



# MFS® International Equity Fund

(Class R6 Shares)

Fourth quarter 2025 investment report

Effective June 30, 2026, Daniel Ling will retire from MFS and relinquish his portfolio management responsibilities.

**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://www.mfs.com). Please read it carefully.

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PRPEQ-IIE-31-Dec-25

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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 and Investment Objective



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.

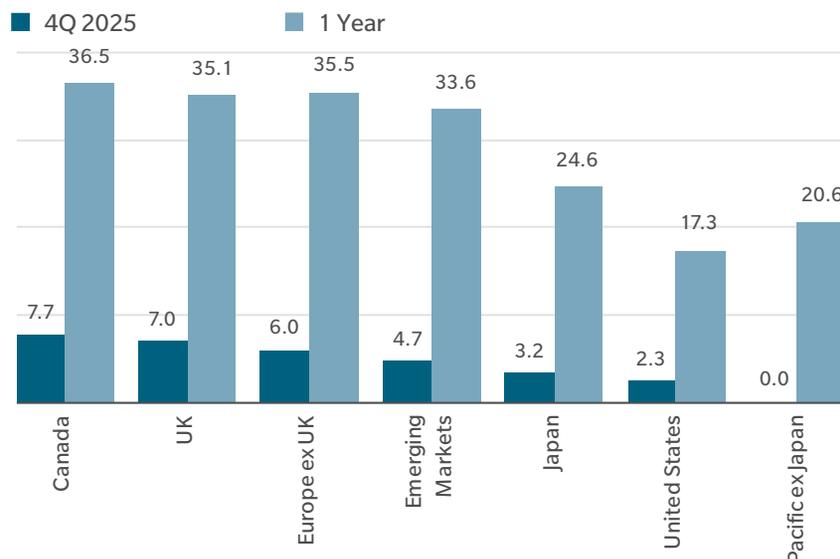
Please see the prospectus for further information on these and other risk considerations.

**Investment Objective:** Seeks capital appreciation.

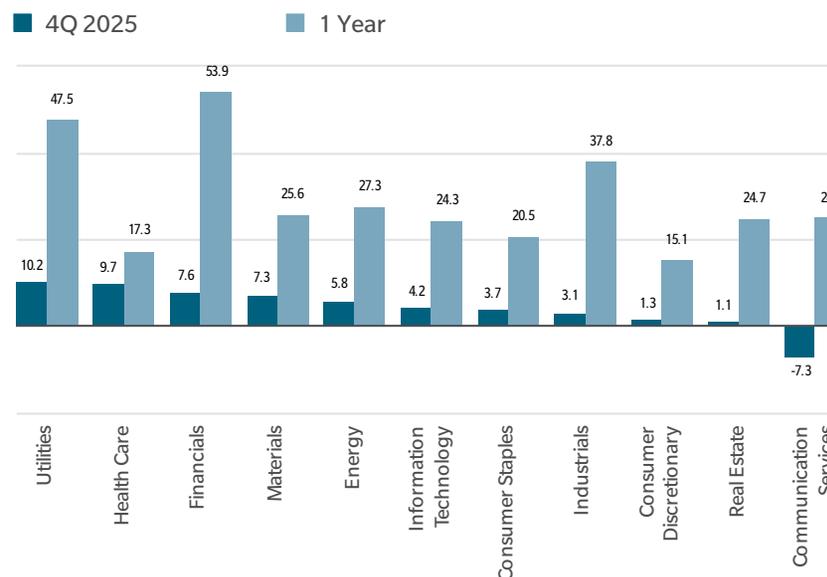
# Market Overview



Region performance (%) (USD) as of 31-Dec-25



Sector performance (%) (USD) as of 31-Dec-25



Past performance is not a reliable indicator for future results.  
 Source: FactSet. Region performance based on MSCI regional/country indexes.

