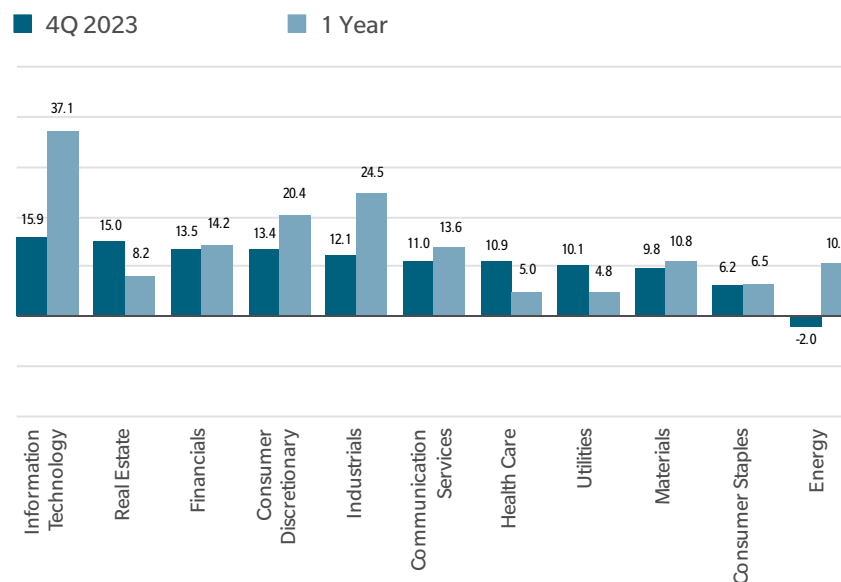


Region performance (%) (USD) as of 31-Dec-23



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

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



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of MSCI All Country World Small Mid Cap Index constituents are broken out by MSCI defined sectors.

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

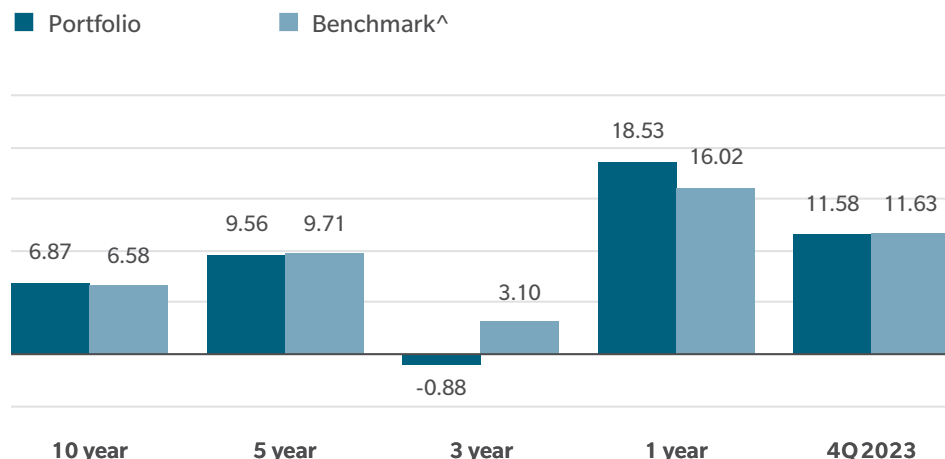
- The global equity market, as measured by the MSCI All Country World Index, rallied in 2023 with a strong finish in Q4, driven by anticipation of an economic soft landing and interest rate cuts in 2024.
- Changing interest rate expectations and investor enthusiasm in artificial intelligence were key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

# Executive Summary



Performance results (%) R6 shares at NAV (USD) as of 31-Dec-23



Performance data shown represent past performance and are no guarantee of future results. Investment return and principal value fluctuate so your shares, when sold, may be worth more or less than the original cost; current performance may be lower or higher than quoted. For most recent month-end performance, please visit [mfs.com](https://mfs.com).

Performance results reflect any applicable expense subsidies and waivers in effect during the periods shown. Without such subsidies and waivers the fund's performance results would be less favorable. All results assume the reinvestment of dividends and capital gains.

Shares are available without a sales charge to eligible investors.

Source for benchmark performance SPAR, FactSet Research Systems Inc.

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

^ MSCI All Country World Small Mid Cap Index (net div)

Sector weights (%) as of 31-Dec-23

	Portfolio	Benchmark^^
<b>Top overweights</b>		
Industrials	29.0	19.1
Materials	12.1	8.3
Real Estate	7.9	7.5
<b>Top underweights</b>		
Financials	7.2	14.3
Utilities	-	4.4
Information Technology	9.0	12.9

^^ MSCI All Country World Small Mid Cap Index

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The MFS Global New Discovery Fund performed in line with the MSCI All Country World Small Mid Cap Index (net div) in the fourth quarter of 2023.

