

2013 GLOBAL PROXY VOTING & ENGAGEMENT REPORT





GLOBAL PROXY VOTING & ENGAGEMENT 2013 ANNUAL REPORT

OVERVIEW

MFS believes that robust ownership practices can help protect and enhance long-term shareholder value. Such ownership practices include the thoughtful and diligent exercise of our voting rights as well as engaging with our portfolio companies on a variety of proxy voting issues. MFS also recognizes that environmental, social and governance ("ESG") issues may impact the value of an investment and therefore ESG factors should inform our proxy voting practices.

This Global Proxy Voting & Engagement Annual Report provides a summary of our proxy voting and engagement activities with portfolio companies that encompasses the 12-month period ending June 30, 2013 (the "2013 Proxy Period").

GLOBAL VOTING SCORECARD

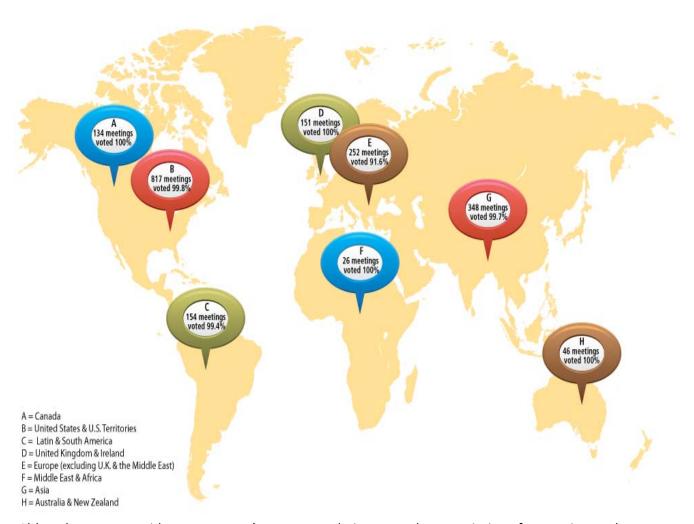
Each year, MFS is eligible to vote at a large number of shareholder meetings that include a wide variety of ballot items. We typically exercise all of our voting rights that we are eligible to vote. However, there may be limited situations where we do not exercise our voting rights. These situations may be the result of restrictions on trading of voted securities (i.e., "share-blocking"), operational constraints (e.g., the late delivery of proxy materials) and voting impediments (e.g., power of attorney requirements). During the 2013 Proxy Period, MFS was eligible to vote on over 20,000 ballot items at 1,954 shareholder meetings across 51 markets globally. MFS voted shares at approximately 98.5% of these meetings, with the remaining 1.5% of meetings not voted due to

The MFS Proxy Voting Committee

All proxy voting activities are overseen by the MFS Proxy Voting Committee, chaired by our General Counsel Mark Polebaum. Mark is an Executive Vice President of MFS and serves on our Management Committee. The Proxy Committee also consists of senior members of our Global Investment & Client Support and Legal Departments.

The day-to-day management of our proxy voting activities is overseen by Matt Filosa, MFS' Corporate Governance and Proxy Voting Manager. Matt has been with MFS since 2005 and is a regular contributor at industry forums on corporate governance and proxy voting. He is a member of the Harvard Law School Program for Institutional Investors Advisory Board and the Institutional Shareholder Services Governance Exchange Advisory Council. Matt received his B.A. from Tufts University in 1995 and his Masters in Business Administration from Boston University in 2002.

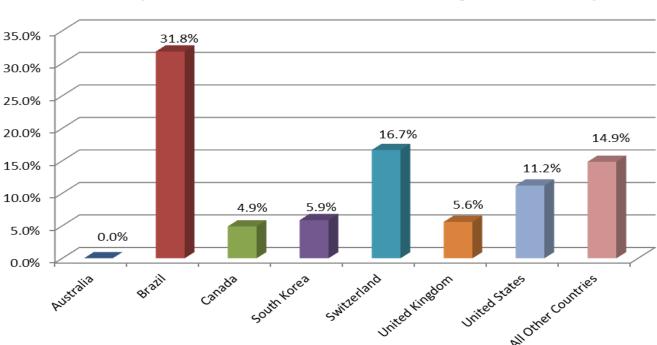
share-blocking (1.4%, mainly in Europe) and known operational issues/voting impediments (0.1% in various markets). The following map illustrates the number of meetings we voted throughout the world during the 2013 Proxy Period, along with the overall percentage of meetings we voted in each region.