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

## Global Equities Market Review as of 31-Dec-25

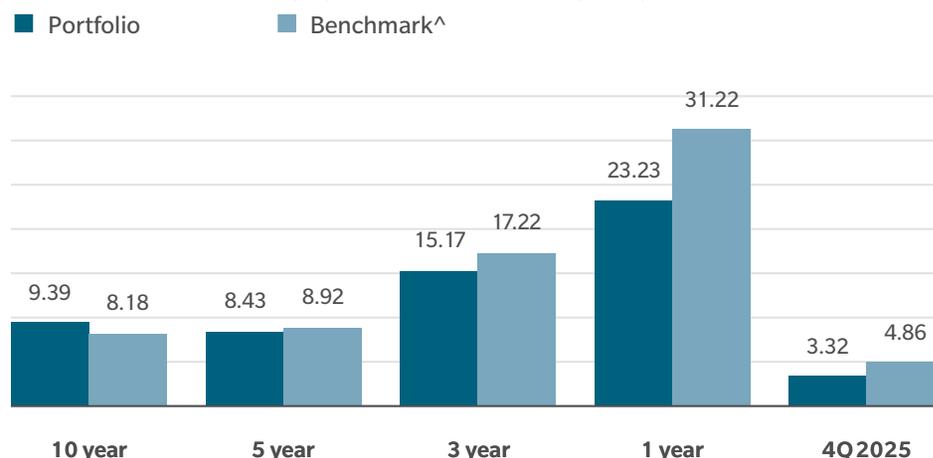
- The global equity market finished 2025 near all-time highs, despite volatility in Q4 driven by concerns over an AI bubble, investors rotating between sectors and regions, and uncertainty surrounding US Fed policy.
- Value modestly outperformed in Q4 but slightly lagged behind growth for the full year globally, although value significantly outperformed growth in Europe and Japan over both periods.
- The lagged effects of the global rate-cut cycle and current fiscal policies may support continued strength in earnings and equity markets, despite elevated valuations.

- Key risks include AI capex slowing or disappointing, uncertainty regarding policy rates, geopolitical tensions, the US mid-term elections, tariffs, and the bond market’s reaction to fiscal stimulus or inflation.

# Executive Summary



Performance results (%) R6 shares at NAV (USD) as of 31-Dec-25



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 EAFE (Europe, Australasia, Far East) Index (net div)

Sector weights (%) as of 31-Dec-25

	Portfolio	Benchmark^^
<b>Top overweights</b>		
Consumer Discretionary	11.9	9.8
Consumer Staples	9.0	7.4
Industrials	20.1	19.2
<b>Top underweights</b>		
Utilities	1.8	3.7
Real Estate	-	1.8
Communication Services	3.1	4.4

^^ MSCI EAFE Index

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The MFS International Equity Fund underperformed the MSCI EAFE (Europe, Australasia, Far East) Index (net div) in the fourth quarter of 2025.

### Contributors

- Financials - Stock selection
- Individual stocks:
  - Roche Holding Ltd
  - Engie Sa
  - Ryanair Holdings Plc
  - Hitachi Ltd

### Detractors

- Materials - Stock selection
- Information Technology - Stock selection
- Individual stocks:
  - Tencent Holdings Limited
  - RELX Group
  - AstraZeneca PLC (not held)
  - Experian Plc

# Performance Results



Performance results (%) R6 shares at NAV (USD) as of 31-Dec-25

Period	Portfolio	Benchmark <sup>^</sup>	Excess return vs benchmark
4Q 2025	3.32	4.86	-1.54
3Q 2025	1.64	4.77	-3.13
2Q 2025	10.10	11.78	-1.68
1Q 2025	6.59	6.86	-0.27
2025	23.23	31.22	-7.99
2024	4.14	3.82	0.32
2023	19.04	18.24	0.80
2022	-14.83	-14.45	-0.38
2021	15.16	11.26	3.90
10 year	9.39	8.18	1.20
5 year	8.43	8.92	-0.50
3 year	15.17	17.22	-2.05
1 year	23.23	31.22	-7.99

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.

<sup>^</sup> MSCI EAFE (Europe, Australasia, Far East) Index (net div)