### Contributors

- Real Estate - Stock selection
- Currency
- Individual stocks:
  - Musti Group Oyj
  - Burlington Stores Inc
  - Axalta Coating Systems Ltd
  - Imcd Nv
  - Euronext Nv (Eq)

### Detractors

- Health Care - Stock selection
- Information Technology - Stock selection and an underweight position
- Individual stocks:
  - Burberry Group Plc
  - Yum China Holdings, Inc.
  - Championx Corp
  - Jacobs Solutions Inc
  - Lkq Corp

# Performance Results



Performance results (%) R6 shares at NAV (USD) as of 31-Dec-23

Period	Portfolio	Benchmark <sup>^</sup>	Excess return vs benchmark
4Q 2023	11.58	11.63	-0.05
3Q 2023	-4.73	-3.55	-1.18
2Q 2023	3.13	3.34	-0.21
1Q 2023	8.13	4.28	3.85
2023	18.53	16.02	2.51
2022	-26.82	-18.72	-8.09
2021	12.26	16.23	-3.97
2020	24.06	15.67	8.39
2019	30.66	25.37	5.29
10 year	6.87	6.58	0.28
5 year	9.56	9.71	-0.15
3 year	-0.88	3.10	-3.99
1 year	18.53	16.02	2.51

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

<sup>^</sup> MSCI All Country World Small Mid Cap Index (net div)

## Performance Drivers - Sectors



Relative to MSCI All Country World Small Mid Cap Index (USD) - 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>	Real Estate	-0.3	23.4	15.0	-0.0	0.4	0.1	0.5
	Consumer Staples	-0.1	10.0	6.2	-0.0	0.1	0.1	0.2
	Energy	-2.2	-7.6	-2.0	0.3	-0.1	-0.0	0.2
	Materials	3.5	11.8	9.8	-0.1	0.2	0.0	0.2
	Industrials	9.1	12.2	12.1	0.0	0.3	-0.2	0.1
	Utilities	-4.5	—	10.1	0.1	—	0.0	0.1
	Consumer Discretionary	0.5	13.1	13.4	-0.0	-0.1	0.1	0.0
<b>Detractors</b>	Health Care	-0.2	4.9	10.9	-0.0	-0.5	-0.0	-0.5
	Cash	3.9	1.3	—	-0.4	—	-0.1	-0.5
	Information Technology	-3.4	13.9	15.9	-0.1	-0.4	0.2	-0.3
	Communication Services	0.2	6.6	11.0	0.0	-0.3	0.1	-0.2
	Financials	-6.5	13.7	13.5	-0.1	-0.1	0.2	-0.1
<b>Total</b>			<b>11.4</b>	<b>11.7</b>	<b>-0.4</b>	<b>-0.5</b>	<b>0.5</b>	<b>-0.4</b>

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

2 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.

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# Performance Drivers - Stocks



Relative to MSCI All Country World Small Mid Cap Index (USD) - fourth quarter 2023		Average Weighting (%)		Returns (%)		Relative contribution(%)
		Portfolio	Benchmark	Portfolio <sup>1</sup>	Benchmark	
<b>Contributors</b>	Musti Group Oyj	0.7	0.0	48.1	51.4	0.4
	Burlington Stores Inc	1.0	0.1	43.7	43.7	0.3
	Axalta Coating Systems Ltd	1.4	0.0	26.3	26.3	0.2
	Imcd Nv	0.9	0.0	37.0	37.0	0.2
	Euronext Nv (Eq)	1.5	0.0	24.3	24.3	0.2
<b>Detractors</b>	Burberry Group Plc	0.9	0.0	-21.6	-21.6	-0.3
	Yum China Holdings, Inc.	0.7	—	-23.6	—	-0.3
	Championx Corp	0.8	0.0	-18.5	-17.8	-0.3
	Jacobs Solutions Inc	1.5	0.1	-4.7	-4.7	-0.2
	Lkq Corp	1.6	0.1	-2.8	-2.8	-0.2

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

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).



## Significant Impacts on Performance - Detractors



Relative to MSCI All Country World Small Mid Cap Index (USD) - fourth quarter 2023		Relative contribution (%)
<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.	-0.3
<b>Yum China Holdings, Inc.</b>	Holdings of fast-food restaurant operator Yum China (China) weighed on relative returns. The stock price declined as the company announced weaker-than-expected financial results due to the slowdown in same-store sales on weaker demand and a larger-than-expected decline in gross margins because of increased promotional and delivery costs. The company believes this reflects the current sector-wise tepid consumer sentiment, which may persist in the coming quarters.	-0.3
<b>Championx Corp</b>	The portfolio's overweight position in energy and chemical solutions provider ChampionX (United States) weakened relative performance. The company's earnings results were weaker than anticipated, pressured in part by losses related to the devaluation of the Argentinian peso and lower-than-expected drilling revenues in the US.	-0.3