Although we vote with management's recommendation on a large majority of proxy items due to our confidence in the management teams of the portfolio companies in which we invest, there are instances where we may disagree with management's view on a particular ballot item and vote against their recommendation. In the 2013 Proxy Period, MFS voted against management's recommendation on approximately 7% of all ballot items globally, and cast a vote against management's recommendation on at least one ballot item at 34% of all shareholder meetings. These numbers are very similar to those in the 2012 Proxy Period (*i.e.*; July 1, 2011 – June 30, 2012), where MFS voted against management's recommendation on approximately 7% of all ballot items, and cast a vote against management's recommendation on at least one ballot item at 36% of all shareholder meetings.

"SAY ON PAY" AROUND THE WORLD

MFS believes that competitive compensation packages are necessary to attract, motivate and retain executives. However, MFS also recognizes that certain executive compensation practices may be "excessive" and not in the best, long-term economic interest of shareholders. Many markets in which MFS invests (including those markets identified in the table below with a significant number of votes) may require or recommend a vote on the company's executive compensation program ("Say on Pay"). A growing number of markets are also contemplating requiring or recommending Say on Pay votes at all companies, and some markets are moving towards making such votes binding on the company rather than advisory (e.g.; the U.K. and Switzerland). MFS believes that Say on Pay votes are one of the more effective mechanisms to express our view on a company's compensation practices and can help ensure that executive pay practices are aligned with shareholder interests.

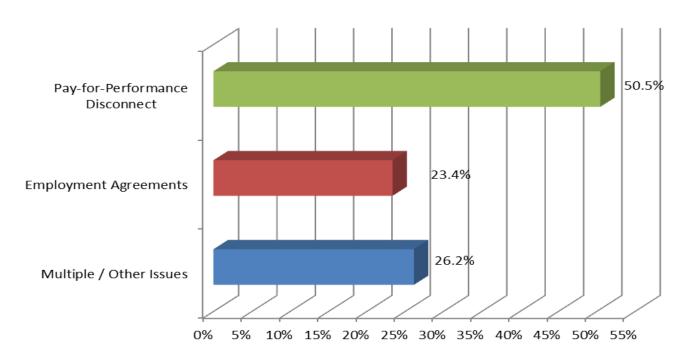


Global Compensation Scorecard: How Often MFS Voted Against Executive Pay

During the 2013 Proxy Period, MFS voted on the approval of executive compensation at 1,072 companies around the world, voting against or abstaining on such proposals approximately 11% of the time overall. This compares to the 2012 Proxy Period where MFS voted against or abstained on such proposals globally 14% of the time. The reason for not supporting the executive compensation practices at these companies was typically either non-compliance with local best practices, an overall disconnect between the company's

performance and its executive remuneration practices, and/or poor compensation disclosure. While we do see general improvement of global executive compensation practices, we continue to monitor our portfolio companies to ensure that executive compensation is properly aligned with shareholder interests and general market practices.



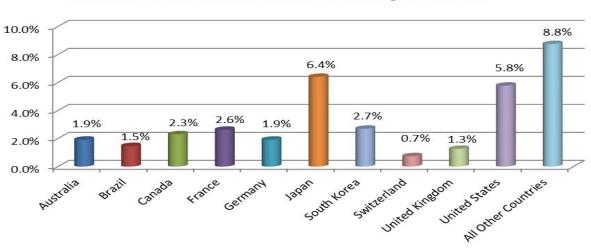


2013 was the third year that Say on Pay votes were required at the annual shareholder meetings in the U.S. Overall, shareholders expressed general satisfaction with the executive pay practices at these companies. According to Institutional Shareholder Services' 2013 U.S. Proxy Season Review, average shareholder support for these votes hovered around 91% (about the same as 2012) and 52 companies received less than majority support from January 1 - June 30, 2013 (compared to 53 during the same period in 2012). Of the 53 companies that failed to receive majority support for their Say on Pay vote in 2012, only a handful of them received less than majority support for their 2013 Say on Pay vote due to positive changes made to their compensation programs. MFS voted on approximately 661 U.S. Say on Pay votes during the 2013 Proxy Period, and reviewed such proposals on a case-by-case basis. MFS voted against approximately 11% of U.S. Say on Pay proposals for reasons ranging from new employment agreements with problematic provisions, inappropriate perquisites, and an overall disconnect between the company's performance and its executive pay practices. This compares to about 9% for the 2012 Proxy Reporting Period. MFS may also vote against certain or all board nominees if we determine that a particularly egregious excessive executive compensation practice has occurred. Of the

