MFS MERIDIAN® FUNDS – EUROPEAN SMALLER COMPANIES FUND

A fund aimed to invest in small/mid-cap European stocks

Luxembourg – Registered SICAV

Effective 16 November 2015 this fund is closed to new investors, with very limited exceptions

Strategy

The fund's investment objective is capital appreciation, measured in euros. The Fund invests primarily (at least 75%) in European Economic Area equity securities of smaller companies. The European Economic Area includes countries in the European Union, Iceland, Liechtenstein, and Norway. Smaller companies are generally those with capitalizations of less than €10 billion. Some of the countries in the European Economic Area, primarily those in Eastern Europe, are currently considered emerging market economies. The Fund may also invest in other European countries.

Key performance points

The MFS Meridian® Funds – European Smaller Companies Fund (Class I1EUR) outperformed the MSCI Europe Small Mid Cap Index in the third quarter of 2015.

Contributors

- Stock selection in leisure, basic materials and special products & services
- An overweight in consumer staples
- Our modest allocation to cash, used for transactional purposes, positively impacted relative performance as the market depreciated over the quarter.
- Individual stocks: Sartorius AG

Detractors

- Stock selection in transportation
- Stock selection and underweight in utilities & communications
- Individual stocks: Zoopla Property Group, Aker Solutions and Babcock International Group

SIGNIFICANT IMPACTS ON PERFORMANCE – CONTRIBUTORS

Leisure

- Shares of online betting and gaming operator **Betfair Group** (United Kingdom) surged after it was announced that the company reached an agreement with Paddy Power on key terms of a merger. Betfair Group also posted a 15% revenue growth despite a Point of Consumption tax payment of £12.8m.

- The fund's ownership of international betting and gaming company **Paddy Power** (Ireland) benefited relative performance. Shares jumped on strong first-half results and news of a proposed merger with rival online gambling and gaming company Betfair. Strong revenue growth from Australia and from retail outlets in the United Kingdom and Ireland were the primary drivers that helped earnings beat market expectations.

Basic Materials

Stock selection in the basic materials sector aided relative results. However, there were no individual stocks within this sector that were among the portfolio's largest relative contributors during the period.

Special Products & Services

- Shares of tourism and travel IT solutions provider **Amadeus IT Holding** (Spain) aided relative performance. Second quarter results were in line with expectations despite adverse foreign exchange and seasonal impacts on cash flow. Management also reiterated its targets for this year and showed optimism regarding the underlying trends and financial performance of its business.

Consumer Staples

- An overweight position in salmon products company **Bakkafrost** (Denmark) boosted relative returns after the company delivered its best quarterly revenue results to date. Increased harvest volumes and a strong market presence in the Russian market contributed to the strong results.

Additional Factors

- The portfolio's overweight position in German international biotech and laboratory services provider **Sartorius AG** supported relative performance. The company's first-half results showed strong sales growth in the Bioprocess Solutions division where Sartorious' market leading products captured a growing share of pharmaceutical research & development expenditure, particularly in the US. The spike in orders and improvement in margins led management to raise its outlook for the remainder of the fiscal year further benefiting results.

SIGNIFICANT IMPACTS ON PERFORMANCE – DETRACTORS

Transportation

- Overweighting UK-based public transportation company **Stagecoach** detracted from relative performance. Shares declined late in the quarter as the company realized weaker sales in their North American business, Megabus, seemingly a result of a shift to car use due to lower gas prices.

Utilities & Communications

- The portfolio's overweight position in shares of communications and entertainment solutions provider **TDC** (Denmark) held back relative performance. Despite modest growth and an interim dividend, shares were unable to outperform the benchmark during the quarter. Increased costs, primarily surrounding staffing call centers and weak organic growth dampened relative results.

Additional Factors

- Residential property search and research provider **Zoopla Property Group** (United Kingdom) detracted from returns. The shares were weak in the quarter reflecting a new competitive challenger in the core business, whilst the newly completed acquisition of uSwitch has yet to be integrated.
- An overweight position in subsea engineering and technology company **Aker Solutions** (Norway) hurt relative results. Oil and gas companies continued to scale back their capital expenditure negatively impacting the company's order backlog which declined significantly over the period.

- Overweighting engineering services provider **Babcock International Group** (United Kingdom) detracted from relative performance. The company cut guidance for its recently purchased helicopter business due to its unsuccessful bid for a large contract and lower growth from its oil and gas clients.

PORTFOLIO POSITIONING

The European Smaller Companies investment team continues to actively screen the universe of stocks for companies that meet our investment criteria. Our investment approach centres around identifying durable, long duration, defensible businesses whose prospects we believe are not fully reflected in their valuation.

The portfolio's largest absolute weighting is toward business services companies. In this area we are focused on niche and best-in-class business to business firms that we believe will be able to perform well through the cycle. We also seek businesses with the ability to maintain pricing power as a result of strong competitive positioning in this arena.

We continue to avoid most companies in the metals and mining space, as those firms' earnings are very dependent on volatile commodity prices. We believe they should trade at a discount to the market over the long term due to their earnings volatility. We prefer select speciality chemical stocks which have historically displayed more stable returns and margins over time. Additionally, we benefitted from our limited exposure to energy as oil prices declined over the period.

Within the consumer focused space, we continue to favour what we believe are the most durable business models, with a preference towards food and beverage and consumer products companies. We also like companies from the leisure sector, with a particular emphasis on restaurants and media related stocks. We believe our holdings in these areas will deliver better-than-market returns over the long term, generate good cash flow, and are in solid financial health.