## Significant Impacts on Performance - Contributors



Relative to MSCI All Country World Small Mid Cap Index (USD) - fourth quarter 2023		Relative contribution (%)
<b>Musti Group Oyj</b>	Overweighting shares of pet products retailer Musti Group (Finland) helped relative returns after a consortium, including Sonae Holdings, announced a tender offer to acquire the company's shares at a significant premium.	0.4
<b>Burlington Stores Inc</b>	An overweight position in branded apparel products retailer Burlington Stores (United States) aided relative performance. The company reported better-than-expected comparable sales growth, driven by favorable back-to-school trends, and healthier-than-expected margins due to lower markdowns and easing shipping costs. Additionally, management issued an encouraging long-term outlook and provided initial visibility on the path to improved near-term growth, which further supported the stock.	0.3
<b>Axalta Coating Systems Ltd</b>	The portfolio's overweight position in coatings systems manufacturer, marketer, and distributor Axalta Coating Systems (United States) contributed to relative performance. The stock price rose as the company reported quarterly earnings per share results that were better than expected, driven by strong performance in its mobility coatings segment. The company also benefited from raising prices, cutting costs, and growing new business.	0.2

## Significant Transactions



From 01-Oct-23 to 31-Dec-23		Sector	Transaction type	Trade (%)	Ending weight (%)
<b>Purchases</b>	CHEMOURS CO/THE	Materials	New position	1.0	1.0
	AGCO CORP	Industrials	New position	0.9	0.8
	MID-AMERICA APARTMENT COMMUNITIES INC (EQ)	Real Estate	New position	0.8	0.8
	INTERPUMP GROUP SPA	Industrials	New position	0.7	0.7
	B&M EUROPEAN VALUE RETAIL SA	Consumer Discretionary	Add	0.6	1.3
<b>Sales</b>	MUSTI GROUP OYJ	Consumer Discretionary	Eliminate position	-1.2	-
	CHAMPIONX CORP	Energy	Eliminate position	-1.1	-
	ORACLE CORP JAPAN	Information Technology	Eliminate position	-0.7	-
	ARTHUR J GALLAGHER & CO (EQ)	Financials	Eliminate position	-0.6	-
	KOITO MANUFACTURING CO LTD	Consumer Discretionary	Eliminate position	-0.6	-

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# Sector Weights



As of 31-Dec-23	Portfolio (%)	Benchmark^ (%)	Underweight/overweight(%)	Top holdings
Industrials	29.0	19.1	9.9	Howmet Aerospace Inc, GFL Environmental Inc, INGERSOLL-RAND INC
Materials	12.1	8.3	3.8	Symrise AG, Axalta Coating Systems Ltd, Breedon Group PLC
Real Estate	7.9	7.5	0.4	Multiplan Empreendimentos Imobiliarios SA, Sun Communities Inc REIT, Corp Inmobiliaria Vesta SAB de CV
Consumer Discretionary	11.7	11.6	0.1	LKQ Corp, B&M European Value Retail SA, Burlington Stores Inc
Consumer Staples	4.9	4.9	0.0	Cranswick PLC
Communication Services	3.7	4.0	-0.3	Infrastrutture Wireless Italiane SpA
Health Care	8.2	9.0	-0.8	ICON PLC, STERIS PLC, Gerresheimer AG
Energy	1.7	4.1	-2.4	Diamondback Energy Inc
Information Technology	9.0	12.9	-3.9	NS Solutions Corp, ASM International NV, Teledyne Technologies Inc
Utilities	-	4.4	-4.4	
Financials	7.2	14.3	-7.1	AUB Group Ltd, Euronext NV, B3 SA - Brasil Bolsa Balcao

^ MSCI All Country World Small Mid Cap Index

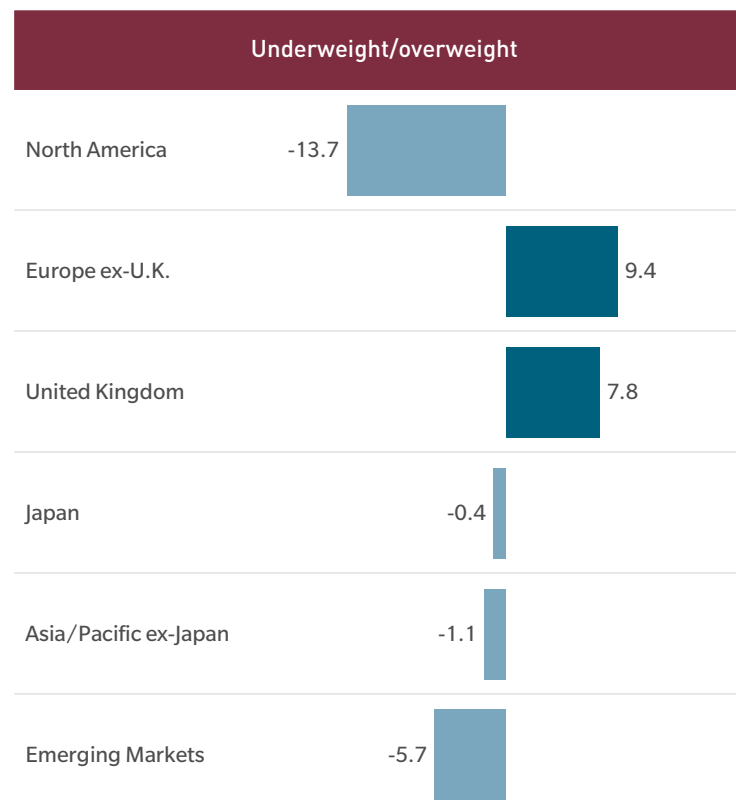
4.5% Cash & cash equivalents

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## Region and Country Weights