11% of companies that we deemed compensation excessive, we also voted against at least one director approximately 32% of the time (28 instances) for approving particularly egregious excessive executive compensation. Some U.S. companies also asked shareholders at their 2013 shareholder meetings to vote on the preferred frequency of advisory votes on executive compensation (*i.e.*, every 1, 2 or 3 years). Because we believe having the ability to vote on executive compensation every year is the most effective way to spur engagement with our portfolio companies and curb future excessive executive compensation practices, we voted for annual Say on Pay votes at all of the U.S. meetings that we were eligible to vote.

GLOBAL DIRECTOR ELECTIONS

Overall, MFS did not support director nominees approximately 5.1% of the time across all markets. MFS believes that boards of directors should be accountable to shareholders on a variety of issues. Reasons for voting against board nominees include independence, attendance or disclosure standards concerns. In addition, MFS may also vote against board nominees if the board has not taken responsive action on an issue of concern to shareholders. For example, if a shareholder proposal to de-classify the board received majority approval at a prior shareholder meeting and the board is not de-classified, then MFS will typically vote against the entire board's re-election at future annual shareholder meetings. Similarly, if a significant number of shareholders have expressed dissatisfaction with the company's executive compensation program and the company has not made significant changes to its compensation program, then MFS will vote against the compensation committee and/or full board. In the 2013 Proxy Period, MFS voted against board members at approximately 15 companies for failing to adequately respond to shareholder concerns. Finally, MFS also maintains a list of directors that we believe do not warrant support at any company based on their prior service at other companies with substantial governance failures.



Global Director Scorecard: How Often MFS Voted Against Directors

MFS & ESG SHAREHOLDER PROPOSALS

We recognize that ESG issues may impact the value of an investment and should inform our proxy voting practices. The Proxy Voting Committee analyzes and votes all proposals relating to ESG issues in what we believe to be in the best, long-term economic interest of shareholders.

Shareholder proposals relating to environmental issues were a focus in the 2013 Proxy Period, including topics relating to hydraulic fracturing, recycling, coal combustion, and palm oil. MFS generally supports proposals that request more disclosure on the impact of environmental issues on the company's operations unless it is unduly restrictive or the company already provides sufficient publicly-available information. In total, MFS voted on 39 environmental-related shareholder proposals during the 2013 Proxy Period, supporting approximately 25% of such proposals (compared to 31% in the 2012 Proxy Period).

With respect to social issues, MFS voted on 138 social-related shareholder proposals during the 2013 Proxy Period, supporting approximately 48% of such proposals (compared to 40% in the previous Proxy Period). Shareholder requests for increased disclosure on a company's political contributions took center stage again in the 2013 Proxy Period. Proposals typically focused on increased disclosure of the procedures in place to oversee corporate political spending. MFS generally supports such shareholder proposals unless the company already provides publicly-available information that is sufficient to enable shareholders to evaluate the

to the company. In the 2013 Proxy Period, MFS supported 67% of shareholder proposals seeking more disclosure from companies on their political spending and lobbying policies.

potential risks that political contributions may pose

Corporate governance has historically been a popular subject of shareholder proposals, and 2013 was no different. The most abundant corporate governance shareholder proposals were calls for the separation of the Chairman and CEO positions and majority voting in director elections. Overall, MFS voted on 260 governance-related shareholder proposals around the globe during the 2013 Proxy Period, supporting 43% of such proposals (compared to 51% in the 2012 Proxy Period).

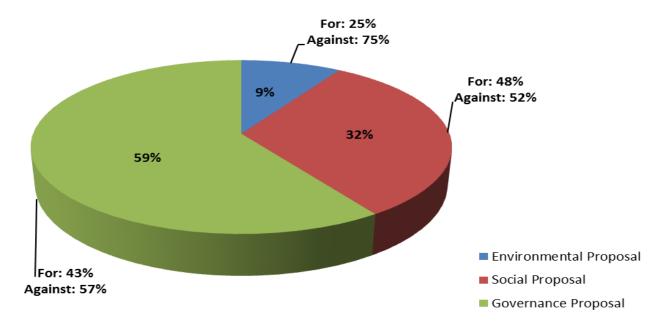
MFS SUPPORTS SHAREHOLDER RIGHTS

During the 2013 Proxy Period, MFS voted in favor

of:

