

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **1995-02-22**
SEC Accession No. **0000950156-95-000047**

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FILER

MFS MUNICIPAL SERIES TRUST

CIK: **751656** | Fiscal Year End: **0131**

Type: **485BPOS** | Act: **33** | File No.: **002-92915** | Film No.: **95514138**

Mailing Address
*500 BOYLSTON STREET
BOSTON MA 02116*

Business Address
*500 BOYLSTON ST
BOSTON MA 02116
6179545000*

As filed with the Securities and Exchange Commission on February 22, 1995

1933 Act File No. 2-92915
1940 Act File No. 811-4096

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

POST-EFFECTIVE AMENDMENT NO. 26

AND
REGISTRATION STATEMENT
UNDER
THE INVESTMENT COMPANY ACT OF 1940

AMENDMENT NO. 27

MFS MUNICIPAL SERIES TRUST
(Exact Name of Registrant as Specified in Charter)

500 Boylston Street, Boston, Massachusetts 02116
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (617) 954-5000
Stephen E. Cavan, Massachusetts Financial Services Company
500 Boylston Street, Boston, Massachusetts 02116
(Name and Address of Agent for Service)

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

It is proposed that this filing will become effective (check appropriate box)

- immediately upon filing pursuant to paragraph (b)
 on [date] pursuant to paragraph (b)
 60 days after filing pursuant to paragraph (a) (i)
 on [date] pursuant to paragraph (a) (i)
 75 days after filing pursuant to paragraph (a) (ii)
 on [date] pursuant to paragraph (a) (ii) of rule 485.

If appropriate, check the following box:

- this post-effective amendment designates a new effective date for a previously filed post-effective amendment

Pursuant to Rule 24f-2, the Registrant has registered an indefinite number of its Shares of Beneficial Interest (without par value), under the Securities Act of 1933. The Registrant filed a Rule 24f-2 Notice on behalf of all of its series for its fiscal year ended March 31, 1994 on May 26, 1994.

=====

MFS MUNICIPAL SERIES TRUST

MFS MUNICIPAL INCOME FUND

CROSS REFERENCE SHEET

(Pursuant to Rule 404 showing location in Prospectus and/or Statement of Additional Information of the responses to the Items in Parts A and B of Form N-1A)

| ITEM NUMBER FORM N-1A, PART A | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
|----------------------------------|--------------------|---|
| 1 (a), (b) | Front Cover Page | * |
| 2 (a) | Expense Summary | * |

| | | | |
|---|----------|---|----|
| | (b), (c) | * | * |
| 3 | (a) | Condensed Financial Information | * |
| | (b) | * | * |
| | (c) | Information Concerning Shares of the Fund - Performance Information | * |
| | (d) | Condensed Financial Information | * |
| 4 | (a) | The Fund; Investment Objectives and Policies | * |
| | (b), (c) | Investment Objectives and Policies; Investment Techniques | ** |
| 5 | (a) | The Fund; Management of the Fund - Investment Adviser | * |
| | (b) | Front Cover Page; Management of the Fund - Investment Adviser; | * |

| | | |
|----------------------------------|--------------------|---|
| ITEM NUMBER FORM N-1A, PART A | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
|----------------------------------|--------------------|---|

| | | | |
|----|---------------|--|----|
| | | Back Cover Page | |
| | (c) | Management of the Fund | * |
| | (d) | * | * |
| | (e) | Back Cover Page | * |
| | (f) | Condensed Financial Information; Expense Summary | * |
| | (g) | Investment Techniques - Portfolio Trading | * |
| 5A | (a), (b), (c) | ** | ** |
| 6 | (a) | Information Concerning Shares of the Fund - Description of Shares, Voting Rights and Liabilities; Information Concerning Shares of the Fund - Redemptions and Repurchases; Information Concerning Shares of the Fund - Purchases | * |
| | (b), (c), (d) | * | * |
| | (e) | Shareholder Services | * |
| | (f) | Information Concerning Shares of the Fund - Distributions; Shareholder Services - Distribution Options | * |
| | (g) | Information Concerning Shares of the Fund - Tax Status; Information Concerning Shares of the Fund - Distributions | * |

| ITEM NUMBER FORM N-1A, PART A | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
|----------------------------------|--|---|
| 7 (a) | Front Cover Page; Management of the Fund - Distributor; Back Cover Page | * |
| (b) | Information Concerning Shares of the Fund - Purchases; Information Concerning Shares of the Fund - Net Asset Value | * |
| (c) | Information Concerning Shares of the Fund - Purchases; Information Concerning Shares of the Fund - Exchanges; Shareholder Services | * |
| (d) | Front Cover Page; Information Concerning Shares of the Fund - Purchases; Shareholder Services | * |
| (e) | Information Concerning Shares of the Fund - Distribution Plans; Expense Summary | * |
| (f) | Information Concerning Shares of the Fund - Distribution Plans | * |
| 8 (a) | Information Concerning Shares of the Fund - Redemptions and Repurchases; Information Concerning Shares of the Fund - Purchases; Shareholder Services | * |
| (b), (c), (d) | Information Concerning Shares of the Fund - Redemptions and Repurchases | * |
| 9 | * | * |

| ITEM NUMBER FORM N-1A, PART A | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
|----------------------------------|--------------------|--|
| 10 (a), (b) | * | Front Cover Page |
| 11 | * | Front Cover Page |
| 12 | * | Definitions |
| 13 (a) | * | Investment Techniques |
| (b) | * | Investment Restrictions |
| (c) | * | Investment Techniques; Investment Restrictions |
| (d) | * | * |
| 14 (a), (b) | * | Management of the Fund - Trustees and Officers |
| (c) | * | Management of the Fund - Trustees and Officers; Appendix A |
| 15 (a) | * | * |

| | | | |
|----------------------------------|----------|--|---|
| | (b), (c) | * | Management of the Fund - Trustees and Officers |
| 16 | (a) | | Management of the Fund - Investment Adviser |
| | (b) | | Management of the Fund - Investment Adviser |
| | (c) | * | * |
| | (d) | * | Management of the Fund - Investment Adviser |
| | (e) | * | Portfolio Transactions and Brokerage Commissions |
| ITEM NUMBER FORM N-1A, PART A | | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
| | (f) | Information Concerning Shares of the Fund Distribution Plans | Distribution Plans |
| | (g) | * | * |
| | (h) | * | Management of the Fund - Custodian; Independent Accountants and Financial Statements; Back Cover Page |
| | (i) | * | Management of the Fund - Shareholder Servicing Agent |
| 17 | (a) | * | Portfolio Transactions and Brokerage Commissions |
| | (b) | * | * |
| | (c), (d) | * | Portfolio Transactions and Brokerage Commissions |
| | (e) | * | * |
| 18 | (a) | Information Concerning Shares of the Fund - Description of Shares, Voting Rights and Liabilities | Description of Shares Voting Rights and Liabilities |
| | (b) | * | * |
| 19 | (a) | Information Concerning Shares of the Fund - Purchases; Shareholder Services | Shareholder Services |
| | (b) | Information Concerning Shares of the Fund - Net Asset Value; Information Concerning Shares of the Fund - Purchases | Management of the Fund - Distributor; Determination of Net Asset Value and Performance Information |

| ITEM NUMBER FORM N-1A, PART A | PROSPECTUS CAPTION | STATEMENT OF ADDITIONAL INFORMATION |
|----------------------------------|--------------------|---|
| 20 | * | Tax Status |
| 21 | (a), (b) * | Management of the Fund - Distributor; Distribution Plans |
| | (c) * | * |
| 22 | (a) * | * |
| | (b) * | Determination of Net Asset Value and Performance Information |
| 23 | * | Independent Accountants and Financial Statements |

 * Not Applicable
 ** Contained in Annual Report

PROSPECTUS
 March 1, 1995
 MFS (R) MUNICIPAL INCOME FUND
 (A member of the MFS Family of Funds(R))

| |
|---------------------------------------|
| Class A Shares of Beneficial Interest |
| Class B Shares of Beneficial Interest |
| Class C Shares of Beneficial Interest |

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

MFS MUNICIPAL INCOME FUND 500 Boylston Street, Boston, MA 02116 (617) 954-5000

The investment objective of MFS Municipal Income Fund (the "Fund") is to provide as high a level of current income exempt from federal income taxes as is considered consistent with prudent investing while seeking protection of

shareholders' capital. The Fund is a diversified series of MFS Municipal Series Trust (the "Trust"), an open-end management investment company. THE FUND WILL INVEST UP TO ONE-THIRD OF ITS ASSETS IN LOWER RATED BONDS, COMMONLY KNOWN AS "JUNK BONDS" THAT ENTAIL GREATER RISKS, INCLUDING DEFAULT RISKS, THAN THOSE FOUND IN HIGHER RATED SECURITIES. INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS BEFORE INVESTING (see "Investment Objective and Policies"). The minimum initial investment generally is \$1,000 per account (see "Purchases").

The Fund's investment adviser and distributor are Massachusetts Financial Services Company ("MFS") and MFS Fund Distributors, Inc. ("MFD"), respectively, both of which are located at 500 Boylston Street, Boston, Massachusetts 02116.

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK AND THE SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY.

This Prospectus sets forth concisely the information concerning the Trust and the Fund that a prospective investor ought to know before investing. The Trust, on behalf of the Fund, has filed with the Securities and Exchange Commission (the "SEC") a Statement of Additional Information, dated March 1, 1995, which contains more detailed information about the Trust and the Fund and is incorporated into this Prospectus by reference. See page 28 for a further description of the information set forth in the Statement of Additional Information. A copy of the Statement of Additional Information may be obtained without charge by contacting the Shareholder Servicing Agent (see back cover for address and phone number).

INVESTORS SHOULD READ THIS PROSPECTUS AND RETAIN IT FOR FUTURE REFERENCE.

1. EXPENSE SUMMARY

SHAREHOLDER TRANSACTION EXPENSES:

<TABLE>

<CAPTION>

| | CLASS A ----- | CLASS B ----- | CLASS C ----- |
|--|------------------|------------------|------------------|
| <S> | <C> | <C> | <C> |
| Maximum Initial Sales Charge Imposed on Purchases of Fund Shares (as a percentage of offering price) | 4.75% | 0.00% | 0.00% |
| Maximum Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable) See Below<F1> | | 4.00%<F2> | 0.00% |
| ANNUAL OPERATING EXPENSES OF THE FUND (AS A PERCENTAGE OF AVERAGE NET ASSETS): | | | |
| Management Fees | 0.75% | 0.75% | 0.75% |
| Rule 12b-1 Fees | 0.00%<F3> | 1.00%<F4> | 1.00%<F4> |
| Other Expenses | 0.30% | 0.37% | 0.30%<F5> |
| | ---- | ---- | ---- |
| Total Operating Expenses | 1.05% | 2.12% | 2.05% |

<FN>

- - - - -

<F1> Purchases of \$1 million or more are not subject to an initial sales charge; however, a contingent deferred sales charge (a "CDSC") of 1% will be imposed on such purchases in the event of certain redemption transactions within 12 months following such purchases (see "Purchases" below).

<F2> Class B shares purchased prior to September 1, 1993 will be subject to a CDSC of 5% in the event of a redemption within the first year after purchase.

<F3> The Fund has adopted a Distribution Plan for its Class A shares in accordance with Rule 12b-1 under the Investment Company Act of 1940, as amended (the "1940 Act"), which provides that it will pay distribution/service fees aggregating up to (but not necessarily all of) 0.35% per annum of the average daily net assets attributable to the Class A shares (see "Distribution Plans" below). Payments under the Class A Distribution Plan will become payable on the date on which the value of the net assets of the Fund attributable to Class A shares first equals or exceeds \$40 million. Thereafter, 0.10% of the distribution/service fee will be waived. After a substantial period of time, distribution expenses paid under this Plan, together with the initial sales charge, may total more than the maximum sales charge that would have been permissible if imposed entirely as an initial sales charge.

<F4> The Fund has adopted separate Distribution Plans for its Class B and its Class C shares in accordance with Rule 12b-1 under the 1940 Act, which provide that it will pay distribution/service fees aggregating up to (but not necessarily all of) 1.00% per annum of the average daily net assets attributable to the Class B shares under the Class B Distribution Plan and the Class C shares under the Class C Distribution Plan (see "Distribution Plans" below). After a substantial period of time, distribution expenses paid under these Plans, together with any CDSC payable upon redemption of Class B shares, may total more than the maximum sales charge that would have been permissible if imposed entirely as an initial sales charge.

<F5> Except for the shareholder servicing agent fees component, "Other Expenses"

is based on Class A expenses incurred during the fiscal year ended March 31, 1994. The shareholder servicing agent fee component of "Other Expenses" is a predetermined percentage based upon the Fund's net assets attributable to each class.

</FN>
</TABLE>

EXAMPLE OF EXPENSES

An investor would pay the following dollar amounts of expenses on a \$1,000 investment in the Fund, assuming (a) a 5% annual return and (b) redemption at the end of each of the time periods indicated (unless otherwise noted):

<TABLE>
<CAPTION>

| PERIOD | CLASS A | CLASS B | | CLASS C |
|----------------|---------|---------|---------|---------|
| ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| | | | <F1> | |
| 1 year | \$ 58 | \$ 62 | \$ 22 | \$ 21 |
| 3 years | 79 | 96 | 66 | 64 |
| 5 years | 103 | 134 | 114 | 110 |
| 10 years | 170 | 218<F2> | 218<F2> | 238 |

<FN>

<F1> Assumes no redemption.
<F2> Class B shares convert to Class A shares approximately eight years after purchase; therefore, years nine and ten reflect Class A expenses.

</FN>
</TABLE>

The purpose of the expense table above is to assist investors in understanding the various costs and expenses that a shareholder of the Fund will bear directly or indirectly. More complete descriptions of the following Fund expenses are set forth in the following sections of the Prospectus: (i) varying sales charges on share purchases -- "Purchases"; (ii) varying CDSCs -- "Purchases"; (iii) management fees -- "Management of the Fund -- Investment Adviser"; and (iv) Rule 12b-1 (i.e., distribution plan) fees -- "Distribution Plans."

THE "EXAMPLE" SET FORTH ABOVE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OF THE FUND; ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

2. THE FUND

The Fund is a diversified series of the Trust, an open-end management investment company which was organized as a business trust under the laws of The Commonwealth of Massachusetts in 1984. The Trust presently consists of 19 series of shares, each of which represents a portfolio with separate investment policies. Shares of the Fund are continuously sold to the public and the Fund buys securities for its portfolio. Three classes of shares of the Fund currently are offered to the general public. Class A shares are offered at net asset value plus an initial sales charge (or a CDSC in the case of certain purchases of \$1 million or more) and subject to a Distribution Plan providing for an annual distribution fee and service fee. Class B shares are offered at net asset value without an initial sales charge but subject to a CDSC and a Distribution Plan providing for an annual distribution fee and service fee which are greater than the Class A distribution fee and service fee. Class B shares will convert to Class A shares approximately eight years after purchase. Class C shares are offered at net asset value without an initial sales charge or a CDSC but subject to a Distribution Plan providing for an annual distribution fee and service fee which are equal to the Class B annual distribution fee and service fee. Class C shares do not convert to any other class of shares of the Fund.

The Trust's Board of Trustees provides broad supervision over the affairs of the Fund. A majority of the Trustees are not affiliated with the Adviser. The Adviser is responsible for the management of the Fund's assets and the officers of the Trust are responsible for the Fund's operations. The Adviser manages the portfolio from day to day in accordance with the Fund's investment objective and policies. The selection of investments and the way they are managed depend on the conditions and trends in the economy and the financial marketplaces. The Fund also offers to buy back (redeem) its shares from its shareholders at any time at net asset value, less any applicable CDSC.

3. CONDENSED FINANCIAL INFORMATION

The following information should be read in conjunction with the financial statements included in the Fund's Annual and Semi-Annual Reports to shareholders which are incorporated by reference into the Statement of Additional Information in reliance upon the report of Deloitte & Touche, independent certified public accountants, as experts in accounting and auditing.

<TABLE>

FINANCIAL HIGHLIGHTS
CLASS A, CLASS B AND CLASS C SHARES

<CAPTION>

| | SIX MONTHS ENDED SEPTEMBER 30, 1994 CLASS A | FOUR MONTHS ENDED MARCH 31, 1994 | PERIOD ENDED NOVEMBER 30, 1993<F1> | SIX MONTHS ENDED SEPTEMBER 30, 1994 CLASS B | FOUR MONTHS ENDED MARCH 31, 1994 | YEAR ENDED NOVEMBER 30, 1993 |
|--|---|---|---|---|---|------------------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| PER SHARE DATA (FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD): | | | | | | |
| Net asset value -- beginning of period | \$ 8.56 | \$ 8.99 | \$ 9.15 | \$ 8.56 | \$ 8.99 | \$ 8.73 |
| Income from investment operations<F4>-- | | | | | | |
| Net investment income | \$ 0.26 | \$ 0.15 | \$ 0.12 | \$ 0.22 | \$ 0.14 | \$ 0.42 |
| Net realized and unrealized gain (loss) on investments | (0.10) | (0.51) | (0.16) | (0.11) | (0.51) | 0.42 |
| Total from investment operations | | | | | | |
| Less distributions declared to shareholders -- | \$ 0.16 | \$ (0.36) | \$ (0.04) | \$ 0.11 | \$ (0.37) | \$ 0.84 |
| From net investment income | \$ (0.26) | \$ (0.02) | \$ (0.11) | \$ (0.19) | \$ (0.01) | \$ (0.45) |
| In excess of net investment income- | -- | -- | (0.01) | (0.02) | -- | (0.03) |
| From net realized gains | -- | (0.01) | -- | -- | (0.01) | (0.10) |
| In excess of net realized gains | -- | (0.04) | -- | -- | (0.04) | -- |
| Total distributions declared to shareholders | \$ (0.26) | \$ (0.07) | \$ (0.12) | \$ (0.21) | \$ (0.06) | \$ (0.58) |
| Net asset value -- end of period | \$ 8.46 | \$ 8.56 | \$ 8.99 | \$ 8.46 | \$ 8.56 | \$ 8.99 |
| TOTAL RETURN<F2> | 1.85% | (7.90)%<F3> | (1.80)%<F3> | 1.31% | (8.97)%<F3> | 9.95% |
| RATIOS (TO AVERAGE NET ASSETS)/SUPPLEMENTAL DATA: | | | | | | |
| Expenses | 1.05%<F3> | 1.07%<F3> | 0.76%<F3> | 2.12%<F3> | 2.24%<F3> | 2.11% |
| Net investment income | 6.16%<F3> | 5.31%<F3> | 4.94%<F3> | 5.10%<F3> | 4.74%<F3> | 4.92% |
| PORTFOLIO TURNOVER | 9% | 9% | 30% | 9% | 9% | 30% |
| NET ASSETS AT END OF PERIOD (000 OMITTED) | \$ 7,350 | \$ 5,595 | \$ 461 | \$ 447,603 | \$ 479,478 | \$ 518,179 |

<FN>

<F1>For the period from the commencement of offering of Class A shares, September 7, 1993 to November 30, 1993.

<F2>Total returns do not include the sales charge. If the sales charge had been included, the results would have been lower.

<F3>Annualized.

<F4>For periods subsequent to November 30, 1993, per share data is based on average shares outstanding.

</TABLE>

<TABLE>

FINANCIAL HIGHLIGHTS
CLASS A, CLASS B AND CLASS C SHARES

<CAPTION>

| | YEAR ENDED 1992 CLASS B | NOVEMBER 30, 1991 | 1990 | 1989 | 1988 | 1987<F1> | SIX MONTHS ENDED SEPTEMBER 30, 1994 CLASS C | PERIOD ENDED MARCH 31, 1994<F2> |
|--|-------------------------------|----------------------|------------|------------|------------|-----------|---|---------------------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| PER SHARE DATA (FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD): | | | | | | | | |
| Net asset value -- beginning of period | \$ 8.50 | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 | \$ 8.47 | \$ 8.56 | \$ 9.07 |
| Income from investment operations<F4>-- | | | | | | | | |
| Net investment income | \$ 0.47 | \$ 0.49 | \$ 0.49 | \$ 0.51 | \$ 0.50 | \$ 0.38 | \$ 0.22 | \$ 0.09 |
| Net realized and unrealized gain (loss) on investments | 0.26 | 0.25 | (0.15) | 0.30 | 0.43 | (0.83) | (0.09) | (0.59) |
| Total from investment operations | \$ 0.73 | \$ 0.74 | \$ 0.34 | \$ 0.81 | \$ 0.93 | \$ (0.45) | \$ 0.13 | \$ (0.50) |
| Less distributions declared to shareholders -- | | | | | | | | |
| From net investment income | \$ (0.48) | \$ (0.49) | \$ (0.50) | \$ (0.51) | \$ (0.49) | \$ (0.35) | \$ (0.22) | \$ (0.01) |
| From paid-in capital | \$ (0.02) | -- | -- | -- | -- | -- | -- | -- |
| Total distributions declared to shareholders | \$ (0.50) | \$ (0.49) | \$ (0.50) | \$ (0.51) | \$ (0.49) | \$ (0.35) | -- | -- |
| Net asset value -- end of period | \$ 8.73 | \$ 8.50 | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 | \$ 8.47 | \$ 8.56 |
| TOTAL RETURN | 8.82% | 9.21% | 4.18% | 10.24% | 12.53% | (5.79)% | 1.45% | (19.42)%<F3> |
| RATIOS (TO AVERAGE NET ASSETS)/SUPPLEMENTAL DATA: | | | | | | | | |
| Expenses | 2.03% | 2.04% | 2.05% | 2.07% | 2.09% | 2.03%<F3> | 2.05%<F3> | 2.18%<F3> |
| Net investment income | 5.50% | 5.82% | 5.99% | 6.09% | 6.38% | 6.00%<F3> | 5.13%<F3> | 4.62%<F3> |
| PORTFOLIO TURNOVER | 52% | 73% | 91% | 127% | 171% | 138% | 9% | 9% |
| NET ASSETS AT END OF PERIOD(000 OMITTED) | \$ 449,949 | \$ 409,084 | \$ 379,239 | \$ 343,887 | \$ 244,825 | \$ 183,93 | \$ 10,221 | \$ 6,393 |

<FN>

<F1>For the period from the commencement of investment operations, December 29, 1986 to November 30, 1987.

<F2>For the period from the commencement of offering of Class C shares, January 3, 1994 to March 31, 1994.
<F3>Annualized.
<F4>For periods subsequent to November 30, 1993, per share data is based on average shares outstanding.
</TABLE>

4. INVESTMENT OBJECTIVE AND POLICIES

The Fund seeks to provide as high a level of current income exempt from federal income taxes as is considered consistent with prudent investing and protection of shareholders' capital. As a matter of fundamental policy, the Fund seeks to achieve its investment objective by investing primarily (i.e., at least 80% of its assets under normal circumstances) in debt securities issued by or on behalf of states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies or instrumentalities, the interest on which is exempt from federal income tax ("Municipal Bonds" or "tax-exempt securities").

Under normal market conditions, substantially all of the Fund's assets will be invested in:

- (i) tax-exempt securities which are rated AAA, AA or A by Standard & Poor's Ratings Group ("S&P"), or by Fitch Investors Service, Inc. ("Fitch") or are rated Aaa, Aa or A by Moody's Investors Service, Inc. ("Moody's");
- (ii) notes of issuers having an issue of outstanding Municipal Bonds rated AAA, AA or A by S&P or by Fitch or Aaa, Aa or A by Moody's or which are guaranteed by the U.S. Government;
- (iii) obligations issued or guaranteed by the U.S. Government or its agencies, authorities or instrumentalities;
- (iv) commercial paper, obligations of banks (including certificates of deposit, bankers' acceptances and repurchase agreements) with \$1 billion or more of assets, and cash; and/or
- (v) tax-exempt securities which are not rated or which are rated lower than the three highest grades of S&P, Fitch or Moody's, provided that not more than one-third of the total assets of the Fund will be invested in such securities.

Interest income from the investments described in paragraphs (iii) and (iv) above may be taxable to shareholders as ordinary income. In addition, the Fund may purchase municipal obligations the interest on which may be subject to an alternative minimum tax (for purposes of this Prospectus, the interest thereon is nonetheless considered to be tax-exempt). For a description of ratings of S&P, Fitch and Moody's of Municipal Bonds, see Appendix A to this Prospectus. See Appendix B for a description of U.S. Government obligations and short-term investments. For a comparison of yields on Municipal Bonds and taxable securities, see the Taxable Equivalent Yield Table in Appendix C to this Prospectus. For a chart indicating the composition of the bond portion of the Fund's portfolio for its fiscal year ended January 31, 1995, with the debt securities separated into rating categories, see Appendix D to this Prospectus (see "Investment Objective and Policies -- Risk Factors of Lower Rated Securities" below for a description of the risks involved in investing in these lower rated fixed income securities).

Although higher quality tax-exempt securities held by the Fund may produce lower yields, they are generally more marketable.

The securities in which the Fund may invest also include zero coupon bonds (see "Investment Techniques -- Zero Coupon Bonds" below) and securities purchased on a "when-issued" or on a "forward delivery" basis (see "Investment Techniques -- When Issued Securities" below). The Fund may also invest in variable and floating rate obligations and inverse floating rate obligations (see "Investment Techniques -- Variable and Floating Rate Obligations" and -- "Inverse Floating Rate Obligations"). In addition, the Fund may write covered call and put options and purchase call and put options, including warrants, on fixed income securities, primarily for hedging purposes and also in an effort to increase current income (see "Investment Techniques -- Options" below). The Fund may also purchase and sell interest rate futures contracts on fixed income securities and indexes of such securities and may write and purchase options thereon for hedging purposes and for non-hedging purposes, subject to applicable law (see "Investment Techniques -- Futures Contracts and Options on Futures Contracts" below). Gains recognized from options and futures transactions engaged in by the Fund are taxable income to shareholders.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on Municipal Bonds. See "Tax Status" below for the effect of current federal tax law on this exemption.