As of 31-Dec-23	Portfolio (%)	Benchmark <sup>^</sup> (%)	Underweight/overweight(%)
<b>North America</b>	<b>41.5</b>	<b>55.2</b>	<b>-13.7</b>
Canada	5.0	3.1	1.9
United States	36.6	52.0	-15.4
<b>Europe ex-U.K.</b>	<b>21.4</b>	<b>12.0</b>	<b>9.4</b>
Germany	6.1	1.8	4.3
Netherlands	3.4	1.0	2.4
France	3.1	1.7	1.4
Italy	2.3	1.0	1.3
Norway	1.7	0.6	1.1
Switzerland	2.6	1.6	1.0
Spain	1.0	0.5	0.5
Austria	0.5	0.3	0.2
Sweden	0.6	1.5	-0.9
Other countries <sup>1</sup>	0.0	2.0	-2.0
<b>United Kingdom</b>	<b>12.2</b>	<b>4.4</b>	<b>7.8</b>
<b>Japan</b>	<b>9.0</b>	<b>9.4</b>	<b>-0.4</b>
<b>Asia/Pacific ex-Japan</b>	<b>3.6</b>	<b>4.7</b>	<b>-1.1</b>
Singapore	0.8	0.7	0.1
Australia	2.8	3.0	-0.2
Other countries <sup>1</sup>	0.0	1.0	-1.0
<b>Emerging Markets</b>	<b>7.8</b>	<b>13.5</b>	<b>-5.7</b>
Brazil	3.1	0.8	2.3
Philippines	0.8	0.1	0.7
Mexico	1.0	0.4	0.6
Turkey	0.6	0.3	0.3
India	1.6	2.6	-1.0
China	0.6	1.8	-1.2
Other countries <sup>1</sup>	0.0	7.5	-7.5



<sup>^</sup> MSCI All Country World Small Mid Cap Index

4.5% Cash & cash equivalents

The portfolio does not own securities represented in the benchmark in the following percentages: Developed - Middle East/Africa region 0.9%.

<sup>1</sup> The portfolio does not own any securities in countries represented in the benchmark in the following percentages: Taiwan 2.6%; South Korea 1.6%; Israel 0.9%; Hong Kong 0.7%; Denmark 0.6%; South Africa 0.6%; Belgium 0.5%; Finland 0.5%; Saudi Arabia 0.5% and 19 countries with weights less than 0.5% which totals to 3.0%.

## Characteristics



As of 31-Dec-23	Portfolio	Benchmark <sup>^</sup>
<b>Fundamentals - weighted average</b>		
IBES long-term EPS growth <sup>1</sup>	11.4%	—
Price/earnings (12 months forward ex-negative earnings)	18.3x	14.7x
Return on equity (3-year average)	14.5%	11.4%
<b>Market capitalization</b>		
Market capitalization (USD) <sup>2</sup>	10.3 bn	10.6 bn
<b>Diversification</b>		
Top ten issues	18%	2%
Number of Issues	97	7,824
<b>Turnover</b>		
Trailing 1 year turnover <sup>3</sup>	32%	—
<b>Risk profile (current)</b>		
Active share	97%	—
<b>Risk/reward (5 year)</b>		
Beta	0.94	—

<sup>^</sup> MSCI All Country World Small Mid Cap Index

**Past performance is no guarantee of future results.  
No forecasts can be guaranteed.**

<sup>1</sup> Source: FactSet

<sup>2</sup> Weighted average.

<sup>3</sup> US Turnover Methodology: (Lesser of Purchase or Sales)/Average Month End Market Value

## Top 10 Issuers



Top 10 issuers as of 31-Dec-23	Portfolio (%)	Benchmark^ (%)
CRANSWICK PLC	2.1	0.0
HOWMET AEROSPACE INC	2.0	0.1
GFL ENVIRONMENTAL INC (EQ)	2.0	0.0
NS SOLUTIONS CORP	1.9	0.0
AUB GROUP LTD	1.8	0.0
ICON PLC	1.8	-
ASM INTERNATIONAL NV	1.8	0.1
LKQ CORP	1.8	0.1
STERIS PLC	1.7	0.1
INGERSOLL RAND INC	1.6	0.2
<b>Total</b>	<b>18.4</b>	<b>0.7</b>