# Performance Drivers - Sectors



Relative to MSCI EAFE Index (USD) - fourth quarter 2025		Average relative weighting (%)	Portfolio returns (%)	Benchmark returns (%)	Sector allocation <sup>1</sup> (%) +	Stock selection <sup>2</sup> (%) +	Currency effect (%) =	Relative contribution (%)
<b>Contributors</b>	Financials	-0.7	9.7	7.6	0.0	0.4	0.0	0.5
	Utilities	-1.9	22.7	10.2	-0.1	0.2	-0.0	0.1
	Consumer Staples	1.5	4.9	3.7	-0.0	0.1	0.0	0.1
	Real Estate	-1.9	—	1.1	0.1	—	0.0	0.1
<b>Detractors</b>	Materials	-0.5	-4.2	7.3	-0.0	-0.5	-0.1	-0.6
	Information Technology	1.0	-0.9	4.2	0.0	-0.6	0.1	-0.5
	Industrials	1.1	2.1	3.1	-0.0	-0.2	-0.0	-0.2
	Consumer Discretionary	2.3	0.5	1.3	-0.1	-0.1	-0.0	-0.2
	Health Care	-0.4	9.0	9.7	0.0	-0.0	-0.0	-0.1
	Energy	-0.2	3.5	5.8	0.0	-0.1	0.0	-0.1
	Cash	1.1	0.9	—	-0.1	—	0.0	-0.0
Communication Services	-1.3	-11.5	-7.3	0.2	-0.2	0.1	-0.0	
<b>Total</b>			<b>3.9</b>	<b>4.9</b>	<b>0.0</b>	<b>-1.0</b>	<b>0.0</b>	<b>-1.0</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. As these securities are bought or sold, the portion of the security's return attributed to the difference between fair value price and trade price will not be recognized in attribution results. These factors may further compound differences between attribution results and actual performance. Index futures shown might be used for cash management or hedging purposes. 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 EAFE Index (USD) - fourth quarter 2025		Average Weighting (%)		Returns (%)		Relative contribution(%)
		Portfolio	Benchmark	Portfolio <sup>1</sup>	Benchmark	
<b>Contributors</b>	NatWest Group PLC	1.8	0.3	24.9	24.9	0.3
	Roche Holding Ltd	2.6	1.4	26.8	26.7	0.2
	Engie Sa	1.7	0.2	22.7	22.7	0.2
	Ryanair Holdings Plc	1.8	0.1	19.9	19.6	0.2
	Hitachi Ltd	2.6	0.7	17.5	17.5	0.2
<b>Detractors</b>	Air Liquide Sa (Eq)	2.7	0.6	-9.4	-9.4	-0.3
	Tencent Holdings Limited	1.4	—	-9.7	—	-0.2
	RELX Group	1.4	0.4	-15.2	-15.2	-0.2
	Check Point Software Technologies Ltd	1.5	0.1	-10.3	-10.3	-0.2
	AstraZeneca PLC	—	1.4	—	23.2	-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. As these securities are bought or sold, the portion of the security’s return attributed to the difference between fair value price and trade price will not be recognized in attribution results. These factors may further compound differences between attribution results and actual performance. Index futures shown might be used for cash management or hedging purposes. 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 EAFE Index (USD) - fourth quarter 2025		Relative contribution (%)
<b>Air Liquide Sa (Eq)</b>	An overweight position in industrial and medical gas supplier Air Liquide (France) detracted from relative results. The stock price declined as the company struggled with margin compression despite maintaining revenue growth momentum, as the industrial gas company faced increased energy costs and raw material price volatility. Operational challenges in key markets and currency translation effects from emerging market exposure weighed on profitability. Investment requirements for energy transition projects and capacity expansion created near-term cash flow pressures that constrained shareholder returns.	-0.3
<b>Tencent Holdings Limited</b>	Shares of internet-based, multiple services company Tencent (China) detracted from relative performance as the company encountered regulatory pressures and competitive gaming market headwinds, while advertising revenue faced challenges from macroeconomic uncertainty. Margin compression from increased AI and cloud infrastructure investment requirements constrained profitability. Fintech regulatory changes limited financial services growth potential while geopolitical tensions created operational complexities.	-0.2
<b>RELX Group</b>	An overweight position in information solutions provider RELX Group (United Kingdom) held back relative performance as the company experienced margin pressure from increased investment requirements in AI and digital transformation initiatives, despite underlying revenue growth momentum. The company faced competitive dynamics in core legal and scientific markets while managing currency headwinds and rising operational costs from technology infrastructure upgrades.	-0.2

## Significant Impacts on Performance - Contributors



Relative to MSCI EAFE Index (USD) - fourth quarter 2025		Relative contribution (%)
<b>NatWest Group PLC</b>	An overweight position in international banking and financial services provider NatWest Group (United Kingdom) contributed to relative returns. The company delivered strong quarterly performance with significant net income growth supported by positive operating leverage. The British bank demonstrated revenue expansion that clearly outpaced operating expense increases, thanks to strong deposit margin performance and effective cost management.	0.3
<b>Roche Holding Ltd</b>	An overweight position in pharmaceutical and diagnostic company Roche Holding (Switzerland) bolstered relative returns as the company maintained strong commercial performance driven by its diversified portfolio of growth products across multiple therapeutic areas. The pharmaceutical company's leading products, including Phesgo and Xolair, generated substantial revenue contributions from all geographic regions.	0.2
<b>Engie Sa</b>	An overweight position in energy-related services provider ENGIE (France) helped relative returns. The company delivered solid operational results supported by sustained revenue expansion and improved efficiency metrics. ENGIE benefited from strong fundamentals across a diversified energy portfolio, with management executing effective cost control and margin enhancement initiatives. A strategic focus on the renewable transition and infrastructure development supported competitive positioning during the period.	0.2

## Significant Transactions



From 01-Oct-25 to 31-Dec-25		Sector	Transaction type	Trade (%)	Ending weight (%)
<b>Purchases</b>	TOTALENERGIES SE	Energy	New position	1.3	1.3
	BANK OF IRELAND GROUP PLC	Financials	New position	0.5	0.6
	SEVEN & I HOLDINGS CO LTD	Consumer Staples	Add	0.4	1.3
	BRITISH AMERICAN TOBACCO PLC	Consumer Staples	Add	0.4	1.7
	NATWEST GROUP PLC	Financials	Add	0.3	1.9
<b>Sales</b>	SUNCOR ENERGY INC	Energy	Eliminate position	-0.7	-
	ESSILORLUXOTTICA SA	Health Care	Trim	-0.6	0.1
	NESTLE SA	Consumer Staples	Trim	-0.5	1.4
	ROLLS-ROYCE HOLDINGS PLC	Industrials	Trim	-0.4	2.3
	SCHNEIDER ELECTRIC SE	Industrials	Trim	-0.3	2.3