There is no formula as to the percentage of assets that may be invested in any one type of security. Cash, short-term obligations, repurchase agreements or other forms of debt securities are held to provide a reserve for future purchases of securities. Subject to tax requirements, portfolio changes are made without regard to the length of time a security has been held, or whether a sale would result in a profit or loss.

ADDITIONAL INFORMATION AS TO INVESTMENT OBJECTIVE AND POLICIES

FIXED INCOME SECURITIES -- When and if available, the Fund may purchase fixed income securities at a discount from face value. However, the Fund does not intend to hold such securities to maturity for the purpose of achieving potential capital gains, unless current yields on these securities remain attractive.

CHARACTERISTICS OF MUNICIPAL BONDS -- The Fund may invest its assets in a relatively high percentage of Municipal Bonds issued by entities having similar characteristics. The issuers may pay their interest obligations from revenue of similar projects such as multi-family housing, nursing homes, electric utility systems, hospitals or life care facilities. This may make the Fund more susceptible to similar economic, political or regulatory occurrences. As the similarity in issuers increases, the potential for fluctuation of the net asset value of the Fund's shares also increases. The Fund will only invest in securities of issuers which it believes will make timely payments of interest and principal.

The Fund may invest more than 25% of its assets in industrial revenue bonds (referred to under current tax law as private activity bonds), and also may invest more than 25% of its assets in revenue bonds issued for housing, including multi-family housing, health care facilities or electric utilities, at times when the relative value of issues of such a type is considered, in the judgment of the Adviser, to be more favorable than that of other available types of issues, taking into consideration the particular restrictions on investment flexibility arising from the investment objective of the Fund of providing current income exempt from federal income taxes. Therefore, investors should also be aware of the risks which these investments may entail. Industrial revenue bonds are issued by various state and local agencies to finance various projects.

If a revenue bond is secured by payments generated from a project, and the revenue bond is also secured by a lien on the real estate comprising the project, foreclosure by the indenture trustee on the lien for the benefit of the bondholders creates additional risks associated with owning real estate, including environmental risks.

Housing revenue bonds typically are issued by a state, county or local housing authority and are secured only by the revenues of mortgages originated by the authority using the proceeds of the bond issue. Because of the impossibility of precisely predicting demand for mortgages from the proceeds of such an issue, there is a risk that the proceeds of the issue will be in excess of demand, which would result in early retirement of the bonds by the issuer. Moreover, such housing revenue bonds depend for their repayment upon the cash flow from the underlying mortgages, which cannot be precisely predicted when the bonds are issued. Any difference in the actual cash flow from such mortgages from the assumed cash flow could have an adverse impact upon the ability of the issuer to make scheduled payments of principal and interest on the bonds, or could result in early retirement of the bonds. Additionally, such bonds depend in part for scheduled payments of principal and interest upon reserve funds established from the proceeds of the bonds, assuming certain rates of return on investment of such reserve funds. If the assumed rates of return are not realized because of changes in interest rate levels or for other reasons, the actual cash flow for scheduled payments of principal and interest on the bonds may be inadequate. The financing of multi-family housing projects is affected by a variety of factors, including satisfactory completion of construction within cost constraints, the achievement and maintenance of a sufficient level of occupancy, sound management of the developments, timely and adequate increases in rents to cover increases in operating expenses, including taxes, utility rates and maintenance costs, changes in applicable laws and governmental regulations and social and economic trends.

The Fund may invest in municipal lease securities. These are undivided interests in a portion of an obligation in the form of a lease or installment purchase which is issued by state and local governments to acquire equipment and facilities. Municipal leases frequently have special risks not normally associated with general obligation or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt-issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. Although the obligations will be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might, in some cases, prove difficult. In light of these concerns, the Fund has adopted and follows procedures for determining whether municipal lease securities purchased by the Fund are illiquid and thus subject to the Fund's limitation on investing not more than 15% of its net assets in illiquid investments, or liquid and thus not subject to such limitation. The procedures require that a number of factors be used in evaluating the liquidity of a municipal lease security, including the frequency of trades and quotes for the security, the number of dealers willing

to purchase or sell the security and the number of other potential purchasers, the willingness of dealers to undertake to make a market in the security, the nature of the marketplace in which the security trades, the credit quality of the security and other factors which the Adviser may deem relevant. There are, of course, variations in the security of municipal lease securities, both within a particular classification and between classifications, depending on numerous factors.

Electric utilities face problems in financing large construction programs in an inflationary period, cost increases and delay occasioned by environmental considerations (particularly with respect to nuclear facilities), difficulty in obtaining fuel at reasonable prices, the cost of competing fuel sources, difficulty in obtaining sufficient rate increases and other regulatory problems, the effect of energy conservation and difficulty of the capital market to absorb utility debt.

Health care facilities include life care facilities, nursing homes and hospitals. Life care facilities are alternative forms of long-term housing for the elderly which offer residents the independence of condominium life style and, if needed, the comprehensive care of nursing home services. Bonds to finance these facilities have been issued by various state industrial development authorities. Since the bonds are secured only by the revenues of each facility and not by state or local government tax payments, they are subject to a wide variety of risks. Primarily, the projects must maintain adequate occupancy levels to be able to provide revenues adequate to maintain debt service payments. Moreover, in the case of life care facilities, since a portion of housing, medical care and other services may be financed by an initial deposit, there may be risk if the facility does not maintain adequate financial reserves to secure estimated actuarial liabilities. The ability of management to accurately forecast inflationary cost pressures weighs importantly in this process. The facilities may also be affected by regulatory cost restrictions applied to health care delivery in general, particularly state regulations or changes in Medicare and Medicaid payments or qualifications, or restrictions imposed by medical insurance companies. They may also face competition from alternative health care or conventional housing facilities in the private or public sector. Hospital bond ratings are often based on feasibility studies which contain projections of expenses, revenues and occupancy levels. A hospital's gross receipts and net income available to service its debt are influenced by demand for hospital services, the ability of the hospital to provide the services required, management capabilities, economic developments in the service area, efforts by insurers and government agencies to limit rates and expenses, confidence in the hospital, service area economic developments, competition, availability and expense of malpractice insurance, Medicaid and Medicare funding, and possible federal legislation limiting the rates of increase of hospital charges.

The Fund may also invest in bonds for industrial and other projects, such as sewage or solid waste disposal or hazardous waste treatment facilities. Financing for such projects will be subject to inflation and other general economic factors as well as construction risks including labor problems, difficulties with construction sites and the ability of contractors to meet specifications in a timely manner. Because some of the materials, processes and wastes involved in these projects may include hazardous components, there are risks associated with their production, handling and disposal.

RESTRICTED SECURITIES -- The Fund may also purchase securities that are not registered under the Securities Act of 1933 (the "1933 Act") ("restricted securities"), including those that can be offered and sold to "qualified institutional buyers" under Rule 144A under the 1933 Act ("Rule 144A securities"). The Trust's Board of Trustees determines, based upon a continuing review of the trading markets for a specific Rule 144A security, whether such security is illiquid and thus subject to the Fund's limitations on investing not more than 15% of its net assets in illiquid investments, or liquid and thus not subject to such limitation. The Board of Trustees has adopted guidelines and delegated to MFS the daily function of determining and monitoring the liquidity of Rule 144A securities. The Board, however, will retain sufficient oversight and be ultimately responsible for the determinations. The Board will carefully monitor the Fund's investments in Rule 144A securities, focusing on such important factors, among others, as valuation, liquidity and availability of information. This investment practice could have the effect of increasing the level of illiquidity in a Fund to the extent that qualified institutional buyers become for a time uninterested in purchasing Rule 144A securities held in the Fund's portfolio. Subject to the Fund's 15% limitation on investments in illiquid investments, the Fund may also invest in restricted securities that may not be sold under Rule 144A, which presents certain risks. As a result, the Fund might not be able to sell these securities when the Adviser wishes to do so, or might have to sell them at less than fair value. In addition, market quotations are less readily available. Therefore, judgment may at times play a greater role in valuing these securities than in the case of unrestricted securities.

RISK FACTORS REGARDING LOWER RATED SECURITIES -- The Fund may invest to a limited extent in lower rated fixed income securities or comparable unrated securities. Investments in fixed income securities offering the high current income sought by the Fund, while generally providing greater income and

opportunity for gain than investments in higher rated securities, usually entail greater risk of principal and income (including the possibility of default or bankruptcy of the issuers of such securities), and involve greater volatility of price (especially during periods of economic uncertainty or change) than investments in higher rated securities and because yields may vary over time, no specified level of income can ever be assured. In particular, securities rated lower than Baa by Moody's or BBB by S&P or Fitch or comparable unrated securities (commonly known as "junk bonds") are considered speculative. These lower rated high yielding fixed income securities generally tend to reflect economic changes (and the outlook for economic growth), short-term corporate and industry developments and the market's perception of their credit quality (especially during times of adverse publicity) to a greater extent than higher rated securities which react primarily to fluctuations in the general level of interest rates (although these lower rated fixed income securities are also affected by changes in interest rates). In the past, economic downturns or an increase in interest rates have under certain circumstances caused a higher incidence of default by the issuers of these securities and may do so in the future, especially in the case of highly leveraged issuers. During certain periods, the higher yields on the Fund's lower rated high yielding fixed income securities are paid primarily because of the increased risk of loss of principal and income, arising from such factors as the heightened possibility of default or bankruptcy of the issuers of such securities. Due to the fixed income payments of these securities, the Fund may continue to earn the same level of interest income while its net asset value declines due to portfolio losses, which could result in an increase in the Fund's yield despite the actual loss of principal. The prices for these securities may be affected by legislative and regulatory developments. For example, federal rules require that savings and loan associations gradually reduce their holdings of high-yield securities. An effect of such legislation may be to depress the prices of outstanding lower rated high yielding fixed income securities. Changes in the value of securities subsequent to their acquisition will not affect cash income or yield to maturity to the Fund but will be reflected in the net asset value of shares of the Fund. The market for these lower rated fixed income securities may be less liquid than the market for investment grade fixed income securities. Furthermore, the liquidity of these lower rated securities may be affected by the market's perception of their credit quality. Therefore, the Adviser's judgment may at times play a greater role in valuing these securities than in the case of investment grade fixed income securities, and it also may be more difficult during times of certain adverse market conditions to sell these lower rated securities at their fair value to meet redemption requests or to respond to changes in the market. No minimum rating standard is required by the Fund. To the extent the Fund invests in these lower rated fixed income securities, the achievement of its investment objective may be more dependent on the Adviser's own credit analysis than in the case of a fund investing in higher quality bonds. While the Adviser may refer to ratings issued by established credit rating agencies, it is not a policy of the Fund to rely exclusively on ratings issued by these agencies, but rather to supplement such ratings with the Adviser's own independent and ongoing review of credit quality.

The Fund may also invest in fixed income securities rated Baa by Moody's or BBB by S&P or Fitch and comparable unrated securities. These securities, while normally exhibiting adequate protection parameters, may have speculative characteristics and changes in economic conditions and other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than in the case of higher grade fixed income securities.

ADDITIONAL RISK FACTORS -- The net asset value of the shares of an open-end investment company which may invest in fixed income securities changes as the general levels of interest rates fluctuate. When interest rates decline, the value of a fixed income portfolio can be expected to rise. Conversely, when interest rates rise, the value of a fixed income portfolio can be expected to decline.

Although changes in the value of securities subsequent to their acquisition are reflected in the net asset value of shares of the Fund, such changes will not affect the income received by the Fund from such securities. However, the dividends paid by the Fund, if any, will increase or decrease in relation to the income received by the Fund from its investments, which would in any case be reduced by the Fund's expenses before it is distributed to shareholders.

In addition, the use of options, futures contracts and options on futures contracts (see "Investment Techniques" below) may result in the loss of principal, particularly where such instruments are traded for other than hedging purposes (e.g., to enhance current yield).

SHORT-TERM INVESTMENTS FOR DEFENSIVE PURPOSES -- During periods of unusual market conditions when the Adviser believes that investing for defensive purposes is appropriate, or in order to meet anticipated redemption requests, up to 50% of the assets of the Fund may be invested in cash or cash equivalents including, but not limited to, obligations of banks (including certificates of deposit, bankers' acceptances and repurchase agreements) with assets of \$1 billion or more, commercial paper, short-term notes, obligations issued or guaranteed by the U.S. Government or any of its agencies, authorities or instrumentalities and related repurchase agreements. U.S. Government securities

also include interests in trusts or other entities representing interests in obligations that are issued or guaranteed by the U.S. Government, its agencies, authorities or instrumentalities. See Appendix B to this Prospectus for a description of U.S. Government obligations and certain short-term investments.

5. INVESTMENT TECHNIQUES

LENDING OF SECURITIES: The Fund may make loans of its portfolio securities. Such loans will usually be made only to member banks of the Federal Reserve System and member firms (and subsidiaries thereof) of the New York Stock Exchange and would be required to be secured continuously by collateral in cash, cash equivalents or U.S. Government securities maintained on a current basis at an amount at least equal to the market value of the securities loaned. The Fund would continue to collect the equivalent of the interest on the securities loaned and would also receive either interest (through investment of cash collateral) or a fee (if the collateral is U.S. Government securities). For additional information, see the Statement of Additional Information.

REPURCHASE AGREEMENTS: The Fund may enter into repurchase agreements in order to earn additional income on available cash or as a temporary defensive measure. Under a repurchase agreement the Fund acquires securities subject to the seller's agreement to repurchase them at a specified time and price. If the seller becomes subject to a proceeding under the bankruptcy laws or its assets are otherwise subject to a stay order, the Fund's right to liquidate the securities may be restricted (during which time the value of the securities could decline). As discussed in the Statement of Additional Information, the Fund has adopted certain procedures which are intended to minimize any such risk.

WHEN-ISSUED SECURITIES: In order to help ensure the availability of suitable securities for its portfolio, the Fund may purchase securities on a "when-issued" or on a "forward delivery" basis, which means that the obligations will be delivered to the Fund at a future date usually beyond customary settlement time. It is expected that, under normal circumstances, the Fund will take delivery of such securities. In general, the Fund does not pay for the securities until received and does not start earning interest on the obligations until the contractual settlement date. While awaiting delivery of the obligations purchased on such bases, the Fund will establish a segregated account consisting of cash, short-term money market instruments or high quality debt securities equal to the amount of the commitments to purchase "when-issued" securities. For additional information, see the Statement of Additional Information.

ZERO COUPON BONDS: The Fund may invest in zero coupon bonds. Zero coupon bonds are debt obligations which are issued or purchased at a significant discount from face value. The discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest payment date at a rate of interest reflecting the market rate of the security at the time of issuance. Zero coupon bonds do not require the periodic payment of interest. Such investments benefit the issuer by mitigating its need for cash to meet debt service, but also require a higher rate of return to attract investors who are willing to defer receipt of such cash. Such investments may experience greater volatility in market value due to changes in interest rates than debt obligations which make regular payments of interest. The Fund will accrue income on such investments for tax and accounting purposes, as required, which is distributable to shareholders and which, because no cash is received at the time of accrual, may require the liquidation of other portfolio securities to satisfy the Fund's distribution obligations.

VARIABLE AND FLOATING RATE OBLIGATIONS: The interest rates payable on certain securities in which the Fund may invest are not fixed and may fluctuate based upon changes in market rates. Variable rate obligations have an interest rate which is adjusted at predesignated periods and interest on floating rate obligations is adjusted whenever there is a change in the market rate of interest on which the interest rate payable is based. For additional information concerning variable and floating rate obligations, see the Statement of Additional Information.

INVERSE FLOATING RATE OBLIGATIONS: The Fund may invest in so called "inverse floating rate obligations" or "residual interest" bonds, or other obligations or certificates relating thereto structured to have similar features. Such obligations generally have floating or variable interest rates that move in the opposite direction of short-term interest rates and generally increase or decrease in value in response to changes in short-term interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax-exempt securities increase or decrease in response to such changes. As a result, such obligations have the effect of providing investment leverage and may be more volatile than long-term fixed-rate tax-exempt obligations. For additional information, see the Statement of Additional Information.

TRANSACTIONS IN OPTIONS, FUTURES AND FORWARD CONTRACTS: The Fund may enter into transactions in options and futures on a variety of instruments and indexes, in

order to protect against declines in the value of portfolio securities or increases in the cost of securities or other assets to be acquired and, subject to applicable law, to increase the Fund's gross income. The types of instruments to be purchased and sold by the Fund are described in the Statement of Additional Information, which should be read in conjunction with the following section. In addition, the Statement of Additional Information contains a further discussion of the nature of the transactions which may be entered into and the risks associated therewith.

OPTIONS

OPTIONS ON SECURITIES -- The Fund may write (sell) covered call and put options and purchase call and put options on fixed income securities. The Fund will write options on such securities for the purpose of increasing its return on such securities and/or protect the values of its portfolio. In particular, where the Fund writes an option which expires unexercised or is closed out by the Fund at a profit, it will retain the premium paid for the option which will increase its gross income and will offset in part the reduced value of the portfolio security underlying the option, or the increased cost of portfolio securities to be acquired. In contrast, however, if the price of the underlying security moves adversely to the Fund's position, the option may be exercised and the Fund will be required to purchase or sell the underlying security at a disadvantageous price, which may only be partially offset by the amount of the premium. The Fund may also write combinations of put and call options on the same security, known as "straddles." Such transactions can generate additional premium income but also present increased risk.

By writing a call option on a security, the Fund limits its opportunity to profit from any increase in the market value of the underlying security, since the holder will usually exercise the call option when the market value of the underlying security exceeds the exercise price of the call. However, the Fund retains the risk of depreciation in value of securities on which it has written call options.

The Fund may also purchase put or call options in anticipation of market fluctuations which may adversely affect the value of its portfolio or the prices of securities that the Fund wants to purchase at a later date. In the event that the expected market fluctuations occur, the Fund may be able to offset the resulting adverse effect on its portfolio, in whole or in part, through the options purchased. The premium paid for a put or call option plus any transaction costs will reduce the benefit, if any, realized by the Fund upon exercise or liquidation of the option, and, unless the price of the underlying security changes sufficiently, the option may expire without value to the Fund.

In certain instances, the Fund may enter into options on Treasury securities which may be referred to as "reset" options or "adjustable strike" options. These options provide for periodic adjustment of the strike price and may also provide for the periodic adjustment of the premium during the term of the option.

FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

FUTURES CONTRACTS -- The Fund may enter into interest rate futures contracts on fixed income securities and indexes of such securities. (Unless otherwise specified, such futures contracts are referred to as "Futures Contracts.") The Fund will utilize Futures Contracts for hedging and non-hedging purposes, subject to applicable law. Purchases or sales of Futures Contracts for hedging purposes are used to hedge against the effects of interest rate changes on the Fund's current or intended investment in fixed income securities. In the event that an anticipated decrease in the value of portfolio securities occurs as a result of a general increase in interest rates, the adverse effects of such changes may be offset, in whole or part, by gains on the sale of Futures Contracts. Conversely, the increased cost of portfolio securities to be acquired, caused by a general decline in interest rates, may be offset, in whole or part, by gains on Futures Contracts purchased by the Fund. The Fund will incur brokerage fees when it purchases and sells Futures Contracts, and it will be required to make and maintain margin deposits.

OPTIONS ON FUTURES CONTRACTS -- The Fund may purchase and write options on Futures Contracts. (Unless otherwise specified, options on Futures Contracts are referred to as "Options on Futures Contracts.") Such investment strategies will be used for hedging and non-hedging purposes, subject to applicable law. Put and call Options on Futures Contracts may be traded by the Fund in order to protect against declines in the values of portfolio securities or against increases in the cost of securities to be acquired. Purchases of Options on Futures Contracts may present less risk in hedging the portfolio of the Fund than the purchase or sale of the underlying Futures Contracts since the potential loss is limited to the amount of the premium plus related transaction costs. The writing of such options, however, does not present less risk than the trading of Futures Contracts and will constitute only a partial hedge, up to the amount of the premium received. In addition, if an option is exercised, the Fund may suffer a loss on the transaction.

RISKS OF TRANSACTIONS IN OPTIONS: Although the Fund will enter into certain transactions in Futures Contracts, Options on Futures Contracts and options for hedging purposes, such transactions do involve certain risks. For example, a lack of correlation between the instrument underlying an option or Futures

Contract and the assets being hedged, or unexpected adverse price movements, could render the Fund's hedging strategy unsuccessful and could result in losses. "Cross hedging" transactions may involve greater correlation risks. In addition, there can be no assurance that a liquid secondary market will exist for any contract purchased or sold, and the Fund may be required to maintain a position until exercise or expiration, which could result in losses. As noted, the Fund may also enter into Futures Contracts and Options on Futures Contracts for other than hedging purposes (subject to applicable law), including speculative transactions, which involve greater risk. In particular, in entering into such transactions, the Fund may experience losses which are not offset by gains on other portfolio positions, thereby reducing its gross income. In addition, the markets for such instruments may be extremely volatile from time to time, as discussed in the Statement of Additional Information, which could increase the risks incurred by the Fund in entering into such transactions.

Transactions in options may be entered into on U.S. exchanges regulated by the SEC and in the over-the-counter market. Futures Contracts and Options on Futures Contracts may be entered into on U.S. exchanges regulated by the Commodity Futures Trading Commission (the "CFTC"). The risks related to transactions in options, Futures Contracts, Options on Futures Contracts and Forward Contracts entered into by the Fund are set forth in greater detail in the Statement of Additional Information, which should be reviewed in conjunction with the foregoing discussion.

PORTFOLIO TRADING

The Fund intends to manage its portfolio by buying and selling securities to help attain its investment objective. This may result in increases or decreases in the Fund's current income available for distribution to the Fund's shareholders and in the holding by the Fund of debt securities which sell at moderate to substantial premiums or discounts from face value. The Fund will engage in portfolio trading if it believes a transaction, net of costs (including custodian charges), will help in attaining its investment objective (see "Portfolio Transactions and Brokerage Commissions" in the Statement of Additional Information).

The primary consideration in placing portfolio security transactions with broker-dealers for execution is to obtain, and maintain the availability of, execution at the most favorable prices and in the most effective manner possible. Consistent with the foregoing primary consideration, the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (the "NASD") and such other policies as the Trustees may determine, the Adviser may consider sales of shares of the Fund and of other investment company clients of MFD as a factor in the selection of broker-dealers to execute the Fund's portfolio transactions. From time to time, the Adviser may direct certain portfolio transactions to broker-dealer firms which, in turn, have agreed to pay a portion of the Fund's operating expenses (e.g., fees charged by the custodian of the Fund's assets). For a further discussion of portfolio trading, see the Statement of Additional Information.

The Statement of Additional Information includes a discussion of other investment policies and a listing of specific investment restrictions which govern the Fund's investment policies. The specific investment restrictions listed in the Statement of Additional Information may not be changed without shareholder approval (see "Investment Restrictions" in the Statement of Additional Information). The Fund's investment limitations, policies and rating standards are adhered to at the time of purchase or utilization of assets; a subsequent change in circumstances will not be considered to result in a violation of policy.

6. MANAGEMENT OF THE FUND

INVESTMENT ADVISER -- MFS manages the Fund pursuant to an Investment Advisory Agreement dated September 1, 1993 (the "Advisory Agreement"). The Adviser provides the Fund with overall investment advisory and administrative services, as well as general office facilities. David B. Smith, an Assistant Vice President of the Trust and a Vice President of the Adviser, is the Fund's portfolio manager. Mr. Smith became the portfolio manager of the Fund in April, 1993. Mr. Smith joined the Adviser in 1988 as a Senior Treasury Analyst. Subject to such policies as the Trustees may determine, the Adviser makes investment decisions for the Fund. For its services and facilities, the Adviser receives a management fee, computed and paid monthly, in an amount equal to 0.30% of the Fund's average daily net assets plus 6.43% of its gross income for its then-current fiscal year.

For the four months ended March 31, 1994, the investment advisory fees received under the Advisory Agreement were \$1,301,038 (of which \$527,310 was based on average daily net assets and \$773,728 on gross income), equal to, on an annualized basis, 0.75% of the Fund's average daily net assets.

MFS also serves as investment adviser to each of the other funds in the MFS

Family of Funds (the "MFS Funds") and to MFS(R) Municipal Income Trust, MFS Multimarket Income Trust, MFS Government Markets Income Trust, MFS Intermediate Income Trust, MFS Charter Income Trust, MFS Special Value Trust, MFS Institutional Trust, MFS Variable Insurance Trust, MFS Union Standard Trust, MFS/Sun Life Series Trust, Sun Growth Variable Annuity Fund, Inc. and seven variable accounts, each of which is a registered investment company established by Sun Life Assurance Company of Canada (U.S.) ("Sun Life of Canada (U.S.)") in connection with the sale of Compass-2 and Compass-3 combination fixed/variable annuity contracts. MFS and its wholly-owned subsidiary, MFS Asset Management, Inc., provide investment advice to substantial private clients.

MFS is America's oldest mutual fund organization. MFS and its predecessor organizations have a history of money management dating from 1924 and the founding of the first mutual fund in the United States, Massachusetts Investors Trust. Net assets under the management of the MFS organization were approximately \$33.4 billion on behalf of approximately 1.6 million investor accounts as of January 31, 1995. As of such date, the MFS organization managed approximately \$10.8 billion of assets invested in equity securities and approximately \$18.7 billion of assets invested in fixed income securities. Approximately \$3.1 billion of the assets managed by MFS are invested in securities of foreign issuers and non-U.S. dollar denominated securities of U.S. issuers. MFS is a subsidiary of Sun Life of Canada (U.S.), which in turn is a subsidiary of Sun Life Assurance Company of Canada ("Sun Life"). The Directors of MFS are A. Keith Brodtkin, Jeffrey L. Shames, Arnold D. Scott, John D. McNeil and John R. Gardner. Mr. Brodtkin is the Chairman, Mr. Shames is the President and Mr. Scott is the Secretary and a Senior Executive Vice President of MFS. Messrs. McNeil and Gardner are the Chairman and President, respectively, of Sun Life. Sun Life, a mutual life insurance company, is one of the largest international life insurance companies and has been operating in the United States since 1895, establishing a headquarters office here in 1973. The executive officers of MFS report to the Chairman of Sun Life.