- 100% of proposals to de-classify the board
- 100% of proposals seeking majority voting in director elections
- 100% of proposals to act by written consent
- 100% of proposals to call special meetings
- 100% of proposals to eliminate supermajority voting rights
- 100% of proposals to provide certain shareholders (3% for 3 years) the ability to nominate their own Board candidates ("Proxy Access")

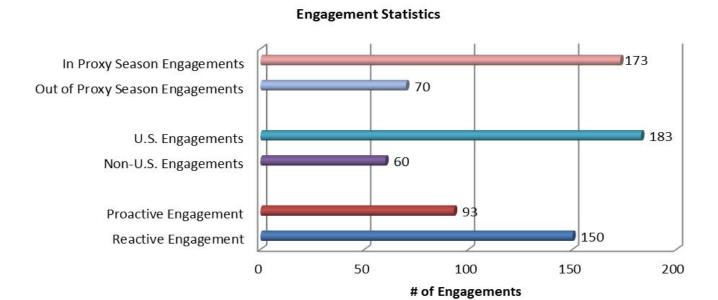
Global Shareholder Proposal Scorecard: How MFS Votes Shareholder Proposals



GLOBAL ENGAGEMENT PROGRAM

We believe open communication with our portfolio companies on proxy voting issues is an important aspect of our ownership responsibilities. Our goal when engaging with our portfolio companies is to exchange views on topics ranging from executive compensation to environmental issues, and to potentially positive change on such issues. As such, members of the MFS Proxy Voting Committee engaged with senior representatives from 191 distinct portfolio companies in 13 different markets during the 2013 Proxy Period, representing approximately 10% of issuers that we voted on in the 2013 Proxy Period (please see <u>Appendix A</u> for a list of such companies). This compares to 183 engagements with distinct portfolio companies (243 overall) during the 2012 Proxy Period. During the 2013 Proxy Period, engagements were prompted by MFS 38% of the time ("proactive engagement") and our portfolio companies 62% of the time ("reactive engagement"). While each engagement may cover multiple topics, executive compensation and other corporate governance issues accounted for a majority of our engagement activity. Moreover, a significant number of engagements related to environmental and social issues. U.S. companies represented 75% of our engagements, while non-U.S. companies represented 25%. These engagement statistics are similar to the 2012 Proxy Period, however, the number of engagements outside of the proxy solicitation period (the "out of season" engagements outlined below) nearly doubled from last year. For all companies that we engaged with prior to the annual meeting, we

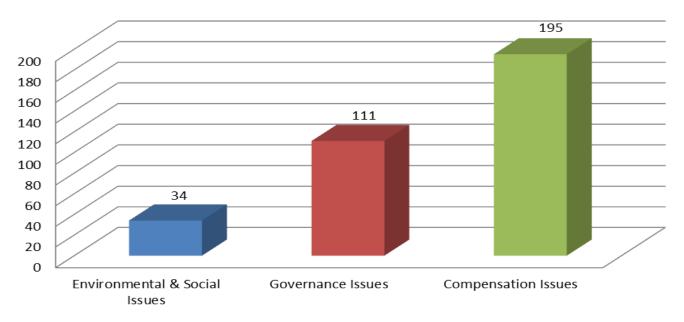
provided the basis for our final voting decision in our effort to continue vote transparency with our portfolio companies. We also attempt to engage with every U.S. company that is being evaluated for potentially



excessive executive compensation in order for our voting decision to be adequately informed. We also do the same at many other companies around the world when evaluating compensation issues.

In September of this year, the MFS Proxy Committee began a letter-writing initiative that focuses on certain, important governance issues at our portfolio companies. We sent letters to the board of directors of about twenty-five portfolio companies that (i) had at least one director receive less than majority support from shareholders; (ii) received less than majority support on its executive compensation practices; and/or (iii) had at least one shareholder proposal receive majority support from shareholders. For example, if a majority of shareholders have expressed concern over executive pay at the 2013 annual shareholder meeting, then we expect the Board to make adjustments to the pay plan prior to the 2014 annual shareholder meeting. We believe that these letters will help the boards at our portfolio companies focus on issues where shareholders have given a clear indication of concern. These letters also establish transparency with the company's Board and indicate our willingness to engage on these important issues moving forward.