The portfolio's largest underweight position remains the financial services sector, in particular insurance and banking stocks and we continue to prefer more diversified financial companies instead. We recognise that the banking industry remains strategically challenged due to ongoing issues surrounding sovereign debt, regulatory challenges and the requirement for capital replenishment. We therefore favour the broker and asset management industry, and maintain select exposure to real estate whose operations we believe offer a specific competitive advantage versus their peers.

Trading during the quarter was modest for the strategy. Key trades included:

- We added to our position in **Fyffes**, a leading importer and distributor of tropical produce, headquartered in Ireland with operations in Europe. The company commands strong market share and pricing power across various markets and has the ability to adapt quickly to prevailing market conditions. We initiated a new small position in the stock in June and continued to build our position during the quarter.
- We also added to our position in **Compass Group**, a UK company that provides food and support services to customers in the workplace, in schools and colleges, hospitals, at leisure and remote environments. We added to the stock on price weakness during the quarter. We continue to like the stock as Compass continues to offer a strong growth profile as well as resilience in downturns. We also believe in management's ability to enhance returns through margin improvement and through disciplined capital allocation.

While Greece was the most prominent topic in the headlines during the second quarter - a precarious situation that continues to unfold, the sell-off in markets around the world after China's devaluation of the renminbi and the effects a slowdown in China will have on the global economy seem to be plaguing investors during the third quarter and beyond. With the Federal Reserve policy on hold, the dollar has weakened, boosting the outlook for multi-nationals. While there may be an earnings recession marked by weakness in energy, materials and capital goods, other sectors may experience better profits and revenue growth as pressure on the consumer continues to abate.

We have seen increased volatility in global equity, currency and bond markets. China's slowdown, an oversupply in crude oil and a strong dollar have driven commodity prices to multiyear lows, challenging nations that are dependent on oil revenues. Emerging markets broadly have been under pressure of late, with weakness in export markets, recessions in Russia and Brazil and political uncertainty in Turkey. In Europe, political uncertainty may be heightened, as potentially contentious elections are coming up in Spain in December, and as the refugee crisis, triggered by the conflict in Syria reveals political rifts within Europe.

The outcome of events in Europe also has significant relevance for the UK, given the commitment to hold a referendum on remaining in the EU as early as May 2016. So whilst the UK's economy appears stronger than the rest of Europe, increased political risk makes us somewhat cautious about this market over the next year.

In Europe, financial conditions and earnings momentum have improved as economies move from contraction to expansion, yet growth and inflation lag expectations. The European Central Bank has reaffirmed its dovish stance, which should continue to support equities. Valuations are attractive, though geopolitical uncertainty and labour cost disadvantages tend to temper our enthusiasm.

We continue to focus our investments on companies that offer compelling valuations, sustainable or improving businesses, regardless of any particular macroeconomic or political developments.

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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.

Average annual rates of return as of end September 2015

Fund/Index (%)	3Q 2015	1 yr	3 yrs	5 yrs	10 yrs
MFS Meridian® Funds – European Smaller Companies Fund (I1EUR)	-3.43	23.57	18.66	19.01	12.07
MSCI Europe Small Mid Cap Index (EUR)	-6.16	14.54	16.99	11.89	6.57

The source for all fund data is MFS. Source for benchmark performance: SPAR, FactSet Research Systems Inc.
Periods less than one year are actual not annualized.
Start of Fund Performance Record: 05 November 2001
Start of Class Performance Record: 26 September 2005
Fund inception date: 05 November 2001

The MFS Meridian Funds offer several share classes each with different expenses. Performance reflects the performance of a relevant older class with the same currency until the actual start of class performance record of the class detailed. Performance for periods prior to that date and prior to the fund's inception date may have been higher or lower had the actual share class fees and expenses been reflected.

Other share classes are available for which performance and expenses would be different.

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

Disclosure

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

Important Risk Considerations

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

Stock markets and investments in individual stocks are volatile and can decline significantly in response to issuer, market, economic, industry, political, regulatory, geopolitical, and other conditions.

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

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.

See the fund's offering documents for more details, including information on fund risks and expenses. For additional information, call Latin America: 416.506.8418 in Toronto or 352.46.40.10.600 in Luxembourg. European Union: MFS International (U.K.) Ltd., 1 Carter Lane, London, EC4V 5ER UK. Tel: 44 (0)20 7429 7200. Switzerland: Carnegie Fund Services S.A., 11 rue du General-Dufour, 1204 Geneve, Switzerland. Tel: 41.22.705.1177. Hong Kong: State Street Trust (HK) Limited, 68th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Tel: 852.2840.5388.Taiwan: Master Agent: PineBridge Investments Consulting Taiwan Limited, 10th floor, 144 Minchuan E. Rd., Section 2, Taipei 10436, Taiwan Tel: 886.2.2516.7676.

MFS Meridian Funds is an investment company with a variable capital established under Luxembourg law. MFS Investment Management Company (Lux) S.à.r.l. is the management company of the Funds, having its registered office at 35, Boulevard du Prince Henri, L-1724, Luxembourg, Grand Duchy of Luxembourg (Company No. B.76.467). The Management Company and the Funds have been duly authorised by the CSSF (Commission de Surveillance du Secteur Financier) in Luxembourg.

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

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