A. Keith Brodtkin, the Chairman and a Director of MFS, is the Chairman and President of the Trust. Cynthia M. Brown, Robert A. Dennis, David R. King, David B. Smith, W. Thomas London, Stephen E. Cavan, James R. Bordewick, Jr. and James O. Yost, all of whom are officers of MFS, are officers of the Trust.

DISTRIBUTOR -- MFD, a wholly owned subsidiary of MFS, is the distributor of shares of the Fund and also serves as distributor for each of the other MFS Funds.

SHAREHOLDER SERVICING AGENT -- MFS Service Center, Inc. (the "Shareholder Servicing Agent"), a wholly owned subsidiary of MFS, performs transfer agency, certain dividend disbursing agency and other services for the Fund.

7. INFORMATION CONCERNING SHARES OF THE FUND

PURCHASES

Shares of the Fund may be purchased at the public offering price through any securities dealer, certain banks and other financial institutions having selling agreements with MFD. Non-securities dealer financial institutions will receive transaction fees that are the same as commission fees to dealers. Securities dealers and other financial institutions may also charge their customers fees relating to investments in the Fund.

The Fund offers three classes of shares which bear sales charges and distribution fees in different forms and amounts:

CLASS A SHARES: Class A shares are offered at net asset value plus an initial sales charge (or CDSC in the case of certain purchases of \$1 million or more) as follows:

<TABLE>
<CAPTION>

| AMOUNT OF PURCHASE <S> | OFFERING PRICE <C> | SALES CHARGE<F1> AS PERCENTAGE OF: | | DEALER ALLOWANCE AS A PERCENTAGE OF OFFERING PRICE <C> |
|---|-----------------------|---------------------------------------|--|---|
| | | NET AMOUNT INVESTED <C> | | |
| Less than \$100,000 | 4.75% | 4.99% | | 4.00% |
| \$100,000 but less than \$250,000 | 4.00 | 4.17 | | 3.20 |
| \$250,000 but less than \$500,000 | 2.95 | 3.04 | | 2.25 |
| \$500,000 but less than \$1,000,000 | 2.20 | 2.25 | | 1.70 |
| \$1,000,000 or more | None<F2> | None<F2> | | See Below<F2> |

<FN>

<F1> Because of rounding in the calculation of offering price, actual sales charges may be more or less than those calculated using the percentages above.

<F2> ACDSC may apply in certain circumstances. MFD will pay a commission on purchases of \$1 million or more.

</FN>
</TABLE>

No sales charge is payable at the time of purchase of Class A shares on investments of \$1 million or more. However, a CDSC shall be imposed on such investments in the event of a share redemption within 12 months following the share purchase, at the rate of 1% on the lesser of the value of the shares redeemed (exclusive of reinvested dividends and capital gain distributions) or the total cost of such shares.

In determining whether a CDSC on such Class A shares is payable, and, if so, the amount of the charge, it is assumed that shares not subject to the CDSC are the first redeemed followed by other shares held for the longest period of time. All investments made during a calendar month, regardless of when during the month the investment occurred, will age one month on the last day of the month and each subsequent month. Except as noted below, the CDSC on Class A shares will be waived in the case of: (i) exchanges (except that if the shares acquired by exchange were then redeemed within 12 months of the initial purchase other than in connection with subsequent exchanges to other MFS Funds, the charge would not be waived); (ii) distributions to participants from a retirement plan qualified under section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Retirement Plan"), due to: (a) a loan from the plan (repayments of loans, however, will constitute new sales for purposes of assessing the CDSC); (b) "financial hardship" of the participant in the plan, as that term is defined in Treasury Regulation Section 1.401(k)-1(d)(2), as amended from time to time; or (c) the death of a participant in such a plan; (iii) distributions from a 403(b) plan or an Individual Retirement Account ("IRA"), due to death, disability, or attainment of age 59 1/2; (iv) tax-free returns of excess contributions to an IRA; (v) distributions by other employee benefit plans to pay benefits; and (vi) certain involuntary redemptions and redemptions in connection with certain automatic withdrawals from a qualified retirement plan. The CDSC on Class A shares will not be waived, however, if the Retirement Plan withdraws from the Fund except if that Retirement Plan has invested its assets in Class A shares of one or more of the MFS Funds for more than 10 years from the later to occur of (i) January 1, 1993 or (ii) the date such Retirement Plan first invests its assets in Class A shares of one or more of the MFS Funds, the CDSC on Class A shares will be waived in the case of a redemption of all of the Retirement Plan's shares (including shares of any other class) in all MFS Funds (i.e., all the assets of the Retirement Plan invested in the MFS Funds are withdrawn), unless, immediately prior to the redemption, the aggregate amount invested by the Retirement Plan in Class A shares of the MFS Funds (excluding the reinvestment of distributions) during the prior four-year period equals 50% or more of the total value of the Retirement Plan's assets in the MFS Funds, in which case the CDSC will not be waived. The CDSC on Class A shares will be waived upon redemption by a Retirement Plan where the redemption proceeds are used to pay expenses of the Retirement Plan or certain expenses of participants under the Retirement Plan (e.g., participant account fees), provided that the Retirement Plan's sponsor subscribes to the MFS Fundamental 401(k) Plan(sm) or another similar recordkeeping system made available by the Shareholder Servicing Agent. The CDSC on Class A shares will be waived upon the transfer of registration from shares held by a Retirement Plan through a single account maintained by the Shareholder Servicing Agent to multiple Class A share accounts maintained by the Shareholder Servicing Agent on behalf of individual participants in the Retirement Plan, provided that the Retirement Plan's sponsor subscribes to the MFS Fundamental 401(k) Plan(sm) or another similar recordkeeping system made available by the Shareholder Servicing Agent. Any applicable CDSC will be deferred upon an exchange of Class A shares of the Fund for units of participation of the MFS Fixed Fund (a bank collective investment fund) (the "Units"), and the CDSC will be deducted from the redemption proceeds when such Units are subsequently redeemed (assuming the CDSC is then payable). No CDSC will be assessed upon an exchange of Units for Class A shares of the Fund. For purposes of calculating the CDSC payable upon redemption of Class A shares of the Fund or Units acquired pursuant to one or more exchanges, the period during which the Units are held will be aggregated with the period during which the Class A shares are held. MFD shall receive all CDSCs which it intends to apply for the benefit of the Fund.

MFD allows discounts to dealers (which are alike for all dealers) from the applicable public offering price, as shown in the above table. In the case of the maximum sales charge, the dealer retains 4% and MFD retains approximately 3/4 of 1% of the public offering price. The sales charge may vary depending on the number of shares of the Fund as well as certain MFS Funds and other funds owned or being purchased, the existence of an agreement to purchase additional shares during a 13-month period or 36-month period for purchases of \$1 million or more or other special purchase programs. A description of the Right of Accumulation, Letter of Intent and Group Purchases privileges by which the sales charge may be reduced is set forth in the Statement of Additional Information. In addition, MFD will pay a commission to dealers who initiate and are responsible for purchases of \$1 million or more as follows: 1.00% on sales up to \$5 million, plus 0.25% on the amount in excess of \$5 million. Purchases of \$1 million or more for each shareholder account will be aggregated over a 12-month period (commencing from the date of the first such purchase) for purposes of determining the level of commissions to be paid during that period with respect to such account.

Class A shares of the Fund may be sold at their net asset value to the officers of the Trust, to any of the subsidiary companies of Sun Life, to eligible

Directors, officers, employees (including retired employees) and agents of MFS, Sun Life or any of their subsidiary companies, to any trust, pension, profit-sharing or any other benefit plan for such persons, to any trustees and retired trustees of any investment company for which MFD serves as distributor or principal underwriter, and to certain family members of such individuals and their spouses, provided the shares will not be resold except to the Fund. Class A shares of the Fund may be sold at net asset value to any employee, partner, officer or trustee of any sub-adviser to any MFS Fund and to certain family members of such individuals and their spouses, or to any trust, pension, profit-sharing or other retirement plan for the sole benefit of such employee or representative, provided such shares will not be resold except to the Fund. Class A shares of the Fund may also be sold at their net asset value to any employee or registered representative of any dealer or other financial institution which has a sales agreement with MFD or its affiliates, to certain family members of such employees or representatives and their spouses, or to any trust, pension, profit-sharing or other retirement plan for the sole benefit of such employee or representative, and to clients of MFS Asset Management, Inc. Class A shares may be sold at net asset value, subject to appropriate documentation, through a dealer where the amount invested represents redemption proceeds from a registered open-end management investment company not distributed or managed by MFD or its affiliates if: (i) the redeemed shares were subject to an initial sales charge or a deferred sales charge (whether or not actually imposed); (ii) such redemption has occurred no more than 90 days prior to the purchase of Class A shares of the Fund; and (iii) the Fund, MFD or its affiliates have not agreed with such company or its affiliates, formally or informally, to sell Class A shares at net asset value or provide any other incentive with respect to such redemption and sale. Class A shares of the Fund may also be sold at net asset value where the amount invested represents redemption proceeds from the MFS Fixed Fund. In addition, Class A shares may be sold at their net asset value in connection with the acquisition or liquidation of the assets of other investment companies or personal holding companies. Insurance company separate accounts may purchase Class A shares of the Fund at their net asset value. Class A shares of the Fund may be purchased at net asset value by retirement plans whose third party administrators have entered into an administrative services agreement with MFD or one or more of its affiliates to perform certain administrative services, subject to certain operational requirements specified from time to time by MFD or one or more of its affiliates. Class A shares of the Fund may be purchased at net asset value through certain broker-dealers and other financial institutions which have entered into an agreement with MFD which includes a requirement that such shares be sold for the benefit of clients participating in a "wrap account" or a similar program under which such clients pay a fee to such broker-dealer or other financial institution.

Class A shares of the Fund may be purchased at net asset value by certain retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended, subject to the following:

- (i) The sponsoring organization must demonstrate to the satisfaction of MFD that either (a) the employer has at least 25 employees or (b) the aggregate purchases by the retirement plan of Class A shares of the MFS Funds will be in an amount of at least \$250,000 within a reasonable period of time, as determined by MFD in its sole discretion; and
- (ii) a CDSC of 1% will be imposed on such purchases in the event of certain redemption transactions within 12 months following such purchases.

Dealers who initiate and are responsible for purchases of Class A shares of the Fund in this manner will be paid a commission by MFD, as follows: 1.00% on sales up to \$5 million, plus 0.25% on the amount in excess of \$5 million; provided, however, that MFD may pay a commission, on sales in excess of \$5 million to certain retirement plans, of 1.00% to certain dealers which, at MFD's invitation, enter into an agreement with MFD in which the dealer agrees to return any commission paid to it on the sale (or on a pro rata portion thereof) if the shareholder redeems his or her shares within a period of time after purchase as specified by MFD. Purchases of \$1 million or more for each shareholder account will be aggregated over a 12-month period (commencing from the date of the first such purchase) for purposes of determining the level of commissions to be paid during that period with respect to such account. Class A shares of the Fund may be sold at net asset value through the automatic reinvestment of Class A and Class B periodic distributions which constitute required withdrawals from qualified retirement plans. Furthermore, Class A shares of the Fund may be sold at net asset value through the automatic reinvestment of distributions of dividends and capital gains of other MFS Funds pursuant to the Distribution Investment Program (see "Shareholder Services" in the Statement of Additional Information).

CLASS B SHARES: Class B shares are offered at net asset value without an initial sales charge but subject to a CDSC as follows:

| YEAR OF REDEMPTION AFTER PURCHASE | CONTINGENT DEFERRED SALES CHARGE |
|---|--|
| ----- | ----- |
| First | 4%* |
| Second | 4% |
| Third | 3% |

| | |
|-----------------------------|----|
| Fourth | 3% |
| Fifth | 2% |
| Sixth | 1% |
| Seventh and following | 0% |

*Class B shares purchased from January 1, 1993 through August 31, 1993 will be subject to a CDSC of 5% in the event of a redemption within the first year after purchase.

For Class B shares purchased prior to January 1, 1993, the Fund imposes a CDSC as a percentage of redemption proceeds as follows:

| YEAR OF REDEMPTION AFTER PURCHASE | CONTINGENT DEFERRED SALES CHARGE |
|---|--|
| First | 6% |
| Second | 5% |
| Third | 4% |
| Fourth | 3% |
| Fifth | 2% |
| Sixth | 1% |
| Seventh and following | 0% |

No CDSC is paid upon an exchange of shares. For purposes of calculating the CDSC upon redemption of shares acquired in an exchange, the purchase of shares acquired in one or more exchanges is deemed to have occurred at the time of the original purchase of the exchanged shares. See "Redemptions and Repurchases -- Contingent Deferred Sales Charge" for further discussion of the CDSC.

The CDSC on Class B shares will be waived upon the death or disability (as defined in section 72(m)(7)) of the Code of any investor, provided the account is registered (i) in the case of a deceased individual, solely in the deceased individual's name, (ii) in the case of a disabled individual, solely or jointly in the disabled individual's name or (iii) in the name of a living trust for the benefit of the deceased or disabled individual. The CDSC on Class B shares will also be waived in the case of redemptions of shares of the Fund pursuant to a systematic withdrawal plan. In addition, the CDSC on Class B shares will be waived in the case of distributions from an IRA, SAR-SEP or any other retirement plan qualified under section 401(a), 401(k) or 403(b) of the Code, due to death or disability, or in the case of required minimum distributions from any such retirement plan due to attainment of age 70 1/2. The CDSC on Class B shares will be waived in the case of distributions from a retirement plan qualified under section 401(a) of the Code (a "Retirement Plan") due to (i) returns of excess contribution to the plan, (ii) retirement of a participant in the plan, (iii) a loan from the plan (repayments of loans, however, will constitute new sales for purposes of assessing the CDSC), (iv) "financial hardship" of the participant in the plan, as that term is defined in Treasury Regulation Section 1.401(k)-1(d)(2), as amended from time to time, and (v) termination of employment of the participant in the plan (excluding, however, a partial or other termination of the plan). The CDSC on Class B shares of the Fund will also be waived upon redemptions by: (i) officers of the Trust, (ii) any of the subsidiary companies of Sun Life, (iii) eligible Directors, officers, employees (including retired and former employees) and agents of MFS, Sun Life or any of their subsidiary companies, (iv) any trust, pension, profit-sharing or any other benefit plan for such persons, (v) any trustees and retired trustees of any investment company for which MFD serves as distributor or principal underwriter, and (vi) certain family members of such individuals and their spouses, provided in each case that the shares will not be resold except to the Fund. The CDSC on Class B shares will also be waived in the case of redemptions by any employee or registered representative of any dealer which has a dealer agreement with MFD, by certain family members of any such employee or representative and his or her spouse, by any trust, pension, profit-sharing or other retirement plan for the sole benefit of such employee or representative, and by clients of the MFS Asset Management, Inc. A Retirement Plan that has invested its assets in Class B shares of one or more of the MFS Funds for more than 10 years from the later to occur of (i) January 1, 1993 or (ii) the date the Retirement Plan first invests its assets in Class B shares of one or more of the funds in the MFS Funds, will have the CDSC on Class B shares waived in the case of a redemption of all the Retirement Plan's shares (including any Class A shares) in all MFS Funds (i.e., all the assets of the Retirement Plan invested in the MFS Funds are withdrawn), except that if, immediately prior to the redemption, the aggregate amount invested by the Retirement Plan in Class B shares of the MFS Funds (excluding the reinvestment of distributions) during the prior four year period equals 50% or more of the total value of the Retirement Plan's assets in the MFS Funds, then the CDSC will not be waived. The CDSC on Class B shares will be waived upon redemption by a Retirement Plan where the redemption proceeds are used to pay expenses of the Retirement Plan or certain expenses of participants under the Retirement Plan (e.g., participant account fees), provided that the Retirement Plan's sponsor subscribes to the MFS Fundamental 401(k) Plan(sm) or another similar recordkeeping system made available by the Shareholder Servicing Agent. The CDSC on Class B shares will be waived upon the transfer of registration from shares held by a Retirement Plan through a single account maintained by the Shareholder Servicing Agent to multiple Class B share accounts maintained by the

Shareholder Servicing Agent on behalf of individual participants in the Retirement Plan, provided that the Retirement Plan's sponsor subscribes to the MFS Fundamental 401(k) Plan(sm) or another similar recordkeeping system made available by the Shareholder Servicing Agent. The CDSC on Class B shares may also be waived in connection with the acquisition or liquidation of the assets of other investment companies or personal holding companies.

CONVERSION OF CLASS B SHARES. Class B shares of the Fund that remain outstanding for approximately eight years will convert to Class A shares of the Fund. Shares purchased through the reinvestment of distributions paid in respect of Class B shares will be treated as Class B shares for purposes of the payment of the distribution and service fees under the Distribution Plan applicable to Class B shares. However, for purposes of conversion to Class A shares, all shares in a shareholder's account that were purchased through the reinvestment of dividends and distributions paid in respect of Class B shares (and which have not converted to Class A shares as provided in the following sentence) will be held in a separate sub-account. Each time any Class B shares in the shareholder's account (other than those in the sub-account) convert to Class A shares, a portion of the Class B shares then in the sub-account will also convert to Class A shares. The portion will be determined by the ratio that the shareholder's Class B shares not acquired through reinvestment of dividends and distributions that are converting to Class A shares bear to the shareholder's total Class B shares not acquired through reinvestment. The conversion of Class B shares to Class A shares is subject to the continuing availability of a ruling from the Internal Revenue Service or an opinion of counsel that such conversion will not constitute a taxable event for federal tax purposes. There can be no assurance that such ruling or opinion will be available, and the conversion of Class B shares to Class A shares will not occur if such ruling or opinion is not available. In such event, Class B shares would continue to be subject to higher expenses than Class A shares for an indefinite period.

CLASS C SHARES: Class C shares are offered at net asset value without an initial sales charge or a CDSC. Class C shares do not convert to any other class of shares of the Fund. The maximum investment in Class C shares that may be made is \$5,000,000 per transaction.

Class C shares are not currently available for purchase by any retirement plan qualified under section 401(a) or 403(b) of the Code if the retirement plan and/or the sponsoring organization subscribe to the MFS FUNDamental 401(k) Plan or another similar 401(a) or 403(b) recordkeeping program made available by MFS Service Center, Inc.

GENERAL: Except as described below, the minimum initial investment is \$1,000 per account and the minimum additional investment is \$50 per account. Accounts being established for monthly automatic investments and under payroll savings programs and tax-deferred retirement programs (other than IRAs) involving the submission of investments by means of group remittal statements are subject to a \$50 minimum on initial and additional investments per account. The minimum initial investment for IRAs is \$250 per account and the minimum additional investment is \$50 per account. Accounts being established for participation in the Automatic Exchange Plan are subject to a \$50 minimum on initial and additional investments per account. There are also other limited exceptions to these minimums for certain tax-deferred retirement programs. Any minimums may be changed at any time at the discretion of MFD. The Fund reserves the right to cease offering its shares at any time.

Although all MFS Funds are generally available as an investment choice for tax-deferred retirement programs such as an IRA, municipal bond funds, such as the Fund, may not be suitable for inclusion in such programs due to their tax-exempt nature. A shareholder should consult his or her financial or tax adviser regarding any such investment. Any minimums may be changed at any time at the discretion of MFD. The Fund reserves the right to cease offering its shares for sale at any time.

For shareholders who elect to participate in certain investment programs (e.g., the automatic investment plan) or other shareholder services, MFD or its affiliates may either (i) give a gift of nominal value, such as a hand-held calculator, or (ii) make a nominal charitable contribution on their behalf.

A shareholder whose shares are held in the name of, or controlled by, an investment dealer, might not receive many of the privileges and services from the Fund (such as Right of Accumulation, Letter of Intent and certain recordkeeping services) that the Fund ordinarily provides.

Purchases and exchanges should be made for investment purposes only. The Fund and MFD each reserve the right to reject any specific purchase order or to restrict purchases by a particular purchaser (or group of related purchasers). The Fund or MFD may reject or restrict any purchases by a particular purchaser or group, for example, when such purchase is contrary to the best interests of the Fund's other shareholders or otherwise would disrupt the management of the Fund.

MFD may enter into an agreement with shareholders who intend to make exchanges among certain classes of certain MFS Funds (as determined by MFD) which follow a

timing pattern, and with individuals or entities acting on such shareholders' behalf (collectively, "market timers"), setting forth the terms, procedures and restrictions with respect to such exchanges. In the absence of such an agreement, it is the policy of the Fund and MFD to reject or restrict purchases by market timers if (i) more than two exchange purchases are effected in a timed account in the same calendar quarter or (ii) a purchase would result in shares being held in timed accounts by market timers representing more than (x) one percent of the Fund's net assets or (y) specified dollar amounts in the case of certain MFS Funds which may include the Fund and which may change from time to time. The Fund and MFD each reserve the right to request market timers to redeem their shares at net asset value, less any applicable CDSC, if either of these restrictions is violated.

Securities dealers and other financial institutions may receive different compensation with respect to sales of Class A, Class B and Class C shares. From time to time, MFD may pay dealers 100% of the applicable sales charge on sales of Class A shares of certain specified MFS Funds sold by such dealer during a specified sales period. In addition, MFD or its affiliates may, from time to time, pay dealers an additional commission equal to 0.50% of the net asset value of all of the Class B shares of certain specified MFS Funds sold by such dealer during a specified sales period. In addition, from time to time MFD, at its expense, may provide additional commissions, compensation or promotional incentives ("concessions") to dealers which sell shares of the Fund. The staff of the SEC has indicated that dealers who receive more than 90% of the sales charge may be considered underwriters. Such concessions provided by MFD may include financial assistance to dealers in connection with preapproved conferences or seminars, sales or training programs for invited registered representatives, payment for travel expenses, including lodging, incurred by registered representatives and members of their families or other invited guests to various locations for such seminars or training programs, seminars for the public, advertising and sales campaigns regarding one or more MFS Funds, and/or other dealer-sponsored events. In some instances, these concessions may be offered to dealers or only to certain dealers who have sold or may sell, during specified periods, certain minimum amounts of shares of the Fund. From time to time, MFD may make expense reimbursements for special training of a dealer's registered representatives in group meetings or to help pay the expenses of sales contests. In some instances, promotional incentives to dealers may be offered only to certain dealers who have sold or may sell significant amounts of Fund shares. Other concessions may be offered to the extent not prohibited by the laws of any state or any self-regulatory agency, such as the NASD.

The Glass-Steagall Act prohibits national banks from engaging in the business of underwriting, selling or distributing securities. Although the scope of the prohibition has not been clearly defined, MFD believes that such Act should not preclude banks from entering into agency agreements with MFD (as described above). If, however, a bank were prohibited from so acting, the Trustees would consider what actions, if any, would be necessary to continue to provide efficient and effective shareholder services. It is not expected that shareholders would suffer any adverse financial consequence as a result of these occurrences. In addition, state securities laws on this issue may differ from the interpretation of federal law expressed herein, and banks and financial institutions may be required to register as broker-dealers pursuant to state law.

EXCHANGES

Subject to the requirements set forth below, some or all of the shares in an account with the Fund for which payment has been received by the Fund (i.e., an established account) may be exchanged for shares of the same class of any of the other MFS Funds (if available for sale) at net asset value. In addition, Class C shares may be exchanged for shares of the MFS Money Market Fund at net asset value. Shares of one class may not be exchanged for shares of any other class. Exchanges will be made only after instructions in writing or by telephone (an "Exchange Request") are received for an established account by the Shareholder Servicing Agent in proper form (i.e., if in writing -- signed by the record owner(s) exactly as the shares are registered; if by telephone -- proper account identification is given by the dealer or shareholder of record) and each exchange must involve either shares having an aggregate value of at least \$1,000 (\$50 in the case of retirement plan participants whose sponsoring organizations subscribe to the MFS FUNDamental 401(k) Plan or another similar 401(k) recordkeeping system made available by MFS Service Center, Inc.) or all the shares in the account. If the Exchange Request is received by the Shareholder Servicing Agent on any business day prior to the close of regular trading on the New York Stock Exchange (the "Exchange"), the exchange usually will occur on that day if all the requirements set forth above have been complied with at that time. No more than five exchanges may be made in any one Exchange Request by telephone. Additional information concerning this exchange privilege and prospectuses for any of the other MFS Funds may be obtained from investment dealers or the Shareholder Servicing Agent. A shareholder should read the prospectus of the other MFS Fund and consider the differences in objectives and policies before making any exchange. For federal and (generally) state income tax purposes, an exchange is treated as a sale of the shares exchanged and, therefore, an exchange could result in a gain or loss to the shareholder making the exchange. Exchanges by telephone are automatically available to most non-retirement plan accounts and certain retirement plan accounts. For further

information regarding exchanges by telephone see "Redemptions By Telephone" below. The exchange privilege (or any aspect of it) may be changed or discontinued and is subject to certain limitations, including certain restrictions on purchases by market timers. Special procedures, privileges and restrictions with respect to exchanges may apply to market timers who enter into an agreement with MFD, as set forth in such agreement (see "Purchases").

REDEMPTIONS AND REPURCHASES

A shareholder may withdraw all or any portion of the amount in his account on any date on which the Fund is open for business by redeeming shares at their net asset value or by selling such shares to the Fund through a dealer (a repurchase). Since the net asset value of shares of the account fluctuate, redemptions or repurchases, which are taxable transactions, are likely to result in gains or losses to the shareholder. When a shareholder withdraws an amount from his account, the shareholder is deemed to have tendered for redemption a sufficient number of full and fractional shares in his account to cover the amount withdrawn. The proceeds of a redemption or repurchase will normally be available within seven days, except for shares purchased, or received in exchange for shares purchased, by check (including certified checks or cashier's checks); payment of redemption proceeds may be delayed for 15 days from the purchase date in an effort to assure that such check has cleared. Payment of redemption proceeds may be delayed for up to seven days if the Fund determines that such a delay would be in the best interest of all its shareholders.