Engagement Topics



Accurately measuring the impact of our engagement activity continues to be a focus of the MFS Proxy Voting Committee. From a broad perspective, we have observed many positive trends at US companies on a variety of proxy voting issues. Majority voting structures for director elections are present at over 85% of the constituent companies listed in the Standard & Poor's 500 Index despite being virtually non-existent just a short time ago. The gradual decrease in classified boards and the elimination of problematic pay practices such as tax gross-up payments are also positive trends that we have observed. These trends serve as evidence that voting combined with engagement can have a positive impact on governance issues on a broad scale.

Measuring the more direct impact of our engagement activities can be a challenge due to the wide variety of responses from corporations over the long-term, and will require future monitoring in order to gauge our impact on a company-by-company basis. However, some of our engagement efforts have resulted in quick, direct and measurable impact. For example, the MFS Proxy Voting Committee and MFS investment team worked together to help effect what we believed to be a meaningful positive change at a German company where MFS had a significant equity stake. At the company's 2013 annual shareholder meeting, MFS voted in support of the proposal to remove the Supervisory Board Chair and voted in support of the motion of noconfidence in the Management Board Chair. MFS representatives engaged with the company both prior to and immediately after our vote to express our continued governance concerns. Shortly after the company's 2013 annual shareholder meeting, the company announced significant governance changes to both the Supervisory and Management Boards that we believe will help protect and enhance shareholder value in the long-term.

In addition to engaging with our portfolio companies, MFS also believes that engaging with sponsors of shareholder initiatives can help inform our views on important proxy voting issues. During the 2013 Proxy Period, members of the MFS Proxy Voting Committee engaged with sponsors of shareholder initiatives at approximately 10 companies, including those at JP Morgan Chase, Apple, and Occidental Petroleum.

CONCLUSION

MFS continued its global efforts on proxy voting activities during the 2013 Proxy Period. While executive compensation issues dominated the proxy voting landscape, other ESG issues remain in sharp focus as well. The number of engagements with our portfolio companies on proxy voting issues rose again in the 2013 Proxy Period, and we expect our engagement activity to increase moving forward. We look forward to providing an update to our proxy voting policies as well as a preview of the 2014 proxy season in our next report.

Additional Resources

- For more information about our proxy voting activities, including a complete copy of the MFS Proxy Voting Policies and Procedures, Frequently Asked Questions, and previous Proxy Voting and Engagement Reports, please visit the proxy voting section of www.mfs.com.
- For the MFS Policy on Responsible Investing, please visit www.mfs.com.
- For information on how many MFS-sponsored pooled vehicles voted their shares at shareholder meetings during the most recent quarter-end, please visit www.mfs.com.

Contact Information

We would be happy to receive feedback from our clients on this report.

Matthew R. Filosa

Assistant Vice President

Corporate Governance & Proxy Voting Manager

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> or contact your client service representative.

PROXY ENGAGEMENT LOG

Members of the MFS Proxy Voting Committee had individual meetings relating to proxy voting matters with senior representatives from the following 191 distinct portfolio companies during the 2013 Proxy Period:

3M Company

Abbott Laboratories, Inc.

Accenture

Accuride Corporation

Ace Group, Inc.
Ace Limited
AES Corp.

Affliated Managers Group, Inc.

Air Lease Corporation

Air Products and Chemicals, Inc.

Airgas, Inc.

Alexandria Real Estate Equities, Inc.

Altera Corporation

American Express Company

Apache Corp.
Apple, Inc.
AT&T Corp.

Atlas Air Worldwide Holdings, Inc.

Atwood Oceanics, Inc.

Autodesk, Inc.
Avon Products, Inc.
Ball Corporation

Bank of New York Mellon Corporation

Barclays plc

Basic Energy Services, Inc.

Beazley plc

Bed, Bath & Beyond, Inc. BioMed Realty Trust Blackrock, Inc.

BNP Paribas

Boston Properties, Inc.

Cabot Oil & Gas Corporation

Cairn Energy plc

Cameron International Corp.

Canadian Natural Resources Limited

Cisco Systems Inc.

Citigroup, Inc.

Cliffs Natural Resources, Inc.

Cobham plc

Cognizent Technology Solutions, Inc.

Colt Group SA

Comerica Incorporated

CoreLogic, Inc.

Corning Incorporated

Danone Group

Duke Energy Corp.

Eagle Materials, Inc.

eBay, Inc.

El Paso Electric Company

EMC Corp.

EnPro Industries, Inc.

Entegris, Inc. EQT Corp.

Ethan Allen Interiors, Inc.

Evercore Corp.