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## Sector Weights



As of 31-Dec-25	Portfolio (%)	Benchmark^ (%)	Underweight/overweight(%)	Top holdings
Consumer Discretionary	11.9	9.8	2.1	Cie Financiere Richemont SA, Compass Group PLC, Sony Group Corp
Consumer Staples	9.0	7.4	1.6	British American Tobacco PLC, Nestle SA, Seven & i Holdings Co Ltd
Industrials	20.1	19.2	0.9	Hitachi Ltd, Rolls-Royce Holdings PLC, Schneider Electric SE
Information Technology	9.3	8.4	0.9	Taiwan Semiconductor Manufacturing Co Ltd, SAP SE, Capgemini SE
Energy	3.0	3.1	-0.1	TotalEnergies SE, Eni SpA
Financials	25.2	25.3	-0.1	NatWest Group PLC, BNP Paribas SA, ING Groep NV
Materials	4.9	5.6	-0.7	Air Liquide SA, Shin-Etsu Chemical Co Ltd
Health Care	10.6	11.4	-0.8	Roche Holding AG, Novartis AG, Merck KGaA
Communication Services	3.1	4.4	-1.3	Tencent Holdings Ltd, NetEase Inc
Real Estate	-	1.8	-1.8	
Utilities	1.8	3.7	-1.9	Engie SA

^ MSCI EAFE Index

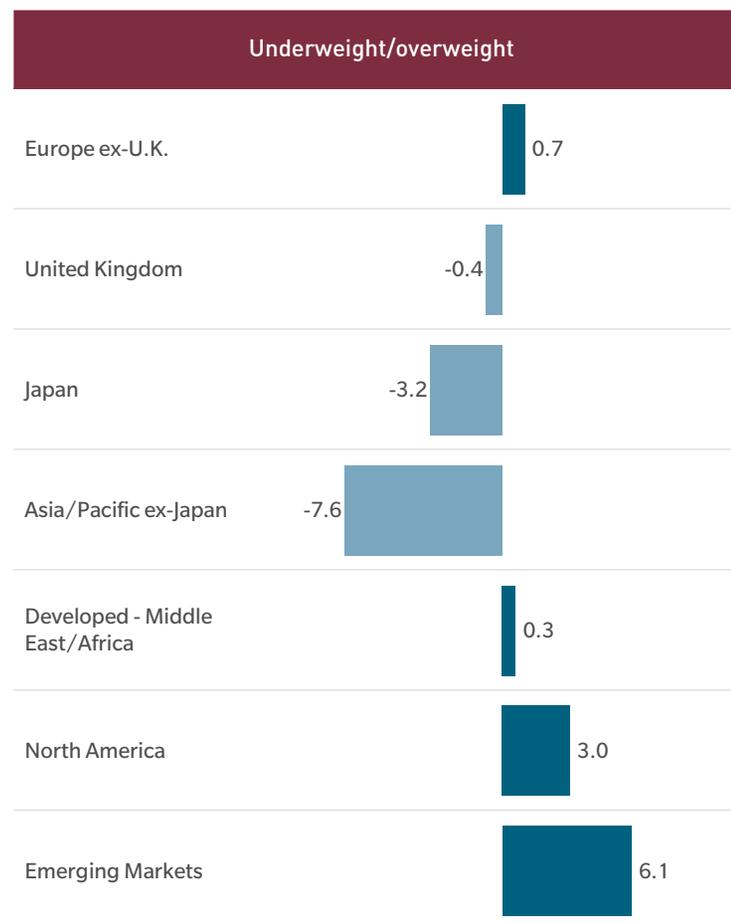
0.9% Cash & Cash Equivalents.