A. REDEMPTION BY MAIL -- Each shareholder has the right to redeem all or any portion of the shares in his account by mailing or delivering to the Shareholder Servicing Agent (see back cover for address) a stock power with a written request for redemption, or a letter of instruction, together with his share certificates (if any were issued), all in "good order" for transfer. "Good order" generally means that the stock power, written request for redemption, letter of instructions or certificate must be endorsed by the record owner(s) exactly as the shares are registered and the signature(s) must be guaranteed in the manner set forth below under the caption "Signature Guarantee". In addition, in some cases, "good order" will require the furnishing of additional documents. The Shareholder Servicing Agent may make certain de minimis exceptions to the above requirements for redemption. Within seven days after receipt of a redemption request by the Shareholder Servicing Agent in "good order," the Fund will make payment in cash of the net asset value of the shares next determined after such redemption request was received, reduced by the amount of any applicable CDSC described above and the amount of any income tax required to be withheld, except during any period in which the right of redemption is suspended or date of payment is postponed because the Exchange is closed or trading on the Exchange is restricted or to the extent otherwise permitted by the 1940 Act if an emergency exists.

B. REDEMPTION BY TELEPHONE -- Each shareholder may redeem an amount from his account by telephoning toll-free at (800) 225-2606. Shareholders wishing to avail themselves of this telephone redemption privilege must so elect on their Account Application, designate thereon a commercial bank and account number to receive the proceeds of such redemption, and sign the Account Application Form with the signature(s) guaranteed in the manner set forth below under the caption "Signature Guarantee". The proceeds of such a redemption, reduced by the amount of any applicable CDSC described above and the amount of any income tax required to be withheld, are mailed by check to the designated account, without charge. As a special service, investors may arrange to have proceeds in excess of \$1,000 wired in federal funds to the designated account. If a telephone redemption request is received by the Shareholder Servicing Agent by the close of regular trading on the Exchange on any business day, shares will be redeemed at the closing net asset value of the Fund on that day. Subject to the conditions described in this section, proceeds of a redemption are normally mailed or wired on the next business day following the date of receipt of the order for redemption. The Shareholder Servicing Agent will not be responsible for any losses resulting from unauthorized telephone transactions if it follows reasonable procedures designed to verify the identity of the caller. The Shareholder Servicing Agent will request personal or other information from the caller, and will normally also record calls. Shareholders should verify the accuracy of confirmation statements immediately after their receipt.

C. REPURCHASE THROUGH A DEALER -- If a shareholder desires to sell his shares at net asset value through his securities dealer (a repurchase), the shareholder can place a repurchase order with his dealer, who may charge the shareholder a fee. IF THE DEALER RECEIVES THE SHAREHOLDER'S ORDER PRIOR TO THE CLOSE OF REGULAR TRADING ON THE EXCHANGE AND COMMUNICATES IT TO MFD ON THE SAME DAY BEFORE MFD CLOSES FOR BUSINESS, THE SHAREHOLDER WILL RECEIVE THE NET ASSET VALUE CALCULATED ON THAT DAY.

D. REDEMPTION BY CHECK -- Only Class A and Class C shares may be redeemed by check. A shareholder owning Class A or Class C shares of the Fund may elect to have a special account with State Street Bank and Trust Company (the "Bank") for the purpose of redeeming Class A or Class C shares from his or her account by check. The Bank will provide each Class A and Class C shareholder, upon request, with forms of checks drawn on the Bank. Only shareholders having accounts in which no share certificates have been issued will be permitted to redeem shares by check. Checks may be made payable in any amount not less than \$500.

Shareholders wishing to avail themselves of this redemption by check privilege should so request on their Account Application, must execute signature cards (for additional information, see the Account Application) with signature guaranteed in the manner set forth under the caption "Signature Guarantee" below, and must return any Class A and/or Class C share certificates issued to them. Additional documentation will be required from corporations, partnerships, fiduciaries or other such institutional investors. All checks must be signed by the shareholder(s) of record exactly as the account is registered before the Bank will honor them. The shareholders of joint accounts may authorize each shareholder to redeem by check. The check may not draw on monthly dividends which have been declared but not distributed. SHAREHOLDERS WHO PURCHASE CLASS A OR CLASS C SHARES BY CHECK (INCLUDING CERTIFIED CHECKS OR CASHIER'S CHECKS) MAY WRITE CHECKS AGAINST THOSE SHARES ONLY AFTER THEY HAVE BEEN ON THE FUND'S BOOKS FOR 15 DAYS. WHEN SUCH A CHECK IS PRESENTED TO THE BANK FOR PAYMENT, A SUFFICIENT NUMBER OF FULL AND FRACTIONAL SHARES WILL BE REDEEMED TO COVER THE AMOUNT OF THE CHECK, ANY APPLICABLE CDSC (IN THE CASE OF CLASS A SHARES) AND THE AMOUNT OF ANY INCOME TAX REQUIRED TO BE WITHHELD. IF THE AMOUNT OF THE CHECK PLUS ANY APPLICABLE CDSC AND THE AMOUNT OF ANY INCOME TAX REQUIRED TO BE WITHHELD IS GREATER THAN THE VALUE OF THE CLASS A OR CLASS C SHARES HELD IN THE SHAREHOLDER'S ACCOUNT, THE CHECK WILL BE RETURNED UNPAID, AND THE SHAREHOLDER MAY BE SUBJECT TO EXTRA CHARGES. TO AVOID DISHONOR OF CHECKS DUE TO FLUCTUATION IN ACCOUNT VALUE, SHAREHOLDERS ARE ADVISED AGAINST REDEEMING ALL OR MOST OF THEIR ACCOUNT BY CHECK. Checks should not be used to close a Fund account because when the check is written, the shareholder will not know the exact total value of the account on the day the check clears. There is presently no charge to the shareholder for the maintenance of this special account or for the clearance of any checks, but the Fund and the Bank reserve the right to impose such charges or to modify or terminate the redemption by check privilege at any time.

SIGNATURE GUARANTEE: In order to protect shareholders against fraud to the greatest extent possible, the Fund requires in certain instances as indicated above that the shareholder's signature be guaranteed. In these cases the shareholder's signature must be guaranteed by an eligible bank, broker, dealer, credit union, national securities exchange, registered securities association, clearing agency or savings association. Signature guarantees shall be accepted in accordance with policies established by the Shareholder Servicing Agent.

GENERAL: Shareholders of the Fund who have redeemed their shares have a one-time right to reinvest the redemption proceeds in the same class of shares of any of the MFS Funds (if shares of such fund are available for sale) at net asset value (with a credit for any CDSC paid) within 90 days of the redemption pursuant to the Reinstatement Privilege. If the shares credited for any CDSC paid are then redeemed within six years of the initial purchase in the case of Class B shares, or within 12 months of the initial purchase for certain Class A share purchases, a CDSC will be imposed upon redemption. Such purchases under the Reinstatement Privilege are subject to all limitations in the Statement of Additional Information regarding this privilege.

Subject to the Fund's compliance with applicable regulations, the Fund has reserved the right to pay the redemption or repurchase price of shares of the Fund, either totally or partially, by a distribution in kind of securities (instead of cash) from the Fund's portfolio. The securities so distributed would be valued at the same amount as that assigned to them in calculating the net asset value for the shares being sold. If a shareholder received a distribution in kind, the shareholder could incur brokerage or transaction charges in converting the securities to cash.

Due to the relatively high cost of maintaining small accounts, the Fund reserves the right to redeem shares in any account for their then-current value (which will be promptly paid to the shareholder) if at any time the total investment in such account drops below \$500 because of redemptions, except in the case of accounts established for monthly automatic investments and certain payroll savings programs, Automatic Exchange Plan accounts and tax-deferred retirement plans, for which there is a lower minimum investment requirement (see "Purchases"). Shareholders will be notified that the value of their account is less than the minimum investment requirement and allowed 60 days to make an additional investment before the redemption is processed. No CDSC will be imposed with respect to such involuntary redemptions.

CONTINGENT DEFERRED SALES CHARGE -- Investments ("Direct Purchases") in Class A and Class B shares will be subject to a CDSC for a period of 12 months (in the case of purchases of \$1 million or more of Class A shares) or six years (in the case of purchases of Class B shares). Purchases of Class A shares made during a calendar month, regardless of when during the month the investment occurred, will age one month on the last day of the month and each subsequent month. Class B shares purchased on or after January 1, 1993 will be aggregated on a calendar month basis -- all transactions made during a calendar month, regardless of when during the month they have occurred, will age one year at the close of business on the last day of such month in the following calendar year and each subsequent year. For Class B shares of the Fund purchased prior to January 1, 1993, transactions will be aggregated on a calendar year basis -- all transactions

made during a calendar year, regardless of when during the year they have occurred, will age one year at the close of business on December 31 of that year and each subsequent year. At the time of a redemption, the amount by which the value of a shareholder's account for a particular class represented by Direct Purchases exceeds the sum of the six calendar year aggregations (12 months in the case of purchases of \$1 million or more of Class A shares) of Direct Purchases may be redeemed without charge ("Free Amount"). Moreover, no CDSC is ever assessed on additional shares acquired through the automatic reinvestment of dividends or capital gain distributions ("Reinvested Shares").

Therefore, at the time of redemption of shares of a particular class, (i) any Free Amount is not subject to the CDSC, and (ii) the amount of redemption equal to the then-current value of Reinvested Shares is not subject to the CDSC, but (iii) any amount of the redemption in excess of the aggregate of the then-current value of Reinvested Shares and the Free Amount is subject to a CDSC. The CDSC will first be applied against the amount of Direct Purchases made which will result in any such charge being imposed at the lowest possible rate. The CDSC to be imposed upon redemptions will be calculated as set forth in "Purchases" above.

The applicability of a CDSC will be unaffected by exchanges or transfers of registration, except that, with respect to transfers of registration to an IRA rollover account, the CDSC will be waived if the shares being reregistered would have been eligible for a CDSC waiver had they been redeemed.

DISTRIBUTION PLANS

The Trustees have adopted separate distribution plans for Class A, Class B and Class C shares pursuant to Section 12(b) of the 1940 Act and Rule 12b-1 thereunder (the "Rule"), after having concluded that there is a reasonable likelihood that the plans would benefit the Fund and its shareholders.

CLASS A DISTRIBUTION PLAN. The Class A Distribution Plan provides that the Fund will pay MFD a distribution/service fee aggregating up to (but not necessarily all of) 0.35% of the average daily net assets attributable to Class A shares annually in order that MFD may pay expenses on behalf of the Fund related to the distribution and servicing of Class A shares. The expenses to be paid by MFD on behalf of the Fund include a service fee to securities dealers which enter into a sales agreement with MFD of up to 0.25% per annum of the Fund's average daily net assets attributable to Class A shares that are owned by investors for whom such securities dealer is the holder or dealer of record. This fee is intended to be partial consideration for all personal services and/or account maintenance services rendered by the dealer with respect to Class A shares. MFD may from time to time reduce the amount of the service fee paid for shares sold prior to a certain date. MFD will also retain a distribution fee of 0.10% per annum of the Fund's average daily net assets attributable to Class A shares as partial consideration for services performed and expenses incurred in the performance of MFD's obligations under its distribution agreement with the Trust. In addition, to the extent that the aggregate of the foregoing fees does not exceed 0.35% per annum of the average daily net assets of the Fund attributable to Class A shares, the Fund is permitted to pay other distribution-related expenses, including commissions to dealers and payments to wholesalers employed by MFD for sales at or above a certain dollar level. Payments will commence under the Class A Distribution Plan on the date on which the value of the net assets of the Fund attributable to Class A shares first equals or exceeds \$40 million. Thereafter, 0.10% of the distribution/service fee will be waived. Fees payable under the Class A Distribution Plan are charged to, and therefore reduce, income allocated to Class A shares. Service fees may be reduced for a securities dealer that is the holder or dealer of record for an investor who owns shares of the Fund having a net asset value at or above a certain dollar level. Dealers may from time to time be required to meet certain criteria in order to receive service fees. MFD or its affiliates are entitled to retain all service fees payable under the Class A Distribution Plan for which there is no dealer of record or for which qualification standards have not been met as partial consideration for personal services and/or account maintenance services performed by MFD or its affiliates for shareholder accounts. Certain banks and other financial institutions that have agency agreements with MFD will receive service fees that are the same as service fees to dealers.

CLASS B DISTRIBUTION PLAN. The Class B Distribution Plan provides that the Fund will pay MFD a daily distribution fee equal on an annual basis to 0.75% of the Fund's average daily net assets attributable to Class B shares and may pay MFD a service fee of up to 0.25% per annum of the Fund's average daily net assets attributable to Class B shares (which MFD will in turn pay to securities dealers which enter into a sales agreement with MFD at a rate of up to 0.25% per annum of the Fund's average daily net assets attributable to Class B shares owned by investors for whom such securities dealer is the holder or dealer of record). This service fee is intended to be additional consideration for all personal services and/or account maintenance services rendered by the dealer with respect to Class B shares. Fees payable under the Class B Distribution Plan are charged to, and therefore reduce, income allocated to Class B shares. The Class B Distribution Plan also provides that MFD will receive all CDSCs relating to Class B shares (see "Redemptions and Repurchases"), which do not reduce the distribution fee. MFD will pay commissions to dealers of 3.75% of the purchase

price of shares purchased through dealers. MFD will also advance to dealers the first year service fee at a rate equal to 0.25% of the purchase price of such shares and as compensation therefor, MFD may retain the service fee paid by the Fund with respect to such shares for the first year after purchase. Therefore, the total amount paid to a dealer upon the sale of shares is 4.00% of the purchase price of the shares (commission rate of 3.75% plus a service fee equal to 0.25% of the purchase price). Dealers will become eligible for additional service fees with respect to such shares commencing in the 13th month following the purchase. Dealers may from time to time be required to meet certain criteria in order to receive service fees. MFD or its affiliates are entitled to retain all service fees payable under the Class B Distribution Plan with respect to accounts for which there is no dealer of record or for which qualification standards have not been met as partial consideration for personal services and/or account maintenance services performed by MFD or its affiliates for shareholder accounts. The purpose of the distribution payments to MFD under the Class B Distribution Plan is to compensate MFD for its distribution services to the Fund. Since MFD's compensation is not directly tied to its expenses, the amount of compensation received by MFD during any year may be more or less than its actual expenses. For this reason, this type of distribution fee arrangement is characterized by the staff of the SEC as being of the "compensation" variety. However, the Fund is not liable for any expenses incurred by MFD in excess of the amount of compensation it receives. The expenses incurred by MFD, including commissions to dealers, are likely to be greater than the distribution fees for the next several years, but thereafter such expenses may be less than the amount of the distribution fees. Certain banks and other financial institutions that have agency agreements with MFD will receive agency transaction and service fees that are the same as commissions and service fees to dealers.

CLASS C DISTRIBUTION PLAN. The Class C Distribution Plan provides that the Fund will pay MFD a distribution fee of up to 0.75% per annum of the Fund's average daily net assets attributable to Class C shares and will pay MFD a service fee of up to 0.25% per annum of the Fund's average daily net assets attributable to Class C shares (which MFD in turn pays to securities dealers which enter into a sales agreement with MFD at a rate of up to 0.25% per annum of the Fund's daily net assets attributable to Class C Shares owned by investors for whom that securities dealer is the holder or dealer of record). The distribution/service fees attributable to Class C shares are designed to permit an investor to purchase such shares through a broker-dealer without the assessment of an initial sales charge or a CDSC while allowing MFD to compensate broker-dealers in connection with the sale of such shares.

The service fee is intended to be additional consideration for all personal services and/or account maintenance services rendered with respect to Class C shares. MFD or its affiliates are entitled to retain all service fees payable under the Class C Distribution Plan with respect to accounts for which there is no dealer of record as partial consideration for personal services and/or account maintenance services performed by MFD or its affiliates for shareholder accounts. The purpose of the distribution payments to MFD under the Class C Distribution Plan is to compensate MFD for its distribution services to the Fund. Distribution payments under the Plan will be used by MFD to pay securities dealers a distribution fee in an amount equal on an annual basis to 0.75% of the Fund's average daily net assets attributable to Class C shares owned by investors for whom that securities dealer is the holder or dealer of record. (Therefore, the total amount of distribution/service fees paid to a dealer on an annual basis is 1.00% of the Fund's average daily net assets attributable to Class C shares owned by investors for whom the securities dealer is the holder or dealer of record.) MFD also pays expenses of printing prospectuses and reports used for sales purposes, expenses with respect to the preparation and printing of sales literature and other distribution-related expenses, including, without limitation, the compensation of personnel and all costs of travel, office expense and equipment. Since MFD's compensation is not directly tied to its expenses, the amount of compensation received by MFD during any year may be more or less than its actual expenses. For this reason, this type of distribution fee arrangement is characterized by the staff of the SEC as being of the "compensation" variety. However, the Fund is not liable for any expenses incurred by MFD in excess of the amount of compensation it receives. Certain banks and other financial institutions that have agency agreements with MFD will receive agency transaction and service fees that are the same as distribution and service fees to dealers. Fees payable under the Class C Distribution Plan are charged to, and therefore reduce, income allocated to Class C shares.

DISTRIBUTIONS

The Fund intends to declare daily and pay to its shareholders substantially all of its net investment income as dividends on a monthly basis. Dividends generally are distributed on the first business day of the following month. The Fund may make one or more distributions during the calendar year to its shareholders from long-term capital gains and may also make one or more distributions during the calendar year to its shareholders from short-term capital gains. Shareholders may elect to receive dividends and capital gain distributions in either cash or additional shares of the same class with respect to which a distribution is paid. See "Tax Status" and "Shareholder Services -- Distribution Options" below. Shareholders may elect to receive dividends and capital gain distributions in either cash or additional shares of the same class with respect to which a distribution is made. Distributions paid by the Fund with respect to Class A shares will generally be greater than those paid with

respect to Class B and Class C shares because expenses attributable to Class B and Class C shares will generally be higher.

TAX STATUS

The Fund is treated as an entity separate from the other series of the Trust for federal income tax purposes. In order to minimize the taxes the Fund would otherwise be required to pay, the Fund intends to qualify each year as a "regulated investment company" under Subchapter M of the Code, and to make distributions to its shareholders in accordance with the timing requirements imposed by the Code. It is expected that the Fund will not be required to pay entity level federal income or excise taxes.

The Fund expects that the dividends paid to shareholders from interest on Municipal Obligations will be exempt from federal income tax because it intends to satisfy certain requirements of the Code. One such requirement is that at the close of each quarter of its taxable year, at least 50% of the value of the Fund's total assets consist of obligations whose interest is exempt from federal income tax. Certain distributions of exempt-interest dividends may also be a tax preference item for purposes of the federal alternative minimum tax. Distributions of income from capital gains, from investments in taxable securities, and from certain other transactions (including options and futures transactions) will be taxable to the shareholders, whether distributed in cash or in additional shares. Also, certain Fund distributions may be subject to state and local income taxes, depending on the nature of the distribution and the residence of the shareholder. Residents of certain states may be subject to an intangibles tax or a personal property tax on all or a portion of the value of their Fund shares. Investors should consult with their tax advisers in this regard.

Shortly after the end of each calendar year, each shareholder will be sent a statement setting forth the federal income tax status of all dividends and distributions for that calendar year, including the portion, if any, taxable as ordinary income, the portion, if any, taxable as long-term capital gain, the portion, if any, representing a return of capital (which is free of current taxes but results in a basis reduction), the portion exempt from federal income taxes as "exempt-interest dividends," the portion, if any, that is a tax preference item under the federal alternative minimum tax, and the amount, if any, of federal income tax withheld.

Fund distributions of net capital gains and net short-term capital gains will reduce the Fund's net asset value per share. Shareholders who buy shares just before the Fund makes a distribution of net capital gains or net short-term capital gains may thus pay the full price for the shares and then effectively receive a portion of the purchase price back as a taxable distribution.

Interest on indebtedness incurred by shareholders to purchase or carry shares of the Fund will not be deductible for federal income tax purposes. Exempt-interest dividends are taken into account in calculating the amount of social security and railroad retirement benefits that may be subject to federal income tax. All exempt-interest dividends may increase a corporate shareholder's alternative minimum tax liability. Entities or persons who are "substantial users" (or persons related to "substantial users") of the facilities financed by certain private activity bonds should consult their tax advisers before purchasing shares of the Fund.

The Fund intends to withhold U.S. federal income tax at a rate of 30% on taxable dividends and certain other payments that are subject to such withholding and that are made to persons who are neither citizens nor residents of the U.S., regardless of whether a lower rate may be permitted under an applicable law or treaty. The Fund is also required in certain circumstances to apply backup withholding of 31% on taxable dividends and redemption proceeds paid to any shareholder (including a shareholder who is neither a citizen nor a resident of the U.S.) who does not furnish to the Fund certain information and certifications or who is otherwise subject to backup withholding. However, backup withholding will not be applied to payments which have had 30% withholding taken. Prospective shareholders should read the Account Application for information regarding backup withholding of federal income tax and should consult their own tax advisers as to the tax consequences of an investment in the Fund.

NET ASSET VALUE

The net asset value per share of each class of shares of the Fund is determined each day during which the Exchange is open for trading. This determination is made once each such day as of the close of regular trading on the Exchange by deducting the amount of the liabilities attributable to the class from the value of the Fund's assets attributable to the class and dividing the difference by the number of shares of the class outstanding. Assets in the Fund's portfolio are valued on the basis of their current values or otherwise at their fair values, as described in the Statement of Additional Information. The net asset value of each class of shares is effective for orders received by the dealer prior to its calculation and received by MFD prior to the close of that business day.

DESCRIPTION OF SHARES, VOTING RIGHTS AND LIABILITIES

The Fund has three classes of shares, entitled Class A, Class B and Class C

Shares of Beneficial Interest (without par value). The Trust presently has 19 series of shares and has reserved the right to create and issue additional classes and series of shares, in which case each class of shares of a series would participate equally in the earnings, dividends and assets attributable to that class of shares of that particular series. Shareholders are entitled to one vote for each share held and shares of each series would be entitled to vote separately to approve investment advisory agreements or changes in investment restrictions, but shares of all series would vote together in the election of Trustees and selection of accountants. Additionally, each class of shares of a series will vote separately on any material increases in the fees under its Distribution Plan or on any other matter that affects solely its class of shares, but will otherwise vote together with all other classes of shares of the series on all other matters. The Trust does not intend to hold annual shareholder meetings. The Declaration of Trust provides that a Trustee may be removed from office in certain instances (see "Description of Shares, Voting Rights and Liabilities" in the Statement of Additional Information).

Each share of a class of the Fund represents an equal proportionate interest in that Fund with each other class share, subject to the liabilities of that class. Shares have no pre-emptive or conversion rights (except as set forth above in "Purchases -- of Class B Shares Conversion"). Shares are fully paid and non-assessable. Should the Fund be liquidated, shareholders of each class are entitled to share pro rata in the net assets attributable to that class available for distribution to shareholders. Shares will remain on deposit with the Shareholder Servicing Agent and certificates will not be issued except in connection with pledges and assignments and in certain other limited circumstances.

The Trust is an entity of the type commonly known as a "Massachusetts business trust." Under Massachusetts law, shareholders of such a business trust may, under certain circumstances, be held personally liable as partners for its obligations. However, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which both inadequate insurance (e.g., fidelity bonding and errors and omissions insurance) existed and the Trust itself was unable to meet its obligations.

PERFORMANCE INFORMATION

From time to time, the Fund will provide yield, tax-equivalent yield, current distribution rate and total rate of return quotations for each class of shares and may also quote fund rankings in the relevant fund category from various sources, such as the Lipper Analytical Services, Inc. and Wiesenberger Investment Companies Service. Any yield and tax-equivalent yield quotations are based on the annualized net investment income per share of each class over a 30-day period stated as a percent of the maximum public offering price on the last day of that period. The yield calculation for Class B shares assumes no CDSC is paid. The current distribution rate for each class is generally based upon the total amount of dividends per share paid by the Fund to shareholders of that class during the past 12 months and is computed by dividing the amount of such dividends by the maximum public offering price of that class at the end of such period. Current distribution rate calculations for Class B shares assume no CDSC is paid. The current distribution rate differs from the yield calculation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing, short-term capital gains, and return of invested capital, and is calculated over a different period of time. Total rate of return quotations reflect the average annual percentage change over stated periods in the value of an investment in a class of shares of the Fund made at the maximum public offering price of the shares of that class with all distributions reinvested and which, if quoted for periods of six years or less, will give effect to the imposition of the CDSC assessed upon redemptions of the Fund's Class B shares. Such total rate of return quotations may be accompanied by quotations which do not reflect the reduction in value of the initial investment (and reinvested dividends for periods prior to October 1, 1989) due to the sales charge or the deduction of a CDSC, and which will thus be higher. All performance quotations are based on historical performance and are not intended to indicate future performance. Yield and tax-equivalent yield reflect only net portfolio income allocable to a class as of a stated time and current distribution rate reflects only the rate of distributions paid by the Fund over a stated period of time, while total rate of return reflects all components of investment return over a stated period of time. The Fund's quotations may from time to time be used in advertisements, shareholder reports or other communications to shareholders. For a discussion of the manner in which the Fund will calculate its yield, tax-equivalent yield, current distribution rate and total rate of return, see the Statement of Additional Information. For further information about the Fund's performance for the fiscal year ended March 31, 1994, please see the Fund's Annual Report. A copy of the Annual Report may be obtained by contacting the Shareholder Servicing Agent (see back cover for address and phone number). In addition to information provided in shareholder reports, the Fund may, in its discretion, from time to time, make a list of all or a portion of its holdings available to investors upon request.