Evercore Partners, Inc. Everest RE Group, Ltd.

Exa Corporation Exelon Corp.

Express Scripts Holding Company

Exxon Mobil Corp.
Facebook, Inc.
First Republic Bank
FirstEnergy Corp.
Five Below, Inc.

FleetCor Technologies, Inc.

Fluor Corp.

Francesca's Holdings Corporation

Gas Natural SDG SA

General Dynamics Corporation GeoSpace Technologies, Inc.

Gilead Sciences, Inc.

Goldman Sachs Group, Inc.

GSW Immobilien AG

Guess?, Inc. Hasbro, Inc.

Healthcare Services Group, Inc.

Heineken N.V.

Hewlett-Packard Company Honeywell International, Inc. Huntington Bancshares Inc.

Iberdrola S.A.

IG Group Holdings plc

Intel Corp.

International Business Machines Corporation

ITC Holdings Corp.

Jardine Lloyd Thompson Group plc

JDS Uniphase Corporation
Johnson & Johnson Company

Johnson Controls, Inc. JPMorgan Chase & Co.

Julius Baer AG
Kaman Corporation
Kellogg Company

L'Air Liquid Lamprell plc

Lifepoint Hospitals, Inc.

Linde AG

Lockheed Martin Corporation

LPS Brasil Consultoria de Imoveis SA

McDonald's Corp.
McKesson Corp

Medical Properties, Trust

Medtronic, Inc.

Mellanox Technologies Ltd.

Merck & Co., Inc. Merck KGaA

Mondale International, Inc.
Monolithic Power Systems, Inc.

Monsanto Company

MSC Industrial Direct Co., Inc. National Fuel and Gas Company

Neopost SA

NextEra Energy, Inc. Noble Energy Inc. Northrop Grumman Corp.

NRG Energy, Inc. NV Energy, Inc.

NXP Semiconductors NV

Occidental Petroleum Corporation

Omnicom Group, Inc.

Oracle Corp.
Pentair Ltd.
Pernot Ricard
Pfizer, Inc.

PG&E Corporation

Phillip Morris International Inc.

Pitney Bowes Inc.

Portugal Telecom SGPS, SA

PPG Industries, Inc. PPL Corporation

Praxair Inc.

Prudential Financial Inc.

Public Service Enterprise Group Incorporated

Publicis Group SA

Quest Diagnostocs Incorporated

Realogy Holdings Corp.

Retail Opportunity Investments Corp.

Rightmove plc Rio Tinto plc rue21, Inc.

Sally Beauty Holdings, Inc.
Santen Pharmaceutical Co. Ltd.

Schneider Electric SA

Sempra Energy

Sensata Technologies Holding N.V. Sensient Technologies Corporation

Shutterstock, Inc.

Simon Property Group, Inc.

SM Energy Corp.
SolarWinds, Inc.
Spectra Energy Corp.

Staples, Inc.

Starbucks Corporation
State Street Corp.

Stewart Information Services Corp.

Stratasys, Inc.

Superior Energy Services, Inc.

SurModics, Inc.

Swift Transportation Company

Swiss Reinsurance

Target Corp.

The Bank of New York Mellon

The Children's Place Retail Stores, Inc.

The J.M. Smucker Company

The McGraw Hill Companies

The PNC Financial Services Group, Inc.

The Procter & Gamble Company

The Travelers Companies, Inc.

The Walt Disney Company

The Western Union Company

Time Warner Cable, Inc.

Time Warner, Inc.

Tyco International Ltd.

UBS AG

United Parcel Service, Inc.

United Technologies Corp.

Verizon Communications, Inc.

Viscofan S.A.

Volcano Corporation

Walgreen Co.

Wells Fargo & Company

William Hill plc

Willis Group Holdings Public Limited Company

Windstream Corp.

WMS Industries, Inc.

WPP plc

Wynn Resorts Limited

Yahoo, Inc.

Yum Brands, Inc.

Zynga, Inc.

Statistics included in this report are calculated based on accounts for which MFS clients have fully delegated proxy voting authority pursuant to the MFS Proxy Voting Policies and Procedures. With the exception of the meetings voted statistics listed on page 2 of this report, all voting statistics exclude instances where MFS did not cast a vote. Statistics also do not include instances where an MFS client may have loaned shares and therefore was not eligible to vote. Statistics are calculated on a meetings-level basis.

Please be advised that the companies named in this report may not be held by an MFS client at the time this report is published.

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