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## Region and Country Weights



As of 31-Dec-25	Portfolio (%)	Benchmark^ (%)	Underweight/overweight(%)
<b>Europe ex-U.K.</b>	<b>52.3</b>	<b>51.6</b>	<b>0.7</b>
France	18.0	10.7	7.3
Ireland	4.0	0.5	3.5
Switzerland	12.5	9.6	2.9
Portugal	0.6	0.2	0.4
Denmark	2.0	1.9	0.1
Finland	1.3	1.2	0.1
Italy	2.8	3.3	-0.5
Germany	7.9	9.7	-1.8
Spain	1.3	3.9	-2.6
Netherlands	1.9	4.9	-3.0
Other countries <sup>1</sup>	0.0	5.7	-5.7
<b>United Kingdom</b>	<b>14.6</b>	<b>15.0</b>	<b>-0.4</b>
<b>Japan</b>	<b>18.9</b>	<b>22.1</b>	<b>-3.2</b>
<b>Asia/Pacific ex-Japan</b>	<b>2.7</b>	<b>10.3</b>	<b>-7.6</b>
Hong Kong	1.5	2.0	-0.5
Singapore	1.2	1.7	-0.5
Other countries <sup>1</sup>	0.0	6.6	-6.6
<b>Developed - Middle East/Africa</b>	<b>1.4</b>	<b>1.1</b>	<b>0.3</b>
Israel	1.4	1.1	0.3
<b>North America</b>	<b>3.0</b>	<b>0.0</b>	<b>3.0</b>
Canada	2.7	0.0	2.7
United States	0.3	0.0	0.3
<b>Emerging Markets</b>	<b>6.1</b>	<b>0.0</b>	<b>6.1</b>
Taiwan	2.8	0.0	2.8
China	2.4	0.0	2.4
India	0.9	0.0	0.9



^ MSCI EAFE Index

0.9% Cash & Cash Equivalents.

<sup>1</sup> The portfolio does not own any securities in countries represented in the benchmark in the following percentages: Australia 6.4%; Sweden 3.7%; Belgium 1.1% and 3 countries with weights less than 1.0% which totals to 1.0%.

# Characteristics



As of 31-Dec-25	Portfolio	Benchmark <sup>^</sup>
<b>Fundamentals - weighted average</b>		
IBES long-term EPS growth <sup>1</sup>	9.7%	10.0%
Price/earnings (12 months forward)	15.7x	15.8x
Return on invested capital	11.3%	10.1%
Long term debt/capital	32.9%	37.1%
<b>Market capitalization</b>		
Market capitalization (USD) <sup>2</sup>	144.3 bn	108.7 bn
<b>Diversification</b>		
Top ten issues	24%	13%
Number of Issues	77	693
<b>Turnover</b>		
Trailing 1 year turnover <sup>3</sup>	23%	—
<b>Risk profile (current)</b>		
Active share	77%	—
<b>Risk/reward (10 year)</b>		
Upside capture	100.26%	—
Downside capture	93.78%	—

<sup>^</sup> MSCI EAFE 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-25	Portfolio (%)	Benchmark^ (%)
ROCHE HOLDING AG	2.8	1.5
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2.8	—
AIR LIQUIDE SA (EQ)	2.5	0.5
HITACHI LTD	2.5	0.7
ROLLS-ROYCE HOLDINGS PLC	2.3	0.6
SCHNEIDER ELECTRIC SE	2.3	0.7
CIE FINANCIERE RICHEMONT SA	2.3	0.6
NOVARTIS AG	2.2	1.3
SAP SE	2.1	1.2
RYANAIR HOLDINGS PLC	2.0	0.1
<b>Total</b>	<b>23.8</b>	<b>7.3</b>

^ MSCI EAFE Index

# Portfolio Outlook and Positioning



## Market Review

After appreciating +4.9%<sup>1</sup> in the fourth quarter, the MSCI EAFE Index (“the Index”) finished 2025 up a jaw-dropping +31.2% — its best calendar year return since the Global Financial Crisis recovery in 2009. The US dollar’s weakest return since 2017<sup>2</sup> contributed meaningfully to this strong performance, as the Index “only” appreciated +20.6% in local currencies. Excluding the currency impact, multiple expansions and earnings growth contributed equally to returns, a notable contrast to the earnings-driven return of the S&P 500 in 2025. More specifically, the forward P/E ratio of the Index increased from 13.9x to 15.8x in 2025. For historical context, as of December 31, 2025, the Index was trading at a one-standard-deviation premium<sup>3</sup> to its long-term average of 13.5x.

Perhaps the most shocking aspect of the 2025 market rally was its resilience despite widespread geopolitical tensions (including the unresolved Russia-Ukraine war, the unexpected Iran-Israel war, and divergent views on Taiwan’s sovereignty), global tariff uncertainties, and weak US and Chinese consumption. Though non-US equity investors largely shrugged off these concerns, the commodity markets did not. Brent crude oil prices, for example, fell significantly in 2025 (from \$75/barrel to \$61/barrel), reflecting a weaker demand environment. Gold prices, meanwhile, spiked in 2025 (from \$2,641/ounce to \$4,341/ounce) as investors searched for a “safe haven” alternative to the normally resilient US dollar.