8. SHAREHOLDER SERVICES

Shareholders with questions concerning the shareholder services described below

or concerning other aspects of the Fund should contact the Shareholder Servicing Agent (see back cover for address and phone number).

ACCOUNT AND CONFIRMATION STATEMENTS -- Each shareholder will receive confirmation statements showing the transaction activity in his account. At the end of each calendar year, each shareholder will receive information regarding the tax status of reportable dividends and distributions for that year (see "Tax Status").

DISTRIBUTION OPTIONS -- The following options are available to all accounts (except Systematic Withdrawal Plan accounts described below) and may be changed as often as desired by notifying the Shareholder Servicing Agent:

- Dividends and capital gain distributions reinvested in additional shares. This option will be assigned if no other option is specified;

- Dividends in cash; capital gain distributions reinvested in additional shares;

- Dividends and capital gain distributions in cash.

Reinvestments (net of any tax withholding) will be made in additional full and fractional shares of the same class of shares at the net asset value in effect at the close of business on the last business day of the month. Dividends and capital gain distributions in amounts less than \$10 will automatically be reinvested in additional shares of the Fund. If a shareholder has elected to receive dividends and/or capital gain distributions in cash and the postal or other delivery service is unable to deliver checks to the shareholder's address of record, such shareholder's distribution option will automatically be converted to having all dividends and other distributions reinvested in additional shares. Any request to change a distribution option must be received by the Shareholder Servicing Agent in a sufficient amount of time before the payment date for a dividend or distribution in order to be effective for that dividend or distribution. No interest will accrue on amounts represented by uncashed distribution or redemption checks.

INVESTMENT AND WITHDRAWAL PROGRAMS -- For the convenience of shareholders, the Fund makes available the following programs designed to enable shareholders to add to their investment in an account with the Fund or withdraw from it with a minimum of paper work. The programs involve no extra charge to shareholders (other than a sales charge in the case of certain Class A share purchases) and may be changed or discontinued at any time by a shareholder or the Fund.

LETTER OF INTENT: If a shareholder (other than a group purchaser as described in the Statement of Additional Information) anticipates purchasing \$100,000 or more of Class A shares of the Fund alone or in combination with Class B or Class C shares of the Fund or any of the classes of other MFS Funds or MFS Fixed Fund (a bank collective investment fund) within a 13-month period (or 36-month period for purchases of \$1 million or more), the shareholder may obtain such shares at the same reduced sales charge as though the total quantity were invested in one lump sum, subject to escrow agreements and the appointment of an attorney for redemptions from the escrow amount if the intended purchases are not completed, by completing the Letter of Intent section of the Account Application.

RIGHT OF ACCUMULATION: A shareholder qualifies for cumulative quantity discounts on purchases of Class A shares when his new investment, together with the current offering price value of all holdings of any classes of shares of that shareholder in the MFS Funds or MFS Fixed Fund (a bank collective investment fund) reaches a discount level.

DISTRIBUTION INVESTMENT PROGRAM: Shares of a particular class of the Fund may be sold at net asset value (and without any applicable CDSC) through the automatic reinvestment of dividend and capital gain distributions from the same class of another MFS Fund. Furthermore, distributions made by the Fund may be automatically invested at net asset value (and without any applicable CDSC) in shares of the same class of another MFS Fund, if shares of such fund are available for sale.

SYSTEMATIC WITHDRAWAL PLAN: A shareholder may direct the Shareholder Servicing Agent to send him (or anyone he designates) regular periodic payments, as designated on the Account Application and based upon the value of his account. Each payment under a Systematic Withdrawal Plan (a "SWP") must be at least \$100 except in certain limited circumstances. The aggregate withdrawals of Class B shares in any year pursuant to a SWP will not be subject to a CDSC and are generally limited to 10% of the value of the account at the time of the establishment of the SWP. The CDSC will not be waived in the case of SWP redemptions of Class A shares which are subject to a CDSC.

DOLLAR COST AVERAGING PROGRAMS --

AUTOMATIC INVESTMENT PLAN: Cash investments of \$50 or more may be made through a shareholder's checking account twice monthly, monthly or quarterly. Required forms are available from the Shareholder Servicing Agent or investment dealers.

AUTOMATIC EXCHANGE PLAN: Shareholders having account balances of at least \$5,000 in any MFS Fund may exchange their shares for the same class of shares of the other MFS Funds (and, in the case of Class C shares, for shares of MFS Money Market Fund) under the Automatic Exchange Plan. The Automatic Exchange Plan provides for automatic exchanges of funds from the shareholder's account in an MFS Fund for investment in the same class of shares of other MFS Funds selected by the shareholder. Under the Automatic Exchange Plan, exchanges of at least \$50 each may be made to up to four different funds. A shareholder should consider the objectives and policies of a fund and review its prospectus before electing to exchange money into such fund through the Automatic Exchange Plan. No transaction fee is imposed in connection with exchange transactions under the Automatic Transfer Plan. However, exchanges of shares of MFS Money Market Fund, MFS Government Money Market Fund and Class A shares of MFS Cash Reserve Fund will be subject to any applicable sales charge. For federal and (generally) state income tax purposes, an exchange is treated as a sale of the shares exchanged and, therefore, could result in a capital gain or loss to the shareholder making the exchange. See the Statement of Additional Information for further information concerning the Automatic Exchange Plan. Investors should consult their tax advisers for information regarding the potential capital gain and loss consequences of transactions under the Automatic Exchange Plan.

Because a dollar cost averaging program involves periodic purchases of shares regardless of fluctuating share offering prices, a shareholder should consider his financial ability to continue his purchases through periods of low price levels. Maintaining a dollar cost averaging program concurrently with a withdrawal program could be disadvantageous because of the sales charges included in share purchases in the case of Class A shares, and because of the assessment of the CDSC for certain share redemptions in the case of Class A shares.

TAX-DEFERRED RETIREMENT PLANS -- Except as noted under "Purchases--General," shares of the Fund may be purchased by all types of tax-deferred retirement plans, including IRAs, SEP-IRA plans, 401(k) plans, 403(b) plans and other corporate pension and profit-sharing plans. Investors should consult with their tax advisers before establishing any of the tax-deferred retirement plans described above.

The Fund's Statement of Additional Information, dated March 1, 1995 contains more detailed information about the Trust and the Fund, including information related to (i) investment policies and restrictions, including the purchase and sale of options, Futures Contracts and Options on Futures Contracts, (ii) the Trustees, officers and investment adviser, (iii) portfolio trading, (iv) the Fund's shares, including rights and liabilities of shareholders, (v) tax status of dividends and distributions, (vi) the Distribution Plans, (vii) the method used to calculate performance quotations and (viii) various services and privileges provided by the Fund for the benefit of its shareholders, including additional information with respect to the exchange privilege.

APPENDIX A

DESCRIPTION OF BOND RATINGS

The ratings of Moody's, S&P and Fitch represent their opinions as to the quality of various debt instruments. It should be emphasized, however, that ratings are not absolute standards of quality. Consequently, debt instruments with the same maturity, coupon and rating may have different yields while debt instruments of the same maturity and coupon with different ratings may have the same yield.

MOODY'S INVESTORS SERVICE, INC.

Aaa: Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa: Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations of protective elements may be of greater amplitude or their may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A: Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa: Bonds which are rated Baa are considered as medium-grade obligations, (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca: Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C: Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

ABSENCE OF RATING: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. an application for rating was not received or accepted;
2. the issue or issuer belongs to a group of securities or companies that are not rated as a matter of policy;
3. there is a lack of essential data pertaining to the issue or issuer; and
4. the issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

STANDARD & POOR'S RATINGS GROUP

AAA: Debt rated AAA has the highest rating assigned by S&P's. Capacity to pay interest and repay principal is extremely strong.

AA: Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A: Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB: Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB: Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B: Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC: Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC: The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C: The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC-debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

CI: The rating CI is reserved for income bonds on which no interest is being paid.

D: Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

PLUS (+) OR MINUS (-): The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

NR: Indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.

FITCH INVESTORS SERVICE, INC.

AAA: Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA: Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA". Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+".

A: Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB: Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

BB: Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B: Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

CCC: Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

CC: Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

C: Bonds are in imminent default in payment of interest or principal.

PLUS (+) MINUS (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

NR: Indicates that Fitch does not rate the specific issue.

CONDITIONAL: A conditional rating is permitted on the successful completion of a project or the occurrence of a specific event.

SUSPENDED: A rating is suspended when Fitch deems the amount of information available from the issuer to be inadequate for rating purposes.

WITHDRAWN: A rating will be withdrawn when an issue matures or is called or refinanced, and, at Fitch's discretion, when an issuer fails to furnish proper and timely information.

FITCHALERT: Ratings are placed on FitchAlert to notify investors of an occurrence that is likely to result in a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for potential downgrade, or "Evolving", where ratings may be lowered. FitchAlert is relatively short-term, and should be resolved within 12 months.

APPENDIX B

DESCRIPTION OF OBLIGATIONS ISSUED OR GUARANTEED BY THE U.S. GOVERNMENT AND ITS AGENCIES, AUTHORITIES OR INSTRUMENTALITIES

U.S. GOVERNMENT OBLIGATIONS -- are issued by the U.S. Treasury and include bills, certificates of indebtedness, notes and bonds. Agencies and instrumentalities of the U.S. Government are established under the authority of an act of Congress and include, but are not limited to, the Tennessee Valley Authority, the Bank for Cooperatives, the Farmers Home Administration, Federal Home Loan Banks, Federal Intermediate Credit Banks and Federal Land Banks, as well as those listed below.

FEDERAL FARM CREDIT CONSOLIDATED SYSTEMWIDE NOTES AND BONDS -- are bonds issued by a cooperatively owned nationwide system of banks and associations supervised by the Farm Credit Administration. These bonds are not guaranteed by the U.S. Government.

MARITIME ADMINISTRATION BONDS -- are bonds issued by the Department of Transportation of the U.S. Government.

FHA DEBENTURES -- are debentures issued by the Federal Housing Administration of the U.S. Government and are fully and unconditionally guaranteed by the U.S. Government.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION ("GNMA") CERTIFICATES -- are mortgage-backed securities, with timely payment guaranteed by the full faith and credit of the U.S. Government, which represent a partial ownership interest in a pool of mortgage loans issued by lenders such as mortgage bankers, commercial banks and savings and loan associations. Each mortgage loan included in the pool is also insured or guaranteed by the Federal Housing Administration, the Veterans Administration or the Farmers Home Administration.

FEDERAL HOME LOAN MORTGAGE CORPORATION BONDS -- are bonds issued and guaranteed by the Federal Home Loan Mortgage Corporation and are not guaranteed by the U.S. Government.

FEDERAL HOME LOAN BANK BONDS -- are bonds issued by the Federal Home Loan Bank System and are not guaranteed by the U.S. Government.

FINANCING CORPORATION BONDS AND NOTES -- are bonds and notes issued and guaranteed by the Financing Corporation and are not guaranteed by the U.S. Government.

FEDERAL NATIONAL MORTGAGE ASSOCIATION BONDS -- are bonds issued and guaranteed by the Federal National Mortgage Association ("FNMA") and are not guaranteed by the U.S. Government.

RESOLUTION FUNDING CORPORATION BONDS AND NOTES -- are bonds and notes issued and guaranteed by the Resolution Funding Corporation and are not guaranteed by the U.S. Government.

STUDENT LOAN MARKETING ASSOCIATION DEBENTURES -- are debentures backed by the Student Loan Marketing Association ("SLMA") and are not guaranteed by the U.S. Government.

TENNESSEE VALLEY AUTHORITY BONDS AND NOTES -- are bonds and notes issued and guaranteed by the Tennessee Valley Authority.

Some of the foregoing obligations, such as Treasury bills and GNMA pass-through certificates, are supported by the full faith and credit of the U.S. Government; others, such as securities of FNMA, by the right of the issuer to borrow from the U.S. Treasury; still others, such as bonds issued by SLMA, are supported

only by the credit of the instrumentality. No assurance can be given that the U.S. Government will provide financial support to instrumentalities sponsored by the U.S. Government as it is not obligated by law, in certain instances, to do so.

Although this list includes a description of the primary types of U.S. Government agency, authorities or instrumentality obligations in which the Fund intends to invest, the Fund may invest in obligations of U.S. Government agencies or instrumentalities other than those listed above.

DESCRIPTION OF SHORT-TERM INVESTMENTS OTHER THAN
U.S. GOVERNMENT OBLIGATIONS

CERTIFICATES OF DEPOSIT -- are certificates issued against funds deposited in a bank (including eligible foreign branches of U.S. banks), are for a definite period of time, earn a specified rate of return and are normally negotiable.

BANKERS' ACCEPTANCES -- are marketable short-term credit instruments used to finance the import, export, transfer or storage of goods. They are termed "accepted" when a bank guarantees their payment at maturity.

COMMERCIAL PAPER -- refers to promissory notes issued by corporations in order to finance their short-term credit needs.

CORPORATE OBLIGATIONS -- include bonds and notes issued by corporations in order to finance long-term credit needs.

A-1 AND P-1 COMMERCIAL PAPER RATINGS

Description of S&P and Moody's highest commercial paper ratings:

The rating "A" is the highest commercial paper rating assigned by S&P, and issues so rated are regarded as having the greatest capacity for timely payment. Issues in the "A" category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety. The A-1 designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those A-1 issues determined to possess overwhelming safety characteristics will be denoted with a plus (+) sign designation.

The rating P-1 is the highest commercial paper rating assigned by Moody's. Issuers rated P-1 have a superior ability for repayment. P-1 repayment capacity will normally be evidenced by the following characteristics: (1) leading market positions in well established industries; (2) high rates of return on funds employed; (3) conservative capitalization structure with moderate reliance on debt and ample asset protection; (4) broad margins in earnings coverage of fixed financial charges and high internal cash generation; and (5) well established access to a range of financial markets and assured sources of alternate liquidity.

APPENDIX C

TAXABLE EQUIVALENT YIELD TABLE

(UNDER FEDERAL INCOME TAX LAW AND RATES FOR 1995)

The table below shows the approximate taxable bond yields which are equivalent to tax-exempt bond yields from 3% to 9% under federal income tax laws that apply to 1995. (Such yields may differ under the laws applicable to subsequent years.) Separate calculations, showing the applicable taxable income brackets, are provided for investors who file joint returns and for those investors who file individual returns.

While it is expected that a substantial portion of the interest income distributed to the Fund's shareholders will be exempt from federal income taxes, portions of such distributions from time to time may be subject to federal income taxes or a federal alternative minimum tax.

<TABLE>
<CAPTION>

| TAXABLE INCOME<F1> | | INCOME TAX | TAX-EXEMPT YIELD | | | | | |
|---------------------|---------------------|------------|------------------|-------|-------|-------|--------|--------|
| SINGLE 1995 | JOINT 1995 | BRACKET | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% |
| <S> | | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| \$ 0 - 23,350 | \$ 0 - 39,000 | 15.0% | 3.53% | 4.71% | 5.88% | 7.06% | 8.24% | 9.41% |
| \$ 23,350 - 56,550 | \$ 39,000 - 94,250 | 28.0% | 4.17% | 5.56% | 6.94% | 8.33% | 9.72% | 11.11% |
| \$ 56,550 - 117,950 | \$ 94,250 - 143,600 | 31.0% | 4.35% | 5.80% | 7.25% | 8.70% | 10.14% | 11.59% |
| \$117,950 - 256,500 | \$143,600 - 256,500 | 36.0% | 4.69% | 6.25% | 7.81% | 9.38% | 10.94% | 12.50% |
| \$256,500 & Over | \$256,500 & Over | 39.6% | 4.97% | 6.62% | 8.28% | 9.93% | 11.59% | 13.25% |

<FN>
<F1>Net amount subject to Federal personal income tax after deductions and exemptions.

APPENDIX D

MFS MUNICIPAL INCOME FUND
 PORTFOLIO COMPOSITION CHART
 FOR THE FISCAL YEAR ENDED JANUARY 31, 1995

The table below shows the percentages of the Fund's assets at January 31, 1995, invested in securities assigned to the various rating categories by S&P, Moody's (provided only for securities not rated by S&P) and Fitch (provided only for securities not rated by S&P or Moody's) and in unrated securities determined by MFS to be of comparable quality:

| RATING | S&P | MOODY'S | FITCH | UNRATED SECURITIES OF COMPARABLE QUALITY | TOTAL |
|---------|-------|---------|-------|---|-------|
| ----- | --- | ----- | ----- | ----- | ----- |
| AAA/Aaa | 30.9% | | | 0.4% | 31.3% |
| AA/Aa | 20.7% | | | 0.9% | 21.6% |
| A/A | 20.1% | | | | 20.1% |
| BBB/Baa | 15.2% | | | 1.4% | 16.6% |
| BB/Ba | 1.0% | | | 4.0% | 5.0% |
| B/B | | | | 2.9% | 2.9% |
| CCC/Caa | | | | 0.4% | 0.4% |
| CC/Ca | | | | | |
| C/C | | | | | |
| Default | | | | 0.2% | 0.2% |
| Total: | 87.9% | | | 10.2% | 98.1% |
| | ----- | | | ----- | ----- |

The chart does not necessarily indicate what the composition the Fund's portfolio will be in subsequent years. Rather, the Fund's investment objective, policies and restrictions indicate the extent to which the Fund may purchase securities in the various categories.

Investment Adviser
 Massachusetts Financial Services Company
 500 Boylston Street
 Boston, MA 02116
 (617) 954-5000

Distributor
 MFS Fund Distributors, Inc.
 500 Boylston Street
 Boston, MA 02116
 (617) 954-5000

Custodian and Dividend Disbursing Agent
 State Street Bank and Trust Company
 225 Franklin Street
 Boston, MA 02110

Shareholder Servicing Agent
 MFS Service Center, Inc.
 500 Boylston Street
 Boston, MA 02116
 Toll-free: (800) 225-2606

Mailing Address:
 P.O. Box 2281
 Boston, MA 02107-9906

Independent Accountants
 Deloitte & Touche LLP
 125 Summer Street
 Boston, MA 02110

MFS (R) MUNICIPAL INCOME FUND
 500 Boylston Street
 Boston, MA 02116

MMI-1 3/95/49.5M 02/202/302

MFS (R) MUNICIPAL INCOME FUND
 Prospectus
 March 1, 1995

March 1, 1995

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MFS MUNICIPAL INCOME FUND
A Series of MFS Municipal Series Trust
500 Boylston Street, Boston, Massachusetts 02116
(617) 954-5000

This Statement of Additional Information sets forth information which may be of interest to investors but which is not necessarily included in the Fund's Prospectus, dated March 1, 1995. This Statement of Additional Information should be read in conjunction with the Prospectus, a copy of which may be obtained without charge by contacting the Shareholder Servicing Agent (see back cover for address and phone number).

THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT A PROSPECTUS AND IS AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS ONLY IF PRECEDED OR ACCOMPANIED BY A CURRENT PROSPECTUS.

1. DEFINITIONS

| | |
|------------------------|--|
| "Fund" | MFS (R) Municipal Income Fund, a series of MFS Municipal Series Trust (the "Trust"), a Massachusetts business trust. The Trust was previously known as "MFS Multi-State Municipal Bond Trust" until its name was changed to MFS Municipal Series Trust on August 27, 1993. On August 3, 1992, the Trust changed its name from "MFS Managed Multi-State Municipal Bond Trust." The Trust was known as "MFS Managed Multi-State Tax-Exempt Trust" until its name was changed effective August 12, 1988. The MFS Municipal Income Fund is the successor to MFS Lifetime Municipal Bond Fund, which was reorganized as a series of the Trust on September 7, 1993. |
| "MFS" or the "Adviser" | Massachusetts Financial Services Company, a Delaware corporation. |
| "MFD" | MFS Fund Distributors, Inc., a Delaware corporation. |
| "Prospectus" | The Prospectus, dated March 1, 1995, of the Fund. |

2. INVESTMENT TECHNIQUES

The investment policies and techniques are described in the Prospectus. In addition, certain of the Fund's investment policies are described in greater detail below.

LENDING OF SECURITIES

The Fund may seek to increase its income by lending portfolio securities. Such loans will usually be made only to member banks of the Federal Reserve System and to member firms (and subsidiaries thereof) of the New York Stock Exchange and would be required to be secured continuously by collateral in cash, cash equivalents, or U.S. Government securities maintained on a current basis at an

amount at least equal to the market value of the securities loaned. The Fund would have the right to call a loan and obtain the securities loaned at any time on customary industry settlement notice (which will usually not exceed five days). During the existence of a loan, the Fund would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned and would also receive compensation based on investment of the collateral. The Fund would not, however, have the right to vote any securities having voting rights during the existence of the loan, but would call the loan in anticipation of an important vote to be taken among holders of the securities or of the giving or withholding of their consent on a material matter affecting the investment. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower fail financially. However, the loans would be made only to firms deemed by the Adviser to be of good standing, and when, in the judgment of the Adviser, the consideration which could be earned currently from securities loans of this type justifies the attendant risk. If the Adviser determines to make securities loans, it is not intended that the value of the securities loaned would exceed 20% of the value of the Fund's total assets.

WHEN-ISSUED SECURITIES

The Fund may purchase securities on a "when-issued" or on a "forward delivery" basis. It is expected that, under normal circumstances, the Fund will take delivery of such securities. When the Fund commits to purchase a security on a "when-issued" or on a "forward delivery" basis, it will set up procedures consistent with the General Statement of Policy of the Securities and Exchange Commission (the "SEC") concerning such purchases. Since that policy currently recommends that an amount of the Fund's assets equal to the amount of the purchase be held aside or segregated to be used to pay for the commitment, the Fund will always have cash, short-term money market instruments or high quality debt securities sufficient to cover any commitments or to limit any potential risk. However, although the Fund does not intend to make such purchases for speculative purposes and intends to adhere to the provisions of SEC policies, purchases of securities on such bases may involve more risk than other types of purchases. For example, the Fund may have to sell assets which have been set aside in order to meet redemptions. Also, if the Fund determines it is necessary to sell the "when-issued" or "forward delivery" securities before delivery, it may incur a loss because of market fluctuations since the time the commitment to purchase such securities was made. When the time comes to pay for "when-issued" or "forward delivery" securities, the Fund will meet its obligations from the then-available cash flow on the sale of securities, or, although it would not normally expect to do so, from the sale of the "when-issued" or "forward delivery" securities themselves (which may have a value greater or less than the Fund's payment obligation).

REPURCHASE AGREEMENTS

As described in the Prospectus, the Fund may enter into repurchase agreements with sellers who are member firms (or subsidiaries thereof) of the New York Stock Exchange, members of the Federal Reserve System, recognized primary U.S. Government securities dealers or institutions which the Adviser has determined to be of comparable creditworthiness. The securities that the Fund purchases and holds through its agent are U.S. Government securities, the values, including accrued interest, of which are equal to or greater than the repurchase price agreed to be paid by the seller. The repurchase price may be higher than the purchase price, the difference being income to the Fund, or the purchase and repurchase prices may be the same, with interest at a standard rate due to the Fund together with the repurchase price on repurchase. In either case, the income to the Fund is unrelated to the interest rate on the U.S. Government securities.

The repurchase agreement provides that in the event the seller fails to pay the price agreed upon on the agreed upon delivery date or upon demand, as the case may be, the Fund will have the right to liquidate the securities. If at the time the Fund is contractually entitled to exercise its right to liquidate the securities, the seller is subject to a proceeding under the bankruptcy laws or its assets are otherwise subject to a stay order, the Fund's exercise of its right to liquidate the securities may be delayed and result in certain losses and costs to the Fund. The Fund has adopted and follows procedures which are intended to minimize the risks of repurchase agreements. For example, the Fund only enters into repurchase agreements after the Adviser has determined that the seller is creditworthy, and the Adviser monitors the seller's creditworthiness on an ongoing basis. Moreover, under such agreements, the value, including accrued interest, of the securities (which are marked to market every business day) is required to be greater than the repurchase price, and the Fund has the right to make margin calls at any time if the value of the securities falls below the agreed upon margin.

VARIABLE AND FLOATING RATE OBLIGATIONS

Investments in floating or variable rate securities normally will involve industrial development or revenue bonds which provide that the rate of interest is set as a specific percentage of a designated base rate, such as rates on Treasury Bonds or Bills or the prime rate at a major commercial bank, and that a bondholder can demand payment of the obligations on short notice at par plus accrued interest, which amount may be more or less than the amount the bondholder paid for them. While there is usually no established secondary market

for issues of this type of security, the dealer that sells an issue of such securities frequently will also offer to repurchase such securities at any time, at a repurchase price which varies and may be more or less than the amount the bondholder paid for them.

The maturity of floating or variable rate obligations (including participation interests therein) is deemed to be the longer of (i) the notice period required before the Fund is entitled to receive payment of the obligation upon demand or (ii) the period remaining until the obligation's next interest rate adjustment. If not redeemed by the Fund through the demand feature, the obligations mature on a specified date which may range up to 30 years from the date of issuance.

INVERSE FLOATING RATE OBLIGATIONS

The Fund may invest in so called "inverse floating rate obligations" or "residual interest" bonds or certificates structured to have similar features. In creating such an obligation, a municipality issues a certain amount of debt and pays a fixed interest rate. A portion of the debt is issued as variable rate short-term obligations, the interest rate of which is reset at short intervals, typically ranging from 35 days to one year. The other half of the debt is issued as inverse floating rate obligations, the interest rate of which is calculated based on the difference between the entire amount of interest paid by the issuer on all of the debt and the interest paid on the short-term obligation. Under usual circumstances, the holder of the inverse floating rate obligation can generally purchase an equal principal amount of the short-term obligation and link the two obligations in order to create long-term fixed-rate bonds. Because the interest rate on the inverse floating rate obligation is determined by subtracting the short-term rate from a fixed amount, the interest rate will decrease as the short-term rate increases and will increase as the short-term rate decreases. The magnitude of increases and decreases in the market value of inverse floating rate obligations may be approximately twice as large (or more if the inverse instrument is issued in principal amount greater than the principal amount of the short-term piece) as the comparable change in the market value of an equal principal amount of long-term bonds which bear interest at the rate paid by the issuer and have similar credit quality, redemption and maturity provisions.