^ MSCI All Country World Small Mid Cap Index

# Portfolio Outlook and Positioning



## **Portfolio performance:**

On the heels of strong absolute performance results during the fourth quarter, the strategy outperformed the broader MSCI ACWI SMID Index for the full year 2023 and finished the year in the top third of its Morningstar peer group. Small- and midcap stocks moved sharply higher in the fourth quarter, with the MSCI ACWI Small Mid Cap Index closing up over 11% in US dollar terms for the period. During the quarter, holdings in real estate and consumer staples, coupled with an underweight to the weak performing energy sector, aided results. Conversely, positions in health care and information technology detracted. Within real estate, holdings in the real estate management and development industry (Catena, Multiplan Empreendimentos Imobiliarios, Inmobiliaria Vesta, Leg Immobilien) proved the leading contributors to results, while holdings in food products (Toyo Suisan, Cranswick) aided results in consumer staples. Separately, our underweight to the oil, gas and consumable fuels industry lifted results in the energy sector.

On a year-to-date basis, the strategy rounded out a solid 2023, delivering strong, broad based, positive relative performance across eight of eleven GICS sectors. Top performing sectors included health care, real estate and industrials. Within health care, holdings in life sciences tools and services (Gerresheimer, ICON) and biotechnology (Abcam) led the way. Within real estate, driven by fourth-quarter performance, holdings in the real estate management and development industry (Multiplan Empreendimentos Imobiliarios, Inmobiliaria Vesta, Leg Immobilien, Catena) proved the leading contributors to results while top performers in industrials included select positions in machinery (Ingersoll Rand, VAT Group, Kardex) and building products (Azek, Zurn Elkay Water Solutions, Masco).

From a regional perspective, very strong stock selection in Europe ex-UK as well as good results in North America proved most advantageous to year-to-date results. Within Europe ex-UK, top performing countries included Germany (Gerresheimer, Vitesco Technologies, Scout24), Netherlands (ASM, Wolters Kluwer) and Finland (Musti Group), while holdings in the US (XPO, ICON, Azek) drove outperformance in North America.



# Portfolio Outlook and Positioning



## **Portfolio positioning:**

In terms of portfolio positioning, while there were no significant changes of note during the quarter, we did experience an uptick in portfolio turnover, with quarterly turnover coming in at 11% and full-year 2023 turnover settling in at 32%. For the quarter, we added seven new names, while eliminating twelve names from the portfolio.

As of December 31, the portfolio remained most overweight the industrials sector. Within industrials, we continue to focus on businesses in the commercial services and supplies industry where GFL Environmental, a Canadian based major diversified environmental services company and Ritchie Bros. Auctioneers, the world's largest industrial auctioneer and seller of used heavy industrial equipment, remain top positions.

The portfolio's largest underweights remained the financial services sector and utilities. In financial services, we feel the banking industry remains strategically challenged across a range of issues despite the prospect of higher interest rates. Recent events revealed regulatory shortcomings that are likely to be addressed with even more regulation, likely disproportionately focused on smaller banks and ultimately a win for the larger banks. Our conclusion is that these bank failures have rightly reopened the debate about the riskiness and cyclical nature of banks broadly and are reasons we have endeavored to be underweight/defensive when it comes to our bank positions. Outside of the most recent banking crisis, ongoing issues include concerns around sovereign debt, regulatory challenges (likely to increase) and the requirement for capital replenishment. Additionally, the utilities sector continues to remain unattractive in our view, given the highly regulated, capital intensive nature of businesses in this area of the market.

From a regional perspective, we continue to keep a keen eye on our underweight allocation to North America (notably US small- and midcap stocks) and our overweight to Europe and the UK. While regional allocations, like sectors, are the result of bottom-up stock selection, where we utilize global comparisons to seek to identify the "best opportunities" globally, we also look to ensure that security selection is the primary driver of both alpha and risk. In this context, we are mindful of our current regional exposures, and actively looking for opportunities to narrow this gap, but importantly, only if we can identify compelling quality businesses trading at reasonable valuations in order to do so.

Below is a sample list of new names added and names eliminated over the course of the fourth quarter:

# Portfolio Outlook and Positioning



## New Positions:

- **Chemours:** The Chemours Co is a global provider of chemicals. It delivers customized solutions with a wide range of industrial and specialty chemicals products for various markets including coatings, plastics, refrigeration, air conditioning, etc. The company's operating segments include Titanium Technologies, Thermal and Specialized Solutions, and Advanced Performance Materials. It generates maximum revenue from the Titanium Technologies segment. The Titanium Technologies segment is a producer of TiO<sub>2</sub> pigment, a premium white pigment used to deliver whiteness, brightness, opacity, durability, efficiency and protection across a variety of applications. Geographically, it derives most of its revenue from North America. In our view there are three keys underlying our investment thesis for this specialty chemicals company: 1) secular shift to more environmentally friendly HVAC refrigerant where Chemours has a leading market share, 2) cyclical rebound in TiO<sub>2</sub> pigments market where Chemours also has the number one market share and 3) given the stocks current valuation, we don't believe the market appreciates the quality of the assets and the potential normalized earnings power of the business.
- **AGCO:** AGCO is a global manufacturer of agricultural equipment. The company has five core brands: Fendt, Massey Ferguson, Challenger, Valtra and GSI. Unlike its competitors, AGCO's product line extends beyond self-propelled equipment and implements to grain handling systems and livestock management solutions. Its products are available through a global dealer network, which includes over 3,200 dealer and distribution locations. AGCO offers retail and wholesale financing to customers through its joint venture with Rabobank, a European food- and agriculture-focused bank. We initiated a position in the company following the announcement that AGCO would acquire an 85% interest in Trimble, which provides location-based solutions for the agricultural industry that are used in global positioning system (GPS), laser, optical and inertial technologies. Trimble's hardware, software solutions and cloud-based applications span all aspects of the crop cycle, from land preparation to planting and seeding to harvest. Further, we view AGCO as a portfolio diversification play given our underweight to commodities more broadly.
- **Mid-America Apartment Communities:** Mid-America Apartment Communities, or MAA, is a real estate investment trust engaged in the acquisition, operation and development of multifamily apartment communities located in southeastern and southwestern United States. We are familiar with MAA as it is a name that we have owned in the past. We reentered the name more recently as MAA is now trading at a discount to peers after being a premium stock in its category.

## Portfolio Outlook and Positioning



- **Interpump Group:** Interpump Group is an Italy-based company that manufactures and markets high-pressure piston pumps and hydraulic products. The company operates through two segments. Its water jetting segment manufactures high- and ultra-high-pressure pumps while its hydraulic segment manufactures power take-offs, cylinders, componentry engineering, hydraulic distributors, valves and hoses and fittings. The company owns production facilities in Italy, the US, Germany, China, India, Brazil, Bulgaria, Romania and South Korea. The company has a global presence, with the domestic Italian market accounting for a fraction of its revenue. We view Interpump as one of the highest-quality SMID industrials in Europe. They are the market leader in several attractive niche industrial products segments such as hydraulics and water jetting. The company has delivered solid through-cycle earnings with limited cyclicality. History has shown that the firm has strong pricing power which should offset any cost inflation (labor + materials), albeit with a bit of a lag. The company has also witnessed margin expansion over the last decade and appears attractively valued, in our opinion.
- **Totvs:** Totvs SA is a provider of information technology solutions to small and medium enterprises in the education, government, health care and retail end markets. Its primary product offerings are enterprise resource planning applications, with modules for management, finance, operations, human resources and client services. We initiated a position in the stock following a meeting with the company at a conference in Brazil. This is a name we'd been familiar with and know the CEO from his time at Brazilian firm Linx before it was acquired by Stone Company. The CEO has done a good job pivoting the company over the past five years by moving the company into the larger small and medium enterprises customer relationship management market, which has shown in the fundamentals through accelerating revenue and margin expansion.

### Eliminations:

- **Musti Group:** Musti Group engages in the business of retail sales of pet products. It also offers grooming in some of its stores and veterinary services in Sweden. It operates through the following geographical segments: Finland, Sweden and Norway. We sold our stake in Musti following the announcement that several individuals with ties to the firm formed a consortium with the international retail group Sonae to place a cash tender offer for all shares of the company at a premium valuation.

## Portfolio Outlook and Positioning



- **Abcam:** Abcam is a biotechnology company that develops and provides antibodies to life science research and clinical communities. The company's products allow research into the role of signaling and regulatory molecules and proteins in biological pathways. Such research ultimately leads to treatments for diseases such as cancer and immune deficiency disorders. Abcam's focused on broadening its product range, improving speed to market, and accessing underpenetrated consumer groups in its markets. The company also selectively pursues partnerships and acquisitions. We exited our remaining position during the period following the announcement that Danaher would be acquiring the company for a premium purchase price.
- **ChampionX:** ChampionX provides chemical solutions and equipment for onshore and offshore oil and gas production. Its engineering expertise spans the well life cycle, but the firm maintains a particular focus on the production phase. Key offerings include artificial lift services and drilling technologies, specializing in polycrystalline diamond cutter inserts. ChampionX was formed after Apergy acquired its chemical technologies business from Ecolab in 2020. We sold our holding in ChampionX as we see better opportunities in the energy sector. From a stock specific perspective, we have recently become increasingly concerned around the company's growth expectations, given decelerating Permian basin growth rates due to productivity flattening.
- **Oracle Japan:** Oracle Japan is an information technology company. Its products cover database management, enterprise resource planning, supply chain management, data warehousing, customer relationship management, middleware, business intelligence and application products. The firm provides cloud solutions, business solutions, industry solutions, mobile solutions, and technology solutions and consulting, financing, training, cloud, premier support and customer support services. While we continue to have a favorable view of the Japanese IT services industry, we decided to decrease our overall position with the sale of Oracle Japan. We continue to view the company as high quality business with favorable industry dynamics, but its elevated valuation, relative to other names we own in the segment, coupled with some ongoing corporate governance concerns drove our decision to sell the name.
- **Arthur J Gallagher:** Arthur J. Gallagher & Co provides insurance brokerage and consulting services to middle-market entities around the world. The majority of the company's revenue comes from its brokerage segment, where it negotiates and places its customers with insurance companies that provide, among other types, property/casualty and health insurance. The company's primary source of revenue in the brokerage segment is commissioning from the insurance companies. The company also generates significant revenue in its corporate segment, which includes clean energy investment and other investment income. Nothing wrong fundamentally here, but as