As is historically the case during sharp market rallies, the least risky assets significantly lagged the Index in 2025. More specifically, the highest-quality stocks in the Index appreciated +23.5%, while the lowest-quality stocks in the Index appreciated +56.8%. This 3,330 basis point delta was roughly three times the magnitude of underperformance that high-quality stocks experienced in the “risk-on” rallies of 2024, 2016, and 2013. Not surprisingly, by year end, the highest-quality stocks looked extremely attractive to us relative to the lowest-quality stocks. Over the past 20 years, the highest-quality stocks have traded, on average, at a 50% premium relative to the lowest-quality stocks. As of December 31, 2025, the highest-quality stocks were trading at a 24% premium, their cheapest relative valuation since the end of the Global Financial Crisis. The highest-quality stocks (+4.8%) only modestly underperformed the lowest-quality stocks (+6.2%) in the Index in the fourth quarter of 2025 after significantly underperforming them during the first nine months of 2025.

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<sup>1</sup> All index returns are net dividends in USD unless specified otherwise

<sup>2</sup> <https://www.marketwatch.com/investing/index/dxy>

<sup>3</sup> FactSet, 20 years ending 12/31/25

## Portfolio Outlook and Positioning



Another eye-popping dichotomy last year was the performance of value and growth stocks. In 2025, the MSCI EAFE Value Index rallied +42.3%, while the MSCI EAFE Growth Index appreciated +20.8%. Nearly half of value's relative outperformance was attributed to banks, the second-best performing industry (+70%) in the Index in 2025. As of December 31, 2025, banks accounted for a whopping 26% of the MSCI EAFE Value Index compared to just 3% of the MSCI EAFE Growth Index. Value stocks (+7.8%) also significantly outperformed growth stocks (+1.9%) in the fourth quarter of 2025.

The strong relative performance of European companies with high European revenue exposure compared to European companies with high international (non-European) revenue exposure also impacted equity returns in 2025. Uncertainty surrounding the potential impact of tariffs on US imports and US dollar weakness both contributed to this divergence. In general, equity markets do not like uncertainty, so it was not surprising to us that investors expressed a preference for domestic-oriented European companies that had less potential exposure to US tariffs. Some domestic-oriented European companies also performed well due to their exposure to increased fiscal spending in Europe.

Financials (+54%), utilities (+48%), and industrials (+38%) were the top performing sectors in 2025. Within financials, banks (+70%) benefited from higher interest rates, which resulted in higher net interest income and returns on equity. Within industrials, aerospace and defense (+78%), buoyed by NATO's commitment to increase defense spending to 3.5% of annual GDP by 2035, performed particularly well. Financials (+8%) and utilities (+10%) also outperformed the Index in the fourth quarter of 2025.

Conversely, consumer discretionary (+15%), health care (+17%), and consumer staples (+20%) were the worst-performing sectors in 2025. Within consumer staples, spirits companies have been challenged by persistently high US inventory levels that originated during the global pandemic, as well as investor concerns that younger generations are drinking less alcohol today than prior generations did. Within health care, pharma (+22%) lagged the Index in 2025 as investors feared US regulatory pressures would lead to lower drug prices. Not surprisingly, consumer staples and health care, typically viewed as more defensive and higher-quality sectors, lagged meaningfully during the high-beta, low-quality rally of 2025. Consumer staples (+4%) also modestly lagged the Index in the fourth quarter of 2025.

Europe ex UK (+37%) and the UK (+35%) had the strongest regional performances in 2025, while Asia/Pacific ex Japan (+21%) and Japan (+25%) lagged. As noted previously, some Europe ex UK companies benefited as investors anticipated higher fiscal spending over the next 5-10 years. Investor concerns over weak Chinese consumption and the potential adverse impact that US tariffs would have on these

## Portfolio Outlook and Positioning



export-heavy economies likely contributed to Asia/Pacific ex Japan's underperformance. Meanwhile, weak demand for Japanese cars, particularly in China, as well as modest domestic demand likely contributed to Japan's underperformance.

Finally, the market's fixation with identifying AI "winners" and "losers" was evident when reviewing industry-level returns in 2025. Investors concluded that electrical equipment companies (+51%), particularly those with direct exposure to the AI data center buildout, and semiconductor companies (+50%) were AI winners, as these were two of the best-performing industries in 2025. Conversely, investors determined that professional services (-11%) and software (-5%) companies that have proprietary data were at risk of disintermediation from emergent competitors and therefore AI losers. These two industries were among the worst-performing industries in 2025. With so many variables (e.g., regulation, adoption rates, productivity gains, monetization possibilities) still unknown regarding this evolving technology, however, it feels a bit premature to bifurcate the market into winners and losers. What seems more evident is that valuations of perceived AI winners have re-rated meaningfully higher and, in some cases, look quite expensive compared to historical trading ranges.