OPTIONS

OPTIONS ON SECURITIES -- As noted in the Prospectus, the Fund may write covered call and put options and purchase call and put options on fixed income securities. Call and put options written by the Fund may be covered in the manner set forth below.

A call option written by the Fund is "covered" if the Fund owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Fund holds a call on the same security and in the same principal amount as the call written where the exercise price of the call held (a) is equal to or less than the exercise price of the call written or (b) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash, short-term money market instruments or high quality debt securities in a segregated account with its custodian. A put option written by the Fund is "covered" if the Fund maintains cash, short-term money market instruments or high quality debt securities with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same security and in the same principal amount as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written or where the exercise price of the put held is less than the exercise price of the put written if the difference is maintained by the Fund in cash, short-term money market instruments or high quality debt securities in a segregated account with its custodian. Put and call options written by the Fund may also be covered in such other manner as may be in accordance with the requirements of the exchange on which, or the counter party with which, the option is traded, and applicable laws and regulations. If the writer's obligation is not so covered, it is subject to the risk of the full change in value of the underlying security from the time the option is written until exercise.

Effecting a closing transaction in the case of a written call option will permit the Fund to write another call option on the underlying security with either a different exercise price or expiration date or both, or in the case of a written put option will permit the Fund to write another put option to the extent that the exercise price thereof is secured by deposited cash, short-term money market instruments or high quality debt securities. Such transactions permit the Fund to generate additional premium income, which will partially offset declines in the value of portfolio securities or increases in the cost of securities to be acquired. Also, effecting a closing transaction will permit the cash or proceeds from the concurrent sale of any securities subject to the option to be used for other investments of the Fund, provided that another option on such security is not written. If the Fund desires to sell a particular security from its portfolio on which it has written a call option, it will effect a closing transaction in connection with the option prior to or concurrent with the sale of the security.

The Fund will realize a profit from a closing transaction if the premium paid in connection with the closing of an option written by the Fund is less than the premium received from writing the option, or if the premium received in connection with the closing of an option purchased by the Fund is more than the premium paid for the original purchase. Conversely, the Fund will suffer a loss if the premium paid or received in connection with a closing transaction is more or less, respectively, than the premium received or paid in establishing the option position. Because increases in the market price of a call option will generally reflect increases in the market price of the underlying security, any loss resulting from the repurchase of a call option previously written by the Fund is likely to be offset in whole or in part by appreciation of the underlying security owned by the Fund.

The Fund may write options in connection with buy-and-write transactions; that is, the Fund may purchase a security and then write a call option against that security. The exercise price of the call the Fund determines to write will depend upon the expected price movement of the underlying security. The exercise price of a call option may be below ("in-the-money"), equal to ("at-the-money") or above ("out-of-the-money") the current value of the underlying security at the time the option is written. Buy-and-write transactions using in-the-money call options may be used when it is expected that the price of the underlying security will decline moderately during the option period. Buy- and-write transactions using out-of-the-money call options may be used when it is expected that the premiums received from writing the call option plus the appreciation in the market price of the underlying security up to the exercise price will be greater than the appreciation in the price of the underlying security alone. If the call options are exercised in such transactions, the Fund's maximum gain will be the premium received by it for writing the option, adjusted upwards or downwards by the difference between the Fund's purchase price of the security and the exercise price, less related transaction costs. If the options are not exercised and the price of the underlying security declines, the amount of such decline will be offset in part, or entirely, by the premium received.

The writing of covered put options is similar in terms of risk/return characteristics to buy-and-write transactions. If the market price of the underlying security rises or otherwise is above the exercise price, the put option will expire worthless and the Fund's gain will be limited to the premium received, less related transaction costs. If the market price of the underlying security declines or otherwise is below the exercise price, the Fund may elect to close the position or retain the option until it is exercised, at which time the Fund will be required to take delivery of the security at the exercise price; the Fund's return will be the premium received from the put option minus the amount by which the market price of the security is below the exercise price, which could result in a loss. Out-of-the-money, at-the-money and in-the-money put options may be used by the Fund in the same market environments that call options are used in equivalent buy-and-write transactions.

The Fund may also write combinations of put and call options on the same security, known as "straddles," with the same exercise price and expiration date. By writing a straddle, the Fund undertakes a simultaneous obligation to sell and purchase the same security in the event that one of the options is exercised. If the price of the security subsequently rises sufficiently above the exercise price to cover the amount of the premium and transaction costs, the call will likely be exercised and the Fund will be required to sell the underlying security at a below market price. This loss may be offset, however, in whole or part, by the premiums received on the writing of the two options. Conversely, if the price of the security declines by a sufficient amount, the put will likely be exercised. The writing of straddles will likely be effective, therefore, only where the price of the security remains stable and neither the call nor the put is exercised. In those instances where one of the options is exercised, the loss on the purchase or sale of the underlying security may exceed the amount of the premiums received.

By writing a call option, the Fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option. By writing a put option, the Fund assumes the risk that it may be required to purchase the underlying security for an exercise price above its then current market value, resulting in a capital loss unless the security subsequently appreciates in value. The writing of options on securities will not be undertaken by the Fund solely for hedging purposes, and could involve certain risks which are not present in the case of hedging transactions. Moreover, even where options are written for hedging purposes, such transactions constitute only a partial hedge against declines in the value of portfolio securities or against increases in the value of securities to be acquired, up to the amount of the premium.

The Fund may purchase options for hedging purposes or to increase its return. Put options may be purchased to hedge against a decline in the value of portfolio securities. If such decline occurs, the put options will permit the Fund to sell the securities at the exercise price, or to close out the options at a profit. By using put options in this way, the Fund will reduce any profit it might otherwise have realized in the underlying security by the amount of the premium paid for the put option and by transaction costs.

The Fund may purchase call options to hedge against an increase in the price of securities that the Fund anticipates purchasing in the future. If such increase

occurs, the call option will permit the Fund to purchase the securities at the exercise price, or to close out the options at a profit. The premium paid for the call option plus any transaction costs will reduce the benefit, if any, realized by the Fund upon exercise of the option, and, unless the price of the underlying security rises sufficiently, the option may expire worthless to the Fund.

In certain instances, the Fund may enter into options on Treasury securities which provide for periodic adjustment of the strike price and may also provide for the periodic adjustment of the premium during the term of each such option. Like other types of options, these transactions, which may be referred to as "reset" options or "adjustable strike options," grant the purchaser the right to purchase (in the case of a "call") or sell (in the case of a "put") a specified type and series of U.S. Treasury security at any time up to a stated expiration date (or, in certain instances, on such date). In contrast to other types of options, however, the price at which the underlying security may be purchased or sold under a "reset" option is determined at various intervals during the term of the option, and such price fluctuates from interval to interval based on changes in the market value of the underlying security. As a result, the strike price of a "reset" option, at the time of exercise, may be less advantageous to the Fund than if the strike price had been fixed at the initiation of the option. In addition, the premium paid for the purchase of the option may be determined at the termination, rather than the initiation, of the option. If the premium is paid at termination, the Fund assumes the risk that (i) the premium may be less than the premium which would otherwise have been received at the initiation of the option because of such factors as the volatility in yield of the underlying Treasury security over the term of the option and adjustments made to the strike price of the option, and (ii) the option purchaser may default on its obligation to pay the premium at the termination of the option.

The Fund may also purchase warrants on fixed income securities. A warrant on a fixed income security is a long-term call option that provides the holder with the right, but not the obligation, to purchase from the seller of the warrant a fixed income security with a specified par value, coupon and maturity at a fixed exercise price on a specified date or between specified dates. Typically, the fixed income securities that are deliverable pursuant to the warrant will be noncallable securities. Warrants may be issued as entirely separate securities or they may be attached to, but subsequently detachable from, a fixed income security of the same issuer.

FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

FUTURES CONTRACTS -- As noted in the Prospectus, the Fund may enter into interest rate futures contracts on fixed income securities and indexes on such securities. (Unless otherwise specified, interest rate futures contracts are referred to as "Futures Contracts.") Such investment strategies will be used for hedging purposes and for non-hedging purposes, subject to applicable law.

A Futures Contract is a bilateral agreement providing for the purchase and sale of a specified type and amount of a financial instrument, or for the making and acceptance of a cash settlement, at a stated time in the future for a fixed price. By its terms, a Futures Contract in the majority of cases provides for a specified settlement date on which, in the case of interest rate futures contracts, the difference between the price at which the contract was entered into and the contract's closing value is settled between the purchaser and seller in cash. Futures Contracts differ from options in that they are bilateral agreements, with both the purchaser and the seller equally obligated to complete the transaction. Futures Contracts call for settlement only on the expiration date and cannot be "exercised" at any other time during their term.

The purchase or sale of a Futures Contract differs from the purchase or sale of a security or the purchase of an option in that no purchase price is paid or received. Instead, an amount of cash or cash equivalents, which varies but may be as low as 5% or less of the value of the contract, must be deposited with the broker as "initial margin." Subsequent payments to and from the broker, referred to as "variation margin," are made on a daily basis as the value of the index or instrument underlying the Futures Contract fluctuates, making positions in the Futures Contract more or less valuable - a process known as "marking to the market."

Interest rate futures contracts may be purchased or sold to attempt to protect against the effects of interest rate changes on the Fund's current or intended investments in fixed income securities. For example, if the Fund owned long-term bonds and interest rates were expected to increase, the Fund might enter into interest rate futures contracts for the sale of debt securities. Such a sale would have much the same effect as selling some of the long-term bonds in the Fund's portfolio. If interest rates did increase, the value of the debt securities in the portfolio would decline, but the value of the Fund's interest rate futures contracts would increase at approximately the same rate, thereby keeping the net asset value of the Fund from declining as much as it otherwise would have.

Similarly, if interest rates were expected to decline, interest rate futures contracts may be purchased to hedge in anticipation of subsequent purchases of long-term bonds at higher prices. Since the fluctuations in the value of the interest rate futures contracts should be similar to that of long-term bonds, the Fund could protect itself against the effects of the anticipated rise in the

value of long-term bonds without actually buying them until the necessary cash became available or the market had stabilized. At that time, the interest rate futures contracts could be liquidated and the Fund's cash reserves could then be used to buy long-term bonds on the cash market. The Fund could accomplish similar results by selling bonds with long maturities and investing in bonds with short maturities when interest rates are expected to increase. However, since the futures market is more liquid than the cash market, the use of interest rate futures contracts as a hedging technique allows the Fund to hedge its interest rate risk without having to sell its portfolio securities.

OPTIONS ON FUTURES CONTRACTS -- As noted in the Prospectus, the Fund may purchase and write options to buy or sell futures contracts in which it may invest ("Options on Futures Contracts"). Such investment strategies will be used for hedging purposes and for non-hedging purposes, subject to applicable law.

An Option on a Futures Contract provides the holder with the right to enter into a "long" position in the underlying Futures Contract, in the case of a call option, or a "short" position in the underlying Futures Contract, in the case of a put option, at a fixed exercise price up to a stated expiration date or, in the case of certain options, on such date. Upon exercise of the option by the holder, the contract market clearinghouse establishes a corresponding short position for the writer of the option, in the case of a call option, or a corresponding long position in the case of a put option. In the event that an option is exercised, the parties will be subject to all the risks associated with the trading of Futures Contracts, such as payment of initial and variation margin deposits. In addition, the writer of an Option on a Futures Contract, unlike the holder, is subject to initial and variation margin requirements on the option position.

A position in an Option on a Futures Contract may be terminated by the purchaser or seller prior to expiration by effecting a closing purchase or sale transaction, subject to the availability of a liquid secondary market, which is the purchase or sale of an option of the same series (i.e., the same exercise price and expiration date) as the option previously purchased or sold. The difference between the premiums paid and received represents the trader's profit or loss on the transaction.

Options on Futures Contracts that are written or purchased by the Fund on U.S. exchanges are traded on the same contract market as the underlying Futures Contract, and, like Futures Contracts, are subject to regulation by the Commodity Futures Trading Commission (the "CFTC") and the performance guarantee of the exchange clearinghouse. In addition, Options on Futures Contracts may be traded on foreign exchanges.

The Fund may cover the writing of call Options on Futures Contracts (a) through purchases of the underlying Futures Contract, (b) through ownership of the instrument underlying the Futures Contract, or (c) through the holding of a call on the same Futures Contract and in the same principal amount as the call written where the exercise price of the call held (i) is equal to or less than the exercise price of the call written or (ii) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash or securities in a segregated account with its custodian. The Fund may cover the writing of put Options on Futures Contracts (a) through sales of the underlying Futures Contract, (b) through segregation of cash, short-term money market instruments or high quality debt securities in an amount equal to the value of the security underlying the Futures Contract, or (c) through the holding of a put on the same Futures Contract and in the same principal amount as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written or where the exercise price of the put held is less than the exercise price of the put written if the difference is maintained by the Fund in cash, short-term money market instruments or high quality debt securities in a segregated account with its custodian. Put and call Options on Futures Contracts may also be covered in such other manner as may be in accordance with the rules of the exchange on which the option is traded and applicable laws and regulations. Upon the exercise of a call Option on a Futures Contract written by the Fund, the Fund will be required to sell the underlying Futures Contract which, if the Fund has covered its obligation through the purchase of such Contract, will serve to liquidate its futures position. Similarly, where a put Option on a Futures Contract written by the Fund is exercised, the Fund will be required to purchase the underlying Futures Contract which, if the Fund has covered its obligation through the sale of such Contract, will close out its futures position.

The writing of a call option on a Futures Contract for hedging purposes constitutes a partial hedge against declining prices of the securities or other instruments required to be delivered under the terms of the Futures Contract. If the futures price at expiration of the option is below the exercise price, the Fund will retain the full amount of the option premium, less related transaction costs, which provides a partial hedge against any decline that may have occurred in the Fund's portfolio holdings. The writing of a put option on a Futures Contract constitutes a partial hedge against increasing prices of the securities or other instruments required to be delivered under the terms of the Futures Contract. If the futures price at expiration of the option is higher than the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any increase in the price of securities which the Fund intends to purchase. If a put or call option the Fund has written is

exercised, the Fund will incur a loss which will be reduced by the amount of the premium it receives. Depending on the degree of correlation between changes in the value of its portfolio securities and the changes in the value of its futures positions, the Fund's losses from existing Options on Futures Contracts may to some extent be reduced or increased by changes in the value of portfolio securities.

The Fund may purchase Options on Futures Contracts for hedging purposes instead of purchasing or selling the underlying Futures Contracts. For example, where a decrease in the value of portfolio securities is anticipated as a result of a projected market-wide decline or changes in interest or exchange rates, the Fund could, in lieu of selling Futures Contracts, purchase put options thereon. In the event that such decrease occurs, it may be offset, in whole or part, by a profit on the option. Conversely, where it is projected that the value of securities to be acquired by the Fund will increase prior to acquisition, due to a market advance or changes in interest or exchange rates, the Fund could purchase call Options on Futures Contracts, rather than purchasing the underlying Futures Contracts.

RISK FACTORS IN OPTIONS AND FUTURES TRANSACTIONS

RISK OF IMPERFECT CORRELATION OF HEDGING INSTRUMENTS WITH THE FUND'S PORTFOLIO.
The Fund's ability effectively to hedge all or a portion of its portfolio through transactions in options, Futures Contracts and Options on Futures Contracts depends on the degree to which price movements in the underlying instrument correlate with price movements in the relevant portion of the Fund's portfolio. In the case of futures and options based on fixed income securities, the portfolio securities which are being hedged may not be the same type of obligation underlying such contract. The use of Forward Contracts for "cross hedging" purposes may involve greater correlation risks. As a result, the correlation probably will not be exact. Consequently, the Fund bears the risk that the price of the portfolio securities being hedged will not move in the same amount or direction as the underlying obligation. It is possible that there may be a negative correlation between the obligation underlying an option or Futures Contract in which the Fund has a position and the portfolio securities the Fund is attempting to hedge, which could result in a loss on both the portfolio and the hedging instrument.

The trading of Futures Contracts and options for hedging purposes entails the additional risk of imperfect correlation between movements in the futures or option price and the price of the underlying obligation. The anticipated spread between the prices may be distorted due to the differences in the nature of the markets, such as differences in margin requirements, the liquidity of such markets and the participation of speculators in the options and futures. In this regard, trading by speculators in options and futures has in the past occasionally resulted in market distortions, which may be difficult or impossible to predict, particularly near the expiration of such contracts.

The trading of Options on Futures Contracts also entails the risk that changes in the value of the underlying Futures Contract will not be fully reflected in the value of the option. The risk of imperfect correlation, however, generally tends to diminish as the maturity date of the Futures Contract or expiration date of the option approaches.

Further, with respect to options on securities and Options on Futures Contracts, the Fund is subject to the risk of market movements between the time that the option is exercised and the time of performance thereunder. This could increase the extent of any loss suffered by the Fund in connection with such transactions.

In writing a covered call option on a security or futures contract, the Fund also incurs the risk that changes in the value of the instruments used to cover the position will not correlate closely with changes in the value of the option or underlying instrument. For example, where the Fund covers a call option written on a futures contract through segregation of securities, such securities may not match the instrument underlying the Futures Contract, and the Fund may not be fully covered. As a result, the Fund could be subject to risk of loss in the event of adverse market movements.

The writing of options on securities or Options on Futures Contracts constitutes only a partial hedge against fluctuations in the value of the Fund's portfolio. When the Fund writes an option, it will receive premium income in return for the holder's purchase of the right to acquire or dispose of the underlying obligation. In the event that the price of such obligation does not rise sufficiently above the exercise price of the option, in the case of a call, or fall below the exercise price, in the case of a put, the option will not be exercised and the Fund will retain the amount of the premium, less related transaction costs, which will constitute a partial hedge against any decline that may have occurred in the Fund's portfolio holdings or any increase in the cost of the instruments to be acquired.

Where the price of the underlying obligation moves sufficiently in favor of the holder to warrant exercise of the option, however, and the option is exercised, the Fund will incur a loss which may only be partially offset by the amount of the premium it received. Moreover, by writing an option, the Fund may be required to forgo the benefits which might otherwise have been obtained from an increase in the value of portfolio securities or other assets or a decline in

the value of securities or assets to be acquired.

In the event of the occurrence of any of the foregoing adverse market events, the Fund's overall return may be lower than if it had not engaged in the hedging transactions.

It should also be noted that the Fund may enter transactions in Futures Contracts and Options on Futures Contracts not only for hedging purposes, but also for non-hedging purposes intended to increase portfolio returns. Non-hedging transactions in such investments involve greater risks and may result in losses which may not be offset by increases in the value of portfolio securities or declines in the cost of securities to be acquired. The Fund will only write covered options, such that cash or securities necessary to satisfy an option exercise will be segregated at all times, unless the option is covered in such other manner as may be in accordance with the rules of the exchange on which the option is traded and applicable laws and regulations. Nevertheless, the method of covering an option employed by the Fund may not fully protect it against risk of loss and, in any event, the Fund could suffer losses on the option position which might not be offset by corresponding portfolio gains.

With respect to the writing of straddles on securities, the Fund incurs the risk that the price of the underlying security will not remain stable, that one of the options written will be exercised and that the resulting loss will not be offset by the amount of the premiums received. Such transactions, therefore, create an opportunity for increased return by providing the Fund with two simultaneous premiums on the same security, but involve additional risk, since the Fund may have an option exercised against it regardless of whether the price of the security increases or decreases.

RISK OF A POTENTIAL LACK OF A LIQUID SECONDARY MARKET. Prior to exercise or expiration, a futures or option position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market for such instruments on the exchange on which the initial transaction was entered into. While the Fund will enter into options or futures positions only if there appears to be a liquid secondary market therefor, there can be no assurance that such a market will exist for any particular contracts at any specific time. In that event, it may not be possible to close out a position held by the Fund, and the Fund could be required to purchase or sell the instrument underlying an option, make or receive a cash settlement or meet ongoing variation margin requirements. Under such circumstances, if the Fund has insufficient cash available to meet margin requirements, it will be necessary to liquidate portfolio securities or other assets at a time when it is disadvantageous to do so. The inability to close out options and futures positions, therefore, could have an adverse impact on the Fund's ability effectively to hedge its portfolio, and could result in trading losses.

The liquidity of a secondary market in a Futures Contract or option thereon may be adversely affected by "daily price fluctuation limits," established by exchanges, which limit the amount of fluctuation in the price of a contract during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures or option positions and requiring traders to make additional margin deposits. Prices have in the past moved the daily limit on a number of consecutive trading days.

The trading of Futures Contracts and options is also subject to the risk of trading halts, suspensions, exchange or clearinghouse equipment failures, government intervention, insolvency of a brokerage firm or clearinghouse or other disruptions of normal trading activity, which could at times make it difficult or impossible to liquidate existing positions or to recover excess variation margin payments.

MARGIN. Because of low initial margin deposits made upon the opening of a futures or forward position and the writing of an option, such transactions involve substantial leverage. As a result, relatively small movements in the price of the contract can result in substantial unrealized gains or losses. Where the Fund enters into such transactions for hedging purposes, any losses incurred in connection therewith should, if the hedging strategy is successful, be offset, in whole or in part, by increases in the value of securities or other assets held by the Fund or decreases in the prices of securities or other assets the Fund intends to acquire. Where the Fund enters into such transactions for other than hedging purposes, the margin requirements associated with such transactions could expose the Fund to greater risk.

TRADING AND POSITION LIMITS. The exchanges on which futures and options are traded may impose limitations governing the maximum number of positions on the same side of the market and involving the same underlying instrument which may be held by a single investor, whether acting alone or in concert with others (regardless of whether such contracts are held on the same or different exchanges or held or written in one or more accounts or through one or more brokers). Further, the CFTC and the various contract markets have established limits referred to as "speculative position limits" on the maximum net long or net short position which any person may hold or control in a particular futures or option contract. An exchange may order the liquidation of positions found to be in violation of these limits and it may impose other sanctions or restrictions. The Adviser does not believe that these trading and position

limits will have any adverse impact on the strategies for hedging the portfolio of the Fund.

RISKS OF OPTIONS ON FUTURES CONTRACTS. The amount of risk the Fund assumes when it purchases an Option on a Futures Contract is the premium paid for the option, plus related transaction costs. In order to profit from an option purchased, however, it may be necessary to exercise the option and to liquidate the underlying Futures Contract, subject to the risks of the availability of a liquid offset market described herein. The writer of an Option on a Futures Contract is subject to the risks of commodity futures trading, including the requirement of initial and variation margin payments, as well as the additional risk that movements in the price of the option may not correlate with movements in the price of the underlying security, index, currency or Futures Contract.

RISKS OF TRANSACTIONS NOT CONDUCTED ON U.S. EXCHANGES. Unlike transactions entered into by the Fund in Futures Contracts and exchange-traded options, over-the-counter options on securities are not traded on contract markets regulated by the CFTC or (with the exception of certain foreign currency options) the SEC. To the contrary, such instruments are traded through financial institutions acting as market-makers, although foreign currency options are also traded on certain national securities exchanges, such as the Philadelphia Stock Exchange and the Chicago Board Options Exchange, subject to SEC regulation. In an over-the-counter trading environment, many of the protections afforded to exchange participants will not be available. For example, there are no daily price fluctuation limits, and adverse market movements could therefore continue to an unlimited extent over a period of time. Although the purchaser of an option cannot lose more than the amount of the premium plus related transaction costs, this entire amount could be lost. Moreover, the option writer could lose amounts substantially in excess of their initial investments, due to the margin and collateral requirements associated with such positions.

In addition, over-the-counter transactions can only be entered into with a financial institution willing to take the opposite side, as principal, of the Fund's position unless the institution acts as broker and is able to find another counterparty willing to enter into the transaction with the Fund. Where no such counterparty is available, it will not be possible to enter into a desired transaction. There also may be no liquid secondary market in the trading of over-the-counter contracts, and the Fund could be required to retain options purchased or written until exercise, expiration or maturity. This in turn could limit the Fund's ability to profit from open positions or to reduce losses experienced, and could result in greater losses.

Further, over-the-counter transactions are not subject to the guarantee of an exchange clearinghouse, and the Fund will therefore be subject to the risk of default by, or the bankruptcy of, the financial institution serving as its counterparty. One or more of such institutions also may decide to discontinue their role as market-makers in a particular currency or security, thereby restricting the Fund's ability to enter into desired hedging transactions. The Fund will enter into an over-the-counter transaction only with parties whose creditworthiness has been reviewed and found satisfactory by the Adviser.

POLICIES ON THE USE OF FUTURES AND OPTIONS ON FUTURES CONTRACTS. In order to assure that the Fund will not be deemed to be a "commodity pool" for purposes of the Commodity Exchange Act, regulations of the CFTC require that the Fund enter into transactions in Futures Contracts and Options on Futures Contracts only (i) for bona fide hedging purposes (as defined in CFTC regulations), or (ii) for non-hedging purposes, provided that the aggregate initial margin and premiums on such non-hedging positions does not exceed 5% of the liquidation value of the Fund's assets. In addition, the Fund must comply with the requirements of various state securities laws in connection with such transactions.

The Fund has adopted the additional restriction that it will not enter into a Futures Contract if, immediately thereafter, the value of securities and other obligations underlying all such Futures Contracts would exceed 50% of the value of the Fund's total assets. Moreover, the Fund will not purchase put and call options if as a result more than 5% of its total assets would be invested in such options.

When the Fund purchases a Futures Contract, an amount of cash or securities will be deposited in a segregated account with the Fund's custodian so that the amount so segregated will at all times equal the value of the Futures Contract, thereby insuring that the use of such futures is unleveraged.