# Portfolio Outlook and Positioning



a dedicated small- and midcap manager and true to our mandate, the market cap of Arthur J. Gallagher became too large and led to our final sale. As we have been working down our stake in AJG, we have concurrently been building our position in AUG Group, an Australian insurance broker which at the end of the fourth quarter was the fifth largest position in the portfolio.

## Market Outlook

In our view, the opportunity set for global small- and midcaps has not changed recently and appears particularly attractive. Looking back historically, from the end of the dot-com-era (early 2000s) up until the early days of the global financial crisis (GFC) in 2008, global small- and midcap stocks significantly outperformed relative to their large-cap counterparts with the MSCI ACWI SMID Index returning 94% versus the MSCI ACWI Large Cap Index return of just 21%. And while no two periods are perfectly alike, one could draw a few similarities between that roughly eight-year period from the early to late 2000s to today's environment. First, and importantly, valuations potentially offer investors a buying opportunity not seen in decades, as valuations are close to two standard deviations "cheap" relative to large caps. Next, inflation and interest rates during the run up to the GFC are more aligned with today's reality versus what we witnessed in the decade following the GFC to the culmination of the COVID Pandemic. At that time, inflation was essentially non-existent, and globally, yields were either close to zero or even in negative territory, where from 2000 through the end of 2007, the 10-year US Treasury yield averaged 4.7% and global inflation averaged 3.7%, not dissimilar from where we find ourselves today. Further, markets during the pre-GFC period also witnessed a dramatic sell-off as the dot.com bubble burst. The high-flying technology stocks with unattainable growth expectations — think irrational exuberance — of that period are rather analogous to the meme stocks of today. Looking at the concentration of the tech-heavy S&P 500 and Russell 1000® Growth Index, similarities are again quite apparent, and were followed by a sustained period of small- and midcap outperformance. Will history once again repeat itself? Only time will tell...

## Key takeaways

- Despite a challenging 2022, we remained committed to our process of focusing on quality small- and midcap companies where we have high conviction in their ability to maintain above average growth rates and compound profits over a market cycle. Our patience paid off over the preceding fifteen months, as we've witnessed solid outperformance since the start of the fourth-quarter 2022, and year to date.

# Portfolio Outlook and Positioning



- Given expectations for a low-return environment over the next decade we believe small- and midcap stocks may offer attractive alpha opportunities and can potentially play an important role in a well-diversified portfolio.
- While equity valuations have limited predictive power on stock returns over shorter time horizons, they matter a lot over the long term. Today, relative valuations for global small- and midcap stocks are at multi-decade lows relative to their large cap counterparts — levels seen only during the Tech Bubble, after which ended up being a strong decade for small- and midcap stocks.
- In light of the size of the universe and sparse sell side research coverage, we believe a deep, collaborative and centralized global research platform is essential to identifying alpha potential. Our global reach platform allows us to perform global comparisons on companies across various industries and geographies to identify which company has the strongest potential and better valuation. We are actively collaborating and leveraging our global research platform to identify companies that meet our investment criteria, and we believe we have the experience and discipline to navigate through periods of volatility and macroeconomic uncertainty, as demonstrated by our long-term track record of managing small- and midcap assets through various market cycles.

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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>4.5</b>
Cash & Cash Equivalents		4.5
<b>Communication Services</b>		<b>3.7</b>
Infrastrutture Wireless Italiana SpA	Italy	1.1
CTS Eventim AG & Co KGaA	Germany	1.0
Scout24 SE	Germany	1.0
Cable One Inc	United States	0.6
<b>Consumer Discretionary</b>		<b>11.7</b>
LKQ Corp	United States	1.8
B&M European Value Retail SA	United Kingdom	1.3
Burlington Stores Inc	United States	1.2
Skechers U.S.A. Inc	United States	1.1
Lottery Corp Ltd	Australia	1.0
Amadeus IT Group SA	Spain	1.0
Burberry Group PLC	United Kingdom	0.8
Vitesco Technologies Group AG	Germany	0.8
Sodexo SA	France	0.8
Nishimatsuya Chain Co Ltd	Japan	0.7
Yum China Holdings Inc	China	0.6
ZOZO Inc	Japan	0.6
<b>Consumer Staples</b>		<b>4.9</b>
Cranswick PLC	United Kingdom	2.1
Universal Robina Corp	Philippines	0.8
Bakkafrost P/F	Norway	0.7
S Foods Inc	Japan	0.7
Toyo Suisan Kaisha Ltd	Japan	0.6
<b>Energy</b>		<b>1.7</b>
Diamondback Energy Inc	United States	1.3
TechnipFMC PLC	United States	0.5
<b>Financials</b>		<b>7.2</b>
AUB Group Ltd	Australia	1.8
Euronext NV	France	1.6
B3 SA - Brasil Bolsa Balcao	Brazil	1.4