### Portfolio Positioning

As of December 31, 2025, the portfolio's largest overweight sector was consumer discretionary, a heterogeneous sector composed of 10 industries. Our largest active positions included luxury jewelry and watch manufacturer Richemont and food catering company Compass Group. During the year, we initiated a new position in Suzuki Motor, a Japanese auto manufacturer that derives the majority of its earnings from its majority-owned Indian subsidiary, Maruti Suzuki. The portfolio's second-largest overweight sector was consumer staples. Our largest active positions included beer and soft drinks producer Carlsberg and skin products manufacturer Beiersdorf. During the year, we initiated a new position in British American Tobacco, a tobacco manufacturer that has significantly diversified its portfolio away from combustibles and towards smoke-free products, and we eliminated our existing position in spirits producer Diageo over concerns that persistently high US inventory levels would continue to impact volumes for the foreseeable future.

The portfolio's largest underweight sectors were utilities and real estate, two sectors we have been consistently underweight for the past five years. We have not traditionally owned real estate companies because they typically generate low returns and trade at expensive valuations due to the perceived safety and duration of their cash flows. Additionally, some real estate companies have faced greater challenges in recent years due to rising interest rates and more complex leasing arrangements. We have consistently been

## Portfolio Outlook and Positioning



underweight utilities because they are highly regulated and capital intensive, which leads to lower returns on capital and slower earnings growth than other sectors.

In 2025, we meaningfully increased our exposure to select European banks. In April, we initiated new positions in BNP Paribas (France) and NatWest Group (United Kingdom). In October, we initiated a new position in Bank of Ireland. While European banks have significantly outperformed the Index and re-rated over the past few years, the lowest-quality banks (e.g., sub-scale banks operating across many highly fragmented and competitive markets; banks with less exposure to higher ROEs, more stable businesses like wealth management) have re-rated significantly as higher interest rates have resulted in higher net interest income. While we believe many European banks today are generating peak returns, we do not believe the banks we own in the portfolio are.

As noted above, many investors became fixated on perceived AI winners and losers in 2025, despite many variables that remain unknown regarding this evolving technology. During the year, we took advantage of this volatility by trimming perceived AI winners, including Hitachi and Schneider Electric, whose valuations looked expensive relative to history. Conversely, we added to some of the perceived AI losers, including Experian, RELX, Amadeus IT, and Check Point Software, whose valuations we believe looked attractive relative to history. We fully expect investors to remain focused on AI in 2026 and will similarly look to take advantage of market dislocations when they present themselves.

Our most significant fourth-quarter transactions included:

- Initiating a position in TotalEnergies (France), one of the largest integrated energy companies. We believe TotalEnergies can grow production volumes 3-4% over the next five years, which would be among the highest growth rates of European integrated energy companies. TotalEnergies has a strong liquified natural gas (LNG) business and a profitable renewables business. We expect TotalEnergies to significantly increase free cash flow in the coming years.
- Initiating a position in Bank of Ireland Group, the second-largest bank in Ireland. Though many European banks today have reached peak returns, we do not think this is the case for Bank of Ireland Group, which has the potential to meaningfully increase its return on tangible equity over the next three years. We are forecasting mid-single-digit loan and revenue growth for this well-capitalized bank.

## Portfolio Outlook and Positioning



- Exiting our position in Suncor Energy (Canada), the largest oil sands producer, in order to fund our new position in TotalEnergies. We believe that going forward, Suncor Energy will have lower production volume growth and free cash flow generation than TotalEnergies.

### Market Outlook

After appreciating +31.2% in 2025, the Index was trading at 15.8x as of December 31, 2025, a significant premium to its long-term average of 13.5x, with investors forecasting 10.3% earnings growth for 2026. Despite this optimism, the International Monetary Fund (IMF) struck a more cautious tone in its October 2025 *World Economic Outlook*. More specifically, the IMF noted that the US effective tariff rate remains high (19%), which could negatively impact global growth going forward. Additionally, the IMF expressed concern over China's weak economy and rising public debt levels. AI productivity gains and lower interest rates might alleviate some of these concerns, however, and current valuation levels suggest a very positive outlook going forward.

The portfolio continues to be managed with a high-quality bias despite the massive outperformance of low-quality stocks in 2025 and over the past three and five years. We believe the portfolio's high-quality bias is likely to be rewarded sooner than later since, at year end, high-quality stocks were trading at their smallest valuation premium compared to low-quality stocks since the end of the Global Financial Crisis. While it is difficult to predict when high-quality stocks will regain leadership or what the catalyst will be that causes high-quality stocks to regain leadership, we believe the low-quality trade has largely played itself out and high-quality stocks look very attractively priced today.

In this strategy, rather than speculate on binary or unpredictable outcomes, we instead take advantage of short-term market dislocations by adding or trimming to existing positions based on relative valuations. We believe this approach has historically been effective in various market environments and should serve us well given the elevated macroeconomic and geopolitical uncertainty today. As 2026 begins, we will continue to invest in high-quality companies that we believe can grow earnings faster than the overall market over the long-term, while maintaining our strong valuation discipline.