The staff of the SEC has taken the position that purchased over-the-counter options and assets used to cover written over-the-counter options are illiquid and, therefore, together with other illiquid securities held by a Fund, cannot exceed 15% of the Fund's assets (the "SEC illiquidity ceiling"). Although the Adviser disagrees with this position, the Adviser intends to limit the Fund's writing of over-the-counter options in accordance with the following procedure. Except as provided below, the Fund intends to write over-the-counter options only with primary U.S. Government securities dealers recognized as such by the Federal Reserve Bank of New York. Also, the contracts the Fund has in place with such primary dealers provide that the Fund has the absolute right to repurchase an option it writes at any time at a price which represents the fair market value, as determined in good faith through negotiation between the parties, but which in no event will exceed a price determined pursuant to a formula in the

contract. Although the specific formula may vary between contracts with different primary dealers, the formula generally is based on a multiple of the premium received by the Fund for writing the option, plus the amount, if any of the option's intrinsic value (i.e., the amount that the option is in-the-money). The formula may also include a factor to account for the difference between the price of the security and the strike price of the option if the option is written out-of-the-money. The Fund will treat all or a portion of the formula as illiquid for purposes of the SEC illiquidity ceiling test imposed by the SEC staff. The Fund may also write over-the-counter options with non-primary dealers, including foreign dealers (where applicable), and will treat the assets used to cover these options as illiquid for purposes of such SEC illiquidity ceiling test.

3. INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions which cannot be changed without the approval of the holders of a majority of the Fund's shares (which, as used in this Statement of Additional Information, means the lesser of (i) more than 50% of the outstanding shares of the Trust or a series or class, as applicable, or (ii) 67% or more of the outstanding shares of the Trust or a series or class, as applicable, present at a meeting if holders of more than 50% of the outstanding shares of the Trust or a series or class, as applicable, are represented in person or by proxy). Except for Investment Restriction (1), these investment restrictions and policies are adhered to at the time of purchase or utilization of assets; a subsequent change in circumstances will not be considered to result in a violation of policy.

The Fund may not:

(1) Borrow money in an amount in excess of 33 1/3% of its total assets, and then only as a temporary measure for extraordinary or emergency purposes, or pledge, mortgage or hypothecate an amount of its assets (taken at market value) in excess of 15% of its total assets, in each case taken at the lower of cost or market value. For the purpose of this restriction, collateral arrangements with respect to options, Futures Contracts, Options on Futures Contracts, Forward Contracts and options on foreign currencies, and payments of initial and variation margin in connection therewith are not considered a pledge of assets.

(2) Underwrite securities issued by other persons except insofar as the Fund may technically be deemed an underwriter under the Securities Act of 1933 in selling a portfolio security.

(3) Invest more than 25% of its total assets (taken at market value) in any one industry; provided, however, that there is no limitation in respect to investments in obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities.

(4) Purchase or retain real estate (including limited partnership interests but excluding securities of companies, such as real estate investment trusts, which deal in real estate or interests therein and securities secured by real estate), or mineral leases, commodities or commodity contracts (except contracts for the future or forward delivery of securities or foreign currencies and related options, and except Futures Contracts and Options on Futures Contracts) in the ordinary course of its business. The Fund reserves the freedom of action to hold and to sell real estate or mineral leases, commodities or commodity contracts acquired as a result of the ownership of securities.

(5) Make loans to other persons except by the purchase of obligations in which the Fund is authorized to invest and by entering into repurchase agreements; provided that the Fund may lend its portfolio securities representing not in excess of 30% of its total assets (taken at market value). Not more than 10% of the Fund's total assets (taken at market value) will be subject to repurchase agreements maturing in more than seven days. For these purposes the purchase of all or a portion of an issue of debt securities shall not be considered the making of a loan.

(6) Purchase the securities of any issuer if such purchase, at the time thereof, would cause more than 5% of its total assets (taken at market value) to be invested in the securities of such issuer, other than securities issued or guaranteed by the United States, any state or political subdivision thereof, or any political subdivision of any such state, or any agency or instrumentality of the United States, any state or political subdivision thereof, or any political subdivision of any such state.

(7) Purchase securities of any issuer (other than securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities) if such purchase, at the time thereof, would cause the Fund to hold more than 10% of any class of securities of such issuer. For this purpose, all indebtedness of an issuer shall be deemed a single class and all preferred stock of an issuer shall be deemed a single class.

(8) Invest in companies for the purpose of exercising control or management.

(9) Purchase or retain in its portfolio any securities issued by an issuer any of whose officers, directors, trustees or security holders is an officer or Trustee of the Fund, or is a member, partner, officer or Director of the Adviser, if after the purchase of the securities of such issuer by the Fund one or more of such persons owns beneficially more than 1/2 of 1% of the shares or securities, or both, all taken at market value, of such issuer, and such persons owning more than 1/2 of 1% of such shares or securities together own beneficially more than 5% of such shares or securities, or both, all taken at market value.

(10) Purchase any securities or evidences of interest therein on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of securities and the Fund may make margin deposits in connection with Futures Contracts, Options on Futures Contracts, options, Forward Contracts or options on foreign currencies.

(11) Sell any security which the Fund does not own unless by virtue of its ownership of other securities it has at the time of sale a right to obtain securities without payment of further consideration equivalent in kind and amount to the securities sold and provided that if such right is conditional the sale is made upon equivalent conditions.

(12) Purchase securities issued by any other registered investment company or investment trust except by purchase in the open market where no commission or profit to a sponsor or dealer results from such purchase other than the customary broker's commission, or except when such purchase, though not made in the open market, is part of a plan of merger or consolidation; provided, however, that the Fund will not purchase such securities if such purchase at the time thereof would cause more than 10% of its total assets (taken at market value) to be invested in the securities of such issuers; and, provided further, that the Fund will not purchase securities issued by an open-end investment company.

(13) Write, purchase or sell any put or call option or any combination thereof, provided that this shall not prevent the Fund from writing, purchasing and selling puts, calls or combinations thereof with respect to securities and indexes of securities or foreign currencies or Futures Contracts; and further provided that this shall not prevent the Fund from purchasing, owning, holding or selling contracts for the future delivery of fixed income securities.

(14) Issue any senior security (as that term is defined in the Investment Company Act of 1940 (the "1940 Act")), if such issuance is specifically prohibited by the 1940 Act or the rules and regulations promulgated thereunder. For the purpose of this restriction, collateral arrangements with respect to options, Futures Contracts and Options on Futures Contracts and collateral arrangements with respect to initial and variation margins are not deemed to be the issuance of a senior security.

As a non-fundamental policy, the Fund will not knowingly invest in securities which are subject to legal or contractual restrictions on resale (other than repurchase agreements), unless the Board of Trustees of the Trust has determined that such securities are liquid based upon trading markets for the specific security, if, as a result thereof, more than 15% of the Fund's total assets (taken at market value) would be so invested.

For the purposes of the Fund's investment restrictions, the issuer of a tax-exempt security is deemed to be the entity (public or private) ultimately responsible for the payment of the principal of and interest on the security.

OTHER OPERATING POLICY

In order to comply with certain state statutes, the Fund will not, as a matter of operating policy, pledge, mortgage or hypothecate its portfolio securities if the percentage of securities so pledged, mortgaged or hypothecated would exceed 33 1/3%.

This operating policy is not fundamental and may be changed without shareholder approval.

4. MANAGEMENT OF THE FUND

The Board of Trustees of the Trust provides broad supervision over the affairs of the Fund. The Adviser manages the portfolio of the Fund from day to day in accordance with the Fund's investment objective and policies. The officers of the Trust are responsible for the operations of the Fund. The Trustees and officers of the Trust are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) Asterisks indicate those Trustees and officers who are "interested persons" (as defined in the 1940 Act) of the Adviser. Unless otherwise indicated below, the address of each Trustee and officer is 500 Boylston Street, Boston, Massachusetts 02116.

TRUSTEES

A. KEITH BRODKIN*, Chairman and President
Massachusetts Financial Services Company, Chairman

RICHARD B. BAILEY*
Private Investor; Massachusetts Financial Services Company, former Chairman
(until September 30, 1991)

MARSHALL N. COHAN
Private Investor
Address: 2524 Bedford Mews Drive, Wellington, Florida

LAWRENCE H. COHN, M.D.,
Brigham and Women's Hospital, Chief of Cardiac Surgery; Harvard Medical School,
Professor of Surgery

Address: 75 Francis Street, Boston, Massachusetts

THE HON. SIR J. DAVID GIBBONS, KBE
Edmund Gibbons Limited, Chief Executive Officer; The Bank of N.T. Butterfield &
Son Ltd., Chairman
Address: 21 Reid Street, Hamilton, Bermuda

ABBY M. O'NEILL
Private Investor; Rockefeller Financial Services, Inc. (investment advisers),
Director
Address: 30 Rockefeller Plaza, Room 5600, New York, New York

WALTER E. ROBB, III
Benchmark Advisors, Inc. (corporate financial consultants), President and
Treasurer
Address: 110 Broad Street, Boston, Massachusetts

ARNOLD D. SCOTT*
Massachusetts Financial Services Company, Senior Executive Vice President and
Secretary

JEFFREY L. SHAMES*
Massachusetts Financial Services Company, President

J. DALE SHERRATT
Insight Resources, Inc. (acquisition planning specialists), President
Address: One Liberty Square, Boston, Massachusetts

WARD SMITH
NACCO Industries (holding company), Chairman (prior to June 1994); Sundstrand
Corporation (diversified mechanical manufacturer), Director; Society
Corporation (bank holding company), Director (prior to April 1992); Society
National Bank (commercial bank); Director (prior to April 1992)
Address: 5875 Landerbrook Drive, Mayfield Heights, Ohio

OFFICERS

ROBERT A. DENNIS*, Vice President
Investments; Massachusetts Financial Services Company, Senior Vice President

CYNTHIA M. BROWN*, Vice President
Investments; Massachusetts Financial Services Company, Senior Vice President

DAVID B. SMITH*, Assistant Vice President
Investments; Massachusetts Financial Services Company, Vice President

DAVID R. KING*, Assistant Vice President
Investments; Massachusetts Financial Services Company, Vice President

W. THOMAS LONDON*, Treasurer
Massachusetts Financial Services Company, Senior Vice President and Assistant
Treasurer

STEPHEN E. CAVAN*, Secretary and Clerk
Massachusetts Financial Services Company, Senior Vice President, General Counsel
and Assistant Secretary

JAMES R. BORDEWICK, JR.*, Assistant Secretary
Massachusetts Financial Services Company, Vice President and Associate General
Counsel (since September 1990); Associated with a major law firm (prior to
August 1990)

JAMES O. YOST*, Assistant Treasurer
Massachusetts Financial Services Company, Vice President

*"Interested persons" (as defined in the 1940 Act) of the Adviser, whose
address is 500 Boylston Street, Boston, Massachusetts 02116.

Each Trustee and officer holds comparable positions with certain affiliates of
MFS or with certain other funds of which MFS or a subsidiary is the investment
adviser or distributor. Mr. Brodtkin, the Chairman of MFD, Messrs. Shames and
Scott, Directors of MFD, and Mr. Cavan, the Secretary of MFD, hold similar
positions with certain other MFS affiliates. Mr. Bailey is a Director of Sun
Life Assurance Company of Canada (U.S.) ("Sun Life of Canada (U.S.)"), the
corporate parent of MFS.

The Fund pays the compensation of non-interested Trustees (who currently receive
a fee of \$1,250 per year plus \$225 per meeting and committee meeting attended,
together with such Trustee's out-of-pocket expenses) and has adopted a
retirement plan for non-interested Trustees and Mr. Bailey. Under this plan, a
Trustee will retire upon reaching age 75 and if the Trustee has completed at
least five years of service, he would be entitled to annual payments during his

lifetime of up to 50% of such Trustee's average annual compensation (based on the three years prior to his retirement) depending on his length of service. A Trustee may also retire prior to age 75 and receive reduced payments if he has completed at least five years of service. Under the plan, a Trustee (or his beneficiaries) will also receive benefits for a period of time in the event the Trustee is disabled or dies. These benefits will also be based on the Trustee's average annual compensation and length of service. There is no retirement plan provided by the Trust for the interested Trustees except Mr. Bailey. The Fund will accrue its allocable share of compensation expenses each year to cover current years service and amortize past service cost.

Set forth in Appendix A hereto is certain information concerning the cash compensation paid to non-interested Trustees and Mr. Bailey and benefits accrued, and estimated benefits payable, under the retirement plan.

As of January 31, 1995, the Trustees and officers, as a group, owned less than 1% of the outstanding shares of the Fund. As of January 31, 1995, Milford Wampold, III, Baton Rouge, LA, owned 9.25% of the outstanding Class A shares of the Fund; Smith Barney Shearson, Inc., 388 Greenwich Street, New York, New York owned 29.6% of the outstanding Class A shares of the Fund; Merrill Lynch Pierce Fenner & Smith Inc., P.O. Box 45286, Jacksonville, FL owned 8.31% of the outstanding Class B shares of the Fund and 19.04% of the outstanding Class C shares of the Fund; and Gregory D. Rustin of Laurel, MS, owned 7.84% of the outstanding Class C shares of the Fund.

The Declaration of Trust provides that the Trust will indemnify its Trustees and officers against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Trust, unless, as to liabilities to the Trust or its shareholders, it is finally adjudicated that they engaged in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in their offices, or with respect to any matter, unless it is adjudicated that they did not act in good faith in the reasonable belief that their actions were in the best interest of the Trust. In the case of settlement, such indemnification will not be provided unless it has been determined pursuant to the Declaration of Trust, that such officers or Trustees have not engaged in willful misfeasance, bad faith, gross negligence or reckless disregard of their duties.

INVESTMENT ADVISER

MFS, together with its predecessor organizations, has a history of money management dating from 1924. MFS is a subsidiary of Sun Life of Canada (U.S.) which in turn is a subsidiary of Sun Life Assurance Company of Canada.

The Adviser manages the assets of the Fund pursuant to an Investment Advisory Agreement with the Fund dated as of September 1, 1993 (the "Advisory Agreement"). The Adviser provides the Fund with overall investment advisory and administrative services, as well as general office facilities. Subject to such policies as the Trustees may determine, the Adviser makes investment decisions for the Fund. For these services and facilities, the Adviser receives an annual management fee, computed and paid monthly, in an amount equal to the sum of 0.30% of the Fund's average daily net assets plus 6.43% of its gross income.

In order to comply with the expense limitations of certain state securities commissions, the Adviser will reduce its management fee or otherwise reimburse the Fund for any expenses, exclusive of interest, taxes and brokerage commissions, incurred by the Fund in any fiscal year to the extent such expenses exceed the most restrictive of such state expense limitations. The Adviser will make appropriate adjustments to such reductions and reimbursements in response to any amendment or rescission of the various state requirements.

For the four months ended March 31, 1994, MFS received \$1,301,038 (of which \$527,310 was based on average daily net assets and \$773,728 on gross income).

For the Fund's fiscal year ended November 30, 1993, MFS (and its predecessor, Lifetime Advisers, Inc., a Delaware corporation and a wholly owned subsidiary of MFS ("LAI"), which served as the Fund's investment adviser until September 7, 1993), received in aggregate \$3,751,548 (of which \$1,497,081 was based on average daily net assets and \$2,254,467 on gross income) under their advisory agreements with the Fund. For the Fund's fiscal year ended November 30, 1992, LAI received \$3,336,009 (of which \$1,274,646 was based on average daily net assets and \$2,061,363 on gross income).

The Fund pays all of its expenses (other than those assumed by the Adviser or MFD) including: Trustees fees discussed above; governmental fees; interest charges; taxes; membership dues in the Investment Company Institute allocable to the Fund; fees and expenses of independent auditors, of legal counsel, and of any transfer agent, registrar or dividend disbursing agent of the Fund; expenses of repurchasing and redeeming shares and servicing shareholder accounts; expenses of preparing, printing and mailing share certificates, periodic reports, notices and proxy statements to shareholders and to governmental officers and commissions; brokerage and other expenses connected with the execution, recording and settlement of portfolio security transactions; insurance premiums; fees and expenses of State Street Bank and Trust Company, the Fund's Custodian, for all services to the Fund, including safekeeping of

funds and securities and maintaining required books and accounts; expenses of calculating the net asset value of shares of the Fund; and expenses of shareholder meetings. Expenses relating to the issuance, registration and qualification of shares of the Fund and the preparation, printing and mailing of prospectuses are borne by the Fund except that the Fund's Distribution Agreement with MFD requires MFD to pay for prospectuses that are to be used for sales purposes. Expenses of the Trust which are not attributable to a specific series are allocated among the series in a manner believed by management of the Trust to be fair and equitable. Payment by the Fund of brokerage commissions for brokerage and research services of value to the Adviser in serving its clients is discussed under the caption "Portfolio Transactions and Brokerage Commissions" below.

MFS pays the compensation of the Trust's officers and of any Trustee who is an officer of MFS. The Adviser also furnishes at its own expense all necessary administrative services, including office space, equipment, clerical personnel, investment advisory facilities, and all executive and supervisory personnel necessary for managing the Fund's investments, effecting its portfolio transactions and, in general, administering its affairs (with the exception of the services, facilities and personnel provided by the Shareholder Servicing Agent or the Custodian, see below).

The Advisory Agreement with the Fund will remain in effect until August 1, 1995, and will continue in effect thereafter only if such continuance is specifically approved at least annually by the Board of Trustees or by vote of a majority of the Fund's outstanding voting securities (as defined under "Investment Restrictions") and, in either case, by a majority of the Trustees who are not parties to the Advisory Agreement or interested persons of any such party. The Advisory Agreement terminates automatically if it is assigned and may be terminated without penalty by vote of a majority of the Fund's outstanding voting securities or by either party on not more than 60 days" nor less than 30 days" written notice. The Advisory Agreement provides that if MFS ceases to serve as the Adviser to the Fund, the Fund will change its name so as to delete the term "MFS" and that MFS may render services to others and may permit other fund clients to use the term "MFS" in their names. The Advisory Agreement also provides that neither the Adviser nor its personnel shall be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the execution and management of the Fund, except for willful misfeasance, bad faith or gross negligence in the performance of its or their duties or by reason of reckless disregard of its or their obligations and duties under the Advisory Agreement.

CUSTODIAN

State Street Bank and Trust Company (the "Custodian") is the custodian of the Fund's assets. The Custodian's responsibilities include safekeeping and controlling the Fund's cash and securities, handling the receipt and delivery of securities, determining income and collecting interest and dividends on the Fund's investments, maintaining books of original entry for portfolio and fund accounting and other required books and accounts, and calculating the daily net asset value and public offering price of each class of shares of the Fund. The Custodian does not determine the investment policies of the Fund or decide which securities the Fund will buy or sell. The Fund may, however, invest in securities of the Custodian and may deal with the Custodian as principal in securities transactions. The Custodian also serves as the dividend and distribution disbursing agent of the Fund. The Custodian has contracted with the Adviser for the Adviser to perform certain accounting functions related to options transactions for which the Adviser receives remuneration on a cost basis.

SHAREHOLDER SERVICING AGENT

MFS Service Center, Inc. (the "Shareholder Servicing Agent"), a wholly owned subsidiary of MFS, is the Fund's shareholder servicing agent, pursuant to a Shareholder Servicing Agent Agreement with the Trust, dated August 1, 1985, as amended (the "Agency Agreement"). The Shareholder Servicing Agent's responsibilities under the Agency Agreement include administering and performing transfer agent functions and the keeping of records in connection with the issuance, transfer and redemption of each class of shares of the Fund. For these services, the Shareholder Servicing Agent will receive a fee based on the net assets of each class of the Fund, computed and paid monthly. In addition, the Shareholder Servicing Agent will be reimbursed by the Fund for certain expenses incurred by the Shareholder Servicing Agent on behalf of the Fund. For the four months ended March 31, 1994, the Fund paid to the Shareholder Servicing Agent fees of \$386,665 under its Agency Agreement. State Street Bank and Trust Company, the dividend and distribution disbursing agent for the Fund, has contracted with the Shareholder Servicing Agent to administer and perform certain dividend and distribution disbursing functions for the Fund.

DISTRIBUTOR

MFD, a wholly owned subsidiary of MFS, serves as the distributor for the continuous offering of shares of the Fund pursuant to a Distribution Agreement dated as of January 1, 1995 (the "Distribution Agreement"). Prior to January 1, 1995, MFS Financial Services, Inc. ("FSI"), another wholly owned subsidiary of MFS, was the Fund distributor. Where this SAI refers to MFD in relation to the receipt or payment of money with respect to a period or periods prior to January

1, 1995, such reference shall be deemed to include FSI, as predecessor in interest to MFD.

CLASS A SHARES: MFD acts as agent in selling Class A shares of the Fund to dealers. The public offering price of the Class A shares of the Fund is their net asset value next computed after the sale plus a sales charge which varies based upon the quantity purchased. The public offering price of a Class A share of the Fund is calculated by dividing the net asset value of a Class A share by the difference (expressed as a decimal) between 100% and the sales charge percentage of offering price applicable to the purchase (see "Purchases" in the Prospectus). The sales charge scale set forth in the Prospectus applies to purchases of Class A shares of the Fund alone or in combination with shares of all classes of certain other funds in the MFS Family of Funds (the "MFS Funds") and other funds (as noted under Right of Accumulation) by any person, including members of a family unit (e.g., husband, wife and minor children) and bona fide trustees, and also applies to purchases made under the Right of Accumulation or a Letter of Intent (see "Investment and Withdrawal Programs" in this Statement of Additional Information). A group might qualify to obtain quantity sales charge discounts (see "Investment and Withdrawal Programs" in this Statement of Additional Information).

Class A shares of the Fund may be sold at their net asset value to certain persons and in certain circumstances as described in the Prospectus. Such sales are made without a sales charge to promote good will with employees and others with whom MFS, MFD and/or the Fund have business relationships, and because the sales effort, if any, involved in making such sales is negligible.

MFD allows discounts to dealers (which are alike for all dealers) from the applicable public offering price of the Class A shares. Dealer allowances expressed as a percentage of offering price for all offering prices are set forth in the Prospectus (see "Purchases" in the Prospectus). The difference between the total amount invested and the sum of (a) the net proceeds to the Fund and (b) the dealer commission, is the commission paid to the distributor. Because of rounding in the computation of offering price, the portion of the sales charge paid to the distributor may vary and the total sales charge may be more or less than the sales charge calculated using the sales charge expressed as a percentage of offering price or as a percentage of the net amount invested as listed in the Prospectus. In the case of the maximum sales charge the dealer retains 4% and MFD retains approximately 3/4 of 1% of the public offering price. In addition, MFD pays a commission to dealers who initiate and are responsible for purchases of \$1 million or more as described in the Prospectus.

CLASS B SHARES AND CLASS C SHARES: As the distributor of the Fund, MFD acts as agent in selling Class B and Class C shares of the Fund to dealers. The public offering price of Class B and Class C shares is their net asset value next computed after the sale (see "Purchases" in the Prospectus).

GENERAL: Neither MFD nor dealers are permitted to delay the placement of orders to benefit themselves by a price change. On occasion, MFD may obtain brokers loans from various banks, including the custodian banks for the MFS Funds, to facilitate the settlement of sales of shares of the Fund to dealers. MFD may benefit from its temporary holding of funds paid to it by investment dealers for the purchase of Fund shares.

During the period December 1, 1993 through March 31, 1994, MFD and dealers and certain other financial institutions received sales charges of \$5,248 and \$54,106, respectively (as their concession on gross sales charges of \$59,354), for selling Class A shares of the Fund. The Fund received \$4,946,545 representing the aggregate net asset value of such shares. During the period September 7, 1993 through November 30, 1993, MFD and dealers and certain other financial institutions received \$2,642 and \$11,354, respectively (as their concession on gross sales charges of \$13,996), for selling Class A shares of the Fund. The Fund received \$315,369 representing the aggregate net asset value of such shares.

During the period December 1, 1993 through March 31, 1994 and the fiscal years ended November 30, 1993 and 1992, the CDSC imposed on redemption of Class B shares was \$318,928, \$774,549 and \$903,172, respectively.

The Distribution Agreement will remain in effect until August 1, 1995 and will continue in effect thereafter only if such continuance is specifically approved at least annually by the Board of Trustees or by vote of a majority of the Trust's shares (as defined in "Investment Restrictions") and, in either case, by a majority of the Trustees who are not parties to such Distribution Agreement or interested persons of any such party. The Distribution Agreement terminates automatically if it is assigned and may be terminated without penalty by either party on not more than 60 days' nor less than 30 days' notice.

5. PORTFOLIO TRANSACTIONS AND BROKERAGE COMMISSIONS

Specific decisions to purchase or sell securities for the Fund are made by employees of the Adviser, who are appointed and supervised by its senior officers. Changes in the Fund's investments are reviewed by the Board of Trustees. The Fund's portfolio manager may serve other clients of the Adviser or any subsidiary of MFS in a similar capacity.

The primary consideration in placing portfolio security transactions with broker-dealers for execution is to obtain and maintain the availability of execution at the most favorable prices and in the most effective manner possible. The Adviser attempts to achieve this result by selecting broker-dealers to execute portfolio transactions on behalf of the Fund and other clients of the Adviser on the basis of their professional capability, the value and quality of their brokerage services, and the level of their brokerage commissions. In the case of securities, such as government securities, which are principally traded in the over-the-counter market (where no stated commissions are paid but the prices include a dealer's markup or markdown), the Adviser normally seeks to deal directly with the primary market makers, unless in its opinion, better prices are available elsewhere. In the case of securities purchased from underwriters, the cost of such securities generally includes a fixed underwriting commission or concession. Securities firms or futures commission merchants may receive brokerage commissions on transactions involving options, Futures Contracts and Options on Futures Contracts and the purchase and sale of underlying securities upon exercise of options. The brokerage commissions associated with buying and selling options may be proportionately higher than those associated with general securities transactions. From time to time, soliciting dealer fees are available to the Adviser on the tender of the Fund's portfolio securities in so-called tender or exchange offers. Such soliciting dealer fees are in effect recaptured for the Fund by the Adviser. At present no other recapture arrangements are in effect.