As of 31-Dec-23	Country	Equivalent exposure (%)
<b>Financials</b>		<b>7.2</b>
Cboe Global Markets Inc	United States	1.1
Shizuoka Financial Group Inc	Japan	0.9
Gruppo MutuiOnline SpA	Italy	0.5
<b>Health Care</b>		<b>8.2</b>
ICON PLC	United States	1.8
STERIS PLC	United States	1.7
Gerresheimer AG	Germany	1.2
Bruker Corp	United States	0.9
Envista Holdings Corp	United States	0.7
As One Corp	Japan	0.7
Selcuk Ecza Deposu Ticaret ve Sanayi A.S.	Turkey	0.6
Tecan Group AG	Switzerland	0.6
<b>Industrials</b>		<b>29.0</b>
Howmet Aerospace Inc	United States	2.0
GFL Environmental Inc	Canada	2.0
INGERSOLL-RAND INC	United States	1.6
Westinghouse Air Brake Technologies Corp	United States	1.5
Jacobs Solutions Inc	United States	1.5
RS GROUP PLC	United Kingdom	1.2
Masco Corp	United States	1.2
Veralto Corp	United States	1.2
RB Global Inc	Canada	1.2
nVent Electric PLC	United States	1.1
Melrose Industries PLC	United Kingdom	1.1
Boyd Group Services Inc	Canada	1.1
AZEK Co Inc	United States	1.1
Sensata Technologies Holding PLC	United States	1.1
IMCD NV	Netherlands	0.9
XPO Inc	United States	0.8
AGCO Corp	United States	0.8
Kardex Holding AG	Switzerland	0.8
Singapore Technologies Engineering Ltd	Singapore	0.8

## Portfolio Holdings



As of 31-Dec-23	Country	Equivalent exposure (%)
<b>Industrials</b>		<b>29.0</b>
IDEX Corp	United States	0.7
Wolters Kluwer NV	Netherlands	0.7
Zurn Elkay Water Solutions Corp	United States	0.7
Interpump Group SpA	Italy	0.7
VAT Group AG	Switzerland	0.7
Daiseki Co Ltd	Japan	0.7
WNS Holdings Ltd ADR	India	0.6
JGC Holdings Corp	Japan	0.6
Dun & Bradstreet Holdings Inc	United States	0.5
<b>Information Technology</b>		<b>9.0</b>
NS Solutions Corp	Japan	1.9
ASM International NV	Netherlands	1.8
Teledyne Technologies Inc	United States	1.0
Keywords Studios PLC	United Kingdom	0.7
Kinaxis Inc	Canada	0.7
Rapid7 Inc	United States	0.7
Obic Co Ltd	Japan	0.6
Azbil Corp	Japan	0.6
TOTVS SA	Brazil	0.5
Digital Garage Inc	Japan	0.5
<b>Materials</b>		<b>12.1</b>
Symrise AG	Germany	1.4
Axalta Coating Systems Ltd	United States	1.4
Breedon Group PLC	United Kingdom	1.1
Chemours Co	United States	1.0
Element Solutions Inc	United States	1.0
Summit Materials Inc	United States	1.0
UPL Ltd	India	1.0
Borregaard ASA	Norway	1.0
Essentra PLC	United Kingdom	0.8
Verallia SA	France	0.8
SIG Group AG	Switzerland	0.6

As of 31-Dec-23	Country	Equivalent exposure (%)
<b>Materials</b>		<b>12.1</b>
Mayr Melnhof Karton AG	Austria	0.5
Croda International PLC	United Kingdom	0.5
<b>Real Estate</b>		<b>7.9</b>
Multiplan Empreendimentos Imobiliarios SA	Brazil	1.3
Sun Communities Inc REIT	United States	1.1
Corp Inmobiliaria Vesta SAB de CV	Mexico	1.0
UNITE Group PLC REIT	United Kingdom	1.0
Tritax Big Box REIT PLC REIT	United Kingdom	0.8
Mid-America Apartment Communities Inc REIT	United States	0.8
Big Yellow Group PLC REIT	United Kingdom	0.7
LEG Immobilien SE	Germany	0.7
Catena AB	Sweden	0.6

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