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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-25	Country	Equivalent exposure (%)
<b>Cash &amp; Cash Equivalents</b>		<b>0.9</b>
Cash & Cash Equivalents		0.9
<b>Communication Services</b>		<b>3.1</b>
Tencent Holdings Ltd	China	1.3
NetEase Inc	China	1.0
LY Corp	Japan	0.8
<b>Consumer Discretionary</b>		<b>11.9</b>
Cie Financiere Richemont SA	Switzerland	2.3
Compass Group PLC	United Kingdom	1.9
Sony Group Corp	Japan	1.7
LVMH Moet Hennessy Louis Vuitton SE	France	1.7
Amadeus IT Group SA	Spain	1.3
Denso Corp	Japan	1.0
Suzuki Motor Corp	Japan	1.0
Cie Generale des Etablissements Michelin SCA	France	0.6
ZOZO Inc	Japan	0.5
<b>Consumer Staples</b>		<b>9.0</b>
British American Tobacco PLC	United Kingdom	1.7
Nestle SA	Switzerland	1.4
Seven & i Holdings Co Ltd	Japan	1.3
Carlsberg AS	Denmark	1.2
Beiersdorf AG	Germany	1.2
Tesco PLC	United Kingdom	1.1
Pernod Ricard SA	France	0.9
Kose Corp	Japan	0.2
<b>Energy</b>		<b>3.0</b>
TotalEnergies SE	France	1.3
Eni SpA	Italy	1.1
Galp Energia SGPS SA	Portugal	0.6
<b>Financials</b>		<b>25.2</b>
NatWest Group PLC	United Kingdom	1.9
BNP Paribas SA	France	1.9
ING Groep NV	Netherlands	1.9

As of 31-Dec-25	Country	Equivalent exposure (%)
<b>Financials</b>		<b>25.2</b>
Deutsche Boerse AG	Germany	1.8
UBS Group AG	Switzerland	1.7
Intesa Sanpaolo SpA	Italy	1.7
Sumitomo Mitsui Financial Group Inc	Japan	1.6
Zurich Insurance Group AG	Switzerland	1.6
AIA Group Ltd	Hong Kong	1.5
AIB Group PLC	Ireland	1.4
Sompo Holdings Inc	Japan	1.4
Toronto-Dominion Bank	Canada	1.2
DBS Group Holdings Ltd	Singapore	1.2
London Stock Exchange Group PLC	United Kingdom	1.1
Prudential PLC	United Kingdom	0.8
Intact Financial Corp	Canada	0.7
Bank of Ireland Group PLC	Ireland	0.6
HDFC Bank Ltd	India	0.6
Edenred SE	France	0.5
<b>Health Care</b>		<b>10.6</b>
Roche Holding AG	Switzerland	2.8
Novartis AG	Switzerland	2.2
Merck KGaA	Germany	1.5
Olympus Corp	Japan	0.9
Novo Nordisk AS	Denmark	0.8
QIAGEN NV	Germany	0.8
Terumo Corp	Japan	0.6
Sonova Holding AG	Switzerland	0.5
Hoya Corp	Japan	0.5
EssilorLuxottica SA	France	0.1
<b>Industrials</b>		<b>20.1</b>
Hitachi Ltd	Japan	2.5
Rolls-Royce Holdings PLC	United Kingdom	2.3
Schneider Electric SE	France	2.3
Ryanair Holdings PLC ADR	Ireland	2.0

## Portfolio Holdings



As of 31-Dec-25	Country	Equivalent exposure (%)
<b>Industrials</b>		<b>20.1</b>
Mitsubishi Electric Corp	Japan	1.8
Experian PLC	United Kingdom	1.5
Cie de St-Gobain	France	1.5
RELX PLC	United Kingdom	1.4
Kone Oyj	Finland	1.3
Daikin Industries Ltd	Japan	1.1
Legrand SA	France	1.0
Canadian National Railway Co	Canada	0.9
MTU Aero Engines AG	Germany	0.6
<b>Information Technology</b>		<b>9.3</b>
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	2.8
SAP SE	Germany	2.1
Capgemini SE	France	1.4
Check Point Software Technologies Ltd	Israel	1.4
FUJIFILM Holdings Corp	Japan	0.8
Dassault Systemes SE	France	0.4
Tata Consultancy Services Ltd	India	0.4
<b>Materials</b>		<b>4.9</b>
Air Liquide SA	France	2.5
Shin-Etsu Chemical Co Ltd	Japan	1.3
Rio Tinto PLC	United Kingdom	0.8
Linde PLC	United States	0.3
<b>Utilities</b>		<b>1.8</b>
Engie SA	France	1.8

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