Under the Advisory Agreement and as permitted by Section 28(e) of the Securities Exchange Act of 1934, the Adviser may cause the Fund to pay a broker-dealer which provides brokerage and research services to the Adviser an amount of commission for effecting a securities transaction for the Fund in excess of the amount other broker-dealers would have charged for the transaction if the Adviser determines in good faith that the greater commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker-dealer viewed in terms of either a particular transaction or the Adviser's overall responsibilities to the Fund or to its other clients. Not all of such services are useful or of value in advising the Fund.

The term "brokerage and research services" includes advice as to the value of securities, the advisability of purchasing or selling securities, and the availability of purchasers or sellers of securities; furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and effecting securities transactions and performing functions incidental thereto such as clearance and settlement.

Although commissions paid on every transaction will, in the judgment of the Adviser, be reasonable in relation to the value of the brokerage services provided, commissions exceeding those which another broker might charge may be paid to broker-dealers who were selected to execute transactions on behalf of the Fund and the Adviser's other clients in part for providing advice as to the availability of purchasers or sellers of securities and services in effecting securities transactions and performing functions incidental thereto such as clearance and settlement.

Broker-dealers may be willing to furnish statistical, research and other factual information or services ("Research") to the Adviser for no consideration other than brokerage or underwriting commissions. Securities may be bought or sold through such broker-dealers, but at present, unless otherwise directed by the Fund, a commission higher than one charged elsewhere will not be paid to such a firm solely because it provided Research to the Adviser. The Trustees (together with the Trustees of the other MFS Funds) have directed the Adviser to allocate a total of \$20,000 of commission business from the MFS Funds to the Pershing Division of Donaldson, Lufkin & Jenrette as consideration for the annual renewal of the Lipper Directors' Analytical Data Service (which provides information useful to the Trustees in reviewing the relationship between the Fund and the Adviser).

The Adviser's investment management personnel attempt to evaluate the quality of Research provided by brokers. Results of this effort are sometimes used by the Adviser as a consideration in the selection of brokers to execute portfolio transactions. However, the Adviser is unable to quantify the amount of commissions which will be paid as a result of such Research because a substantial number of transactions will be effected through brokers which provide Research but which were selected principally because of their execution capabilities.

The management fee that the Fund pays to the Adviser will not be reduced as a consequence of the Adviser's receipt of brokerage and research services. To the extent the Fund's portfolio transactions are used to obtain such services, the brokerage commissions paid by the Fund will exceed those that might otherwise be paid, by an amount which cannot be presently determined. Such services would be useful and of value to the Adviser in serving both the Fund and other clients and, conversely, such services obtained by the placement of brokerage business of other clients would be useful to the Adviser in carrying out its obligations to the Fund. While such services are not expected to reduce the expenses of the Adviser, the Adviser would, through use of the services, avoid the additional expenses which would be incurred if it should attempt to develop comparable information through its own staff.

For the fiscal period December 1, 1993 through March 31, 1994 and for the Fund's fiscal years ended November 30, 1993 and 1992, no brokerage commissions were paid on total transactions (other than U.S. Government securities, purchased options transactions and short-term obligations) of \$100,927,261, \$353,659,502 and \$429,011,909, respectively.

In certain instances there may be securities which are suitable for the Fund's portfolio as well as for that of one or more of the other clients of the Adviser or MFS or any subsidiary of MFS. Investment decisions for the Fund and for such other clients are made with a view to achieving their respective investment objectives. It may develop that a particular security is bought or sold for only one client even though it might be held by, or bought or sold for, other clients. Likewise, a particular security may be bought for one or more clients when one or more other clients are selling that same security. Some simultaneous transactions are inevitable when several clients receive investment advice from the same investment adviser, particularly when the same security is suitable for the investment objectives of more than one client. When two or more clients are simultaneously engaged in the purchase or sale of the same security, the securities are allocated among clients in a manner believed to be equitable to each. It is recognized that in some cases this system could have a detrimental effect on the price or volume of the security as far as the Fund is concerned. In other cases, however, it is believed that the Fund's ability to participate in volume transactions will produce better executions for the Fund.

6. SHAREHOLDER SERVICES

INVESTMENT AND WITHDRAWAL PROGRAMS -- The Fund makes available the following programs designed to enable shareholders to add to their investment or withdraw from it with a minimum of paper work. These programs are described below and, in certain cases, in the Prospectus. The programs involve no extra charge to shareholders (other than a sales charge in the case of certain Class A share purchases) and may be changed or discontinued at any time by a shareholder or the Fund.

LETTER OF INTENT: If a shareholder (other than a group purchaser described below) anticipates purchasing \$100,000 or more of Class A shares of the Fund alone or in combination with all classes of other MFS Funds or MFS Fixed Fund (a bank collective investment fund) within a 13-month period (or 36-month period in the case of purchases of \$1 million or more), the shareholder may obtain Class A shares of the Fund at the same reduced sales charge as though the total quantity were invested in one lump sum by completing the Letter of Intent section of the Fund's Account Application or filing a separate Letter of Intent application (available from the Shareholder Servicing Agent) within 90 days of the commencement of purchases. Subject to acceptance by MFD and the conditions mentioned below, each purchase will be made at a public offering price applicable to a single transaction of the dollar amount specified in the Letter of Intent application. The shareholder or his dealer must inform MFD that the Letter of Intent is in effect each time shares are purchased. The shareholder makes no commitment to purchase additional shares, but if his purchases within 13 months (or 36 months, in the case of purchases of \$1 million or more) plus the value of shares credited toward completion of the Letter of Intent do not total the sum specified, he will pay the increased amount of the sales charge as described below. Instructions for issuance of shares in the name of a person other than the person signing the Letter of Intent application must be accompanied by a written statement from the dealer stating that the shares were paid for by the person signing such Letter. Neither income dividends nor capital gain distributions taken in additional shares will apply toward the completion of the Letter of Intent. Dividends and distributions of other MFS Funds automatically reinvested in shares of the Fund pursuant to the Distribution Investment Program will also not apply toward completion of the Letter of Intent.

Out of the shareholder's initial purchase (or subsequent purchases if necessary), 5% of the dollar amount specified in the Letter of Intent application shall be held in escrow by the Shareholder Servicing Agent in the form of shares registered in the shareholder's name. All income dividends and capital gain distributions on escrowed shares will be paid to the shareholder or to his order. When the minimum investment so specified is completed (either prior to or by the end of the 13-month or 36-month period, as applicable), the shareholder will be notified and the escrowed shares will be released.

If the intended investment is not completed, the Shareholder Servicing Agent will redeem an appropriate number of the escrowed shares in order to realize such difference. Shares remaining after any such redemption will be released by the Shareholder Servicing Agent. By completing and signing the Account Application or separate Letter of Intent application, the shareholder irrevocably appoints the Shareholder Servicing Agent his attorney to surrender for redemption any or all escrowed shares with full power of substitution in the premises.

RIGHT OF ACCUMULATION: A shareholder qualifies for cumulative quantity discounts

on the purchase of Class A shares when that shareholder's new investment, together with the current offering price value of all the holdings of all classes of shares of that shareholder in the MFS Funds or MFS Fixed Fund (a bank collective investment fund) reaches a discount level (see "Purchases" in the Prospectus for the sales charges on quantity purchases). For example, if a shareholder owns shares with a current offering price of \$75,000 and purchases an additional \$25,000 of Class A shares of the Fund, the sales charge for the \$25,000 purchase would be at the rate of 4% (the rate applicable to single transactions of \$100,000). A shareholder must provide the Shareholder Servicing Agent (or his investment dealer must provide MFD) with information to verify that the quantity sales charge discount is applicable at the time the investment is made.

DISTRIBUTION INVESTMENT PROGRAM: Distributions of dividends and capital gains made by the Fund with respect to a particular class of shares may be automatically invested in the same class of shares of one of the other MFS Funds, if shares of the fund are available for sale. Such investments will be subject to additional purchase minimums. Distributions will be invested at net asset value (exclusive of any sales charge and not subject to any CDSC). Distributions will be invested at the close of business on the payable date for the distribution. A shareholder considering the Distribution Investment Program should obtain and read the prospectus of the other fund and consider the differences in objectives and policies before making any investment. For federal income tax purposes, distributions invested under the Distribution Investment Program will be treated as if received by the shareholder in cash and then used to purchase the applicable fund shares.

SYSTEMATIC WITHDRAWAL PLAN: A shareholder may direct the Shareholder Servicing Agent to send him (or anyone he designates) regular periodic payments, as designated on the Account Application and based upon the value of his account. Each payment under a Systematic Withdrawal Plan ("SWP") must be at least \$100, except certain limited circumstances. The aggregate withdrawals of Class B shares in any year pursuant to a SWP generally are limited to 10% of the value of the account (at the time of the establishment of the SWP). SWP payments are drawn from the proceeds of share redemptions (which would be a return of principal and, if reflecting a gain, would be taxable). Redemptions of Class B shares will be made in the following order: (i) to the extent necessary, any "Free Amount"; (ii) any "Reinvested Shares"; and (iii) to the extent necessary, the "Direct Purchase" subject to the lowest CDSC (as such terms are defined in "Contingent Deferred Sales Charge" in the Prospectus). The CDSC will be waived in the case of redemptions of Class B shares pursuant to a SWP, but will not be waived in the case of SWP redemptions of Class A shares which are subject to a CDSC. To the extent that redemptions for such periodic withdrawals exceed dividend income reinvested in the account, such redemptions will reduce and may eventually exhaust the number of shares in the shareholder's account. All dividend and capital gain distributions for an account with a SWP will be reinvested in full and fractional shares of the Fund at the net asset value in effect at the close of business on the record date for such distributions. To initiate this service, shares having an aggregate value of at least \$10,000 either must be held on deposit by, or certificates for such shares must be deposited with, the Shareholder Servicing Agent. With respect to Class A shares, maintaining a withdrawal plan concurrently with an investment program would be disadvantageous because of the sales charges included in share purchases and the imposition of a CDSC on certain redemptions. The shareholder by written instruction to the Shareholder Servicing Agent may deposit into the account additional shares of the Fund, change the payee or change the amount of each payment. The Shareholder Servicing Agent may charge the account for services rendered and expenses incurred beyond those normally assumed by the Fund with respect to the liquidation of shares. No charge is currently assessed against the account, but one could be instituted by the Shareholder Servicing Agent on 60 days' notice in writing to the shareholder in the event that the Fund ceases to assume the cost of these services. The Fund may terminate any SWP for an account if the value of the account falls below \$5,000 as a result of share redemptions (other than as a result of a SWP) or an exchange of shares of the Fund for shares of another MFS Fund. Any SWP may be terminated at any time by either the shareholder or the Fund.

INVEST BY MAIL: Additional investments of \$50 or more in the Fund may be made at any time either by mailing a check payable to the Fund directly to the Shareholder Servicing Agent. The shareholder's account number and the name of his investment dealer must be included with each investment.

GROUP PURCHASES: A bona fide group and all of its members may be treated as a single purchaser and, under the Right of Accumulation (but not the Letter of Intent), obtain quantity sales charge discounts on the purchase of Class A shares if the group (1) gives its endorsement or authorization to the investment program so it may be used by the investment dealer to facilitate solicitation of the membership, thus effecting economies of sales effort; (2) has been in existence for at least six months and has a legitimate purpose other than to purchase mutual fund shares at a discount; (3) is not a group of individuals whose sole organizational nexus is as credit cardholders of a company, policyholders of an insurance company, customers of a bank or broker-dealer, or

clients of an investment adviser or other similar groups; and (4) agrees to provide certification of membership of those members investing money in the MFS Funds upon the request of MFD.

AUTOMATIC EXCHANGE PLAN: Shareholders having account balances of at least \$5,000 in any MFS Fund may exchange their shares for the same class of shares of other MFS Funds (if available for sale) (and, in the case of Class C shares, for shares of MFS Money Market Fund) under the Automatic Exchange Plan. The Automatic Exchange Plan provides for automatic exchange of funds from the shareholder's account in that MFS Fund for investment in the same class of shares of other MFS Funds selected by the shareholder. Under the Automatic Exchange Plan, exchange of at least \$50 each may be made to up to four different funds effective on the seventh day of each month or of every third month, depending on whether monthly or quarterly exchange are elected by the shareholder. If the seventh day of the month is not a business day, the transaction will be processed on the next business day. Generally, the initial exchange will occur after receipt and processing by the Shareholder Servicing Agent of an application in good order. Exchange will continue to be made from a shareholder's account in any MFS Fund as long as the balance of the account is sufficient to complete the exchange. Additional payments made to a shareholder's account in such MFS Fund will extend the period that exchange will continue to be made under the Automatic Exchange Plan. However, if additional payments are added to an account subject to the Automatic Exchange Plan shortly before an exchange is scheduled, such funds may not be available for exchange until the following month; therefore, care should be used to avoid inadvertently terminating the Automatic Exchange Plan through exhaustion of the account balance.

No transaction fee for exchanges will be charged in connection with the Automatic Exchange Plan. However, exchanges of shares of MFS Money Market Fund, MFS Government Money Market Fund and Class A shares of MFS Cash Reserve Fund will be subject to any applicable sales charge. Changes in amounts to be exchanged to each fund, the funds to which exchanges are to be made and the timing of exchanges (monthly or quarterly), or termination of a shareholder's participation in the Automatic Exchange Plan will be made after instructions in writing or by telephone (an "Exchange Change Request") are received by the Shareholder Servicing Agent in proper form (i.e., if in writing -- signed by the record owner(s) exactly as shares are registered; if by telephone -- proper account identification is given by the dealer or shareholder of record). Each Exchange Change Request (other than termination of participation in the program) must involve at least \$50. Generally, if an Exchange Change Request is received by telephone or in writing before the close of business on the last business day of the month, the Exchange Change Request will be effective for the following month's exchange.

A shareholder's right to make additional investments in any of the MFS Funds, to make exchanges of shares from one MFS Fund to another and to withdraw from an MFS Fund, as well as a shareholder's other rights and privileges are not affected by a shareholder's participation in the Automatic Exchange Plan.

The Automatic Exchange Plan is part of the Exchange Privilege. For additional information regarding the Automatic Exchange Plan, including the treatment of any CDSC, see "Exchange Privilege" below.

REINSTATEMENT PRIVILEGE: Shareholders of the Fund and shareholders of the other MFS Funds (except holders of shares of MFS Money Market Fund, MFS Government Money Market Fund and Class A shares of MFS Cash Reserve Fund, in the case where such shares are acquired through direct purchase or reinvested dividends) who have redeemed their shares have a one-time right to reinvest the redemption proceeds in the same class of shares of any of the MFS Funds (if shares of the fund are available for sale) at net asset value (without a sales charge) and, if applicable, with credit for any CDSC paid. In the case of proceeds reinvested in shares of MFS Money Market Fund, MFS Government Money Market Fund and Class A shares of MFS Cash Reserve Fund, the shareholder has the right to exchange the acquired shares for shares of another MFS Fund at net asset value pursuant to the exchange privilege described below. Such a reinvestment must be made within 90 days of the redemption and is limited to the amount of the redemption proceeds. If the shares credited for any CDSC paid are then redeemed within six years of the initial purchase in the case of Class B shares or within 12 months of the initial purchase for certain Class A shares, a CDSC will be imposed upon redemption. Although redemptions and repurchases of shares are taxable events, a reinvestment within a certain period of time in the same Fund may be considered a "wash sale" and may result in the inability to recognize currently all or a portion of any loss realized on the original redemption for federal income tax purposes. Please see your tax advisor for further information.

EXCHANGE PRIVILEGE -- Subject to the requirements set forth below, some or all of the shares in an account for which payment has been received by the Fund (i.e., an established account) may be exchanged for shares of the same class of any other MFS Fund (if available for sale) at net asset value. In addition, Class C shares may be exchanged for shares of MFS Money Market Fund at net asset value. Exchanges will be made after instructions in writing or by telephone (an "Exchange Request") are received for an established account by the Shareholder Servicing Agent.

Each Exchange Request must be in proper form (i.e., if in writing -- signed by the record owner(s) exactly as the shares are registered; if by telephone -- proper account identification is given by the dealer or shareholder of record), and each exchange must involve either shares having an aggregate value of at least \$1,000 (\$50 in the case of retirement plan participants whose sponsoring organizations subscribe to the MFS FUNDamental 401(k) Plan or another similar 401(k) recordkeeping system made available by MFS Service Center, Inc.) or all the shares in the account. Each exchange involves the redemption of the shares of the Fund to be exchanged and the purchase at net asset value (i.e., without a sales charge) of shares of the same class of the other MFS Fund. Any gain or loss on the redemption of the shares exchanged is reportable on the shareholder's federal income tax return, unless both the shares received and the shares surrendered in the exchange are held in a tax-deferred retirement plan or other tax-exempt account. No more than five exchanges may be made in any one Exchange Request by telephone. If an Exchange Request is received by the Shareholder Servicing Agent on any business day prior to the close of regular trading on the New York Stock Exchange (the "Exchange"), the exchange usually will occur on that day if all of the requirements and restrictions set forth above have been complied with at that time. However, payment of the redemption proceeds by the Fund, and thus the purchase of shares of the other MFS Fund, may be delayed for up to seven days if the Fund determines that such a delay would be in the best interest of all its shareholders. Investment dealers which have satisfied criteria established by the Shareholder Servicing Agent may also communicate a shareholder's Exchange Request to MFD by facsimile subject to the requirements set forth above.

No CDSC is imposed on exchanges among the MFS Funds, although liability for the CDSC is carried forward to the exchanged shares. For purposes of calculating the CDSC upon redemption of shares acquired in an exchange, the purchase of shares acquired in one or more exchanges is deemed to have occurred at the time of the original purchase of the exchanged shares.

Additional information with respect to any of the MFS Funds, including a copy of its current prospectus, may be obtained from investment dealers or the Shareholder Servicing Agent. A shareholder considering an exchange should obtain and read the prospectus of the other MFS Fund before making any exchange. Shareholders of the other MFS Funds (except holders of shares of MFS Money Market Fund, MFS Government Money Market Fund and Class A shares of MFS Cash Reserve Fund acquired through direct purchase and dividends reinvested prior to June 1, 1992) have the right to exchange their shares for shares of the Fund, subject to the conditions, if any, set forth in their respective prospectuses. In addition, unitholders of the MFS Fixed Fund (a bank collective investment fund) have the right to exchange their units (except units acquired through direct purchases) for shares of the Fund, subject to the conditions, if any, imposed upon such unitholders by the MFS Fixed Fund.

Any state income tax advantages for investment in shares of each state-specific series of MFS Municipal Series Trust may only benefit residents of such states. Investors should consult with their own tax advisers to be sure this is an appropriate investment based on their residency and each state's income tax laws.

The exchange privilege (or any aspect of it) may be changed or discontinued and is subject to certain limitations (see "Purchases" in the Prospectus).

TAX-DEFERRED RETIREMENT PLANS -- Except as noted below, shares of the Fund may be purchased by all types of tax-deferred retirement plans. MFD makes available through investment dealers plans and/or custody agreements for the following:

Individual Retirement Accounts (IRAs) (for individuals and their non-employed spouses who desire to make limited contributions to a tax-deferred retirement program and, if eligible, to receive a federal income tax deduction for amounts contributed);

Simplified Employee Pension (SEP-IRA) Plans;

Retirement Plans qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended;

403(b) Plans (deferred compensation arrangements for employees of public school systems and certain nonprofit organizations); and

Certain other qualified pension and profit-sharing plans.

The plan documents provided by MFD designate a trustee or custodian (unless another trustee or custodian is designated by the individual or group establishing the plan) and contain specific information about the plans. Each plan provides that dividends and distributions will be reinvested automatically. Third party administrative services, available for some corporate plans, may limit or delay the processing of transactions. For further details with respect to any plan, including fees charged by the trustee, custodian or MFD, tax

consequences and redemption information, see the specific documents for that plan. Plan documents other than those provided by MFD may be used to establish any of the plans described above. An investor should consult with his tax adviser before establishing any of the tax-deferred retirement plans described above.

Class C shares are not currently available for purchase by any retirement plan qualified under Internal Revenue Code section 401(a) or 403(b) if the retirement plan and/or the sponsoring organization subscribe to the MFS FUNDamental 401(k) Plan or another similar 401(a) or 403(b) recordkeeping program made available by MFS Service Center, Inc.

7. TAX STATUS

The Fund has elected to be treated and intends to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), by meeting all applicable requirements of Subchapter M including requirements as to the nature of the Fund's gross income, the amount of Fund distributions, and the composition and holding period of the Fund's portfolio assets. Because the Fund intends to distribute all of its net investment income and net realized capital gains to shareholders in accordance with the timing requirements imposed by the Code, it is not expected that the Fund will be required to pay any federal income or excise taxes. If the Fund should fail to qualify as a "regulated investment company" in any year, the Fund would incur a regular corporate federal income tax upon its taxable income and Fund distributions would generally be taxable as ordinary dividend income to shareholders.

That part of the net investment income of the Fund which is attributable to interest from tax-exempt securities and which is distributed to Shareholders will be designated by the Fund as an "exempt-interest dividend" under the Code and will generally be exempt from federal income tax in the hands of shareholders so long as at least 50% of the total value of the Fund's assets consists of tax-exempt securities at the close of each quarter of the Fund's taxable year. Distributions of tax-exempt interest earned from certain securities may, however, be treated as an item of tax preference for shareholders under the federal alternative minimum tax, and all exempt-interest dividends may increase a corporate shareholder's alternative minimum tax. The percentage of income designated as tax-exempt will be applied uniformly to all distributions by the Fund of net investment income made during each fiscal year and may differ from the actual tax-exempt percentage for any particular month. Shareholders are required to report exempt-interest dividends received from the Fund on their federal income tax returns.

The Fund may also recognize some net investment income that is not tax-exempt, as well as capital gains and losses as a result of the disposition of securities and from certain options and futures transactions. Shareholders of the Fund will have to pay federal income taxes on the non-exempt interest dividends and capital gain distributions they receive from the Fund.

That portion of net investment income distributions not designated as tax-exempt, and any distributions from net short-term capital gains (whether received in cash or reinvested in additional shares) are taxable to shareholders as ordinary income for federal income tax purposes. Because the Fund expects to earn primarily tax-exempt interest income, it is expected that no Fund dividends will qualify for the dividends received deduction for corporations. Distributions of net capital gains (i.e., the excess of the net long-term capital gains over the short-term capital losses), whether received in cash or invested in additional shares, are taxable to the Fund's shareholders as long-term capital gains for federal income tax purposes regardless of how long they have owned shares in the Fund. Fund dividends declared in October, November, or December and paid the following January, will be taxable to shareholders as if received on December 31 of the year in which they are declared.

Any dividend or distribution of net capital gains or net short-term capital gains will have the effect of reducing the per share net asset value of shares in the Fund by the amount of the taxable dividend or distribution. Shareholders purchasing shares in the Fund shortly before the record date of any such distribution may thus pay the full price for the shares and then effectively receive a portion of the purchase price back as a taxable distribution.

Interest on indebtedness incurred by shareholders to purchase or carry shares of the Fund will not be deductible for federal income tax purposes. Exempt-interest dividends are taken into account in calculating the amount of social security and railroad retirement benefits that may be subject to federal income tax. Entities or persons who are "substantial users" (or persons related to "substantial users") of facilities financed by certain private activity bonds should consult their tax advisers before purchasing shares of the Fund. "Substantial user" is defined generally as including a "nonexempt person" who regularly uses in trade or business a part of a facility financed from the proceeds of certain private activity bonds.

In general, any gain or loss realized upon a taxable disposition of shares of

the Fund by a shareholder that holds such shares as a capital asset will be treated as long-term capital gain or loss if the shares have been held for more than twelve months and otherwise as a short-term capital gain or loss. However, any loss realized upon a disposition of shares in the Fund held for six months or less will be disallowed to the extent of any exempt-interest dividends received with respect to those shares. If not disallowed, any such loss will be treated as long-term capital loss to the extent of any distributions of net capital gain made with respect to those shares. Any loss realized upon a redemption of shares may also be disallowed under rules relating to wash sales. Gain may be increased (or loss reduced) upon a redemption of Class A shares of the Fund within ninety days after their purchase followed by any purchase (including purchases by exchange or by reinvestment) of the Fund or of another MFS Fund (or any other shares of an MFS Fund generally sold subject to a sales charge) without payment of an additional sales charge of Class A shares.

The Fund's transactions in options and Futures Contracts will be subject to special tax rules that may affect the amount, timing and character of Fund income and distributions to shareholders. For example, certain positions held by the Fund on the last business day of each taxable year will be marked to market (i.e., treated as if closed out) on such day, and any gain or loss associated with the positions will be treated as 60% long-term and 40% short-term capital gain or loss. Certain positions held by the Fund that substantially diminish its risk of loss with respect to other positions in its portfolio may constitute "straddles", and may be subject to special tax rules that would cause deferral of Fund losses, adjustments in the holding periods of Fund securities, and conversion of short-term into long-term capital losses. Certain tax elections exist for straddles that may alter the effects of these rules. The Fund will limit its activities in options and Futures Contracts to the extent necessary to meet the requirements of Subchapter M of the Code.

The Fund's current dividend and accounting policies will affect the amount, timing, and character of distributions to shareholders, and may, under certain circumstances, make an economic return of capital taxable to shareholders. The Fund's investment in zero coupon bonds, deferred interest bonds, and certain securities purchased at a market discount will cause it to realize income prior to the receipt of cash payments with respect to those securities. In order to distribute this income and avoid a tax on the Fund, the Fund may be required to liquidate portfolio securities that it might otherwise have continued to hold, potentially resulting in additional taxable gain or loss to the Fund.

Dividends and certain other payments to persons who are not citizens or residents of the United States or U.S. entities ("Non-U.S. Persons") are generally subject to U.S. tax withholding at a rate of 30%. The Fund intends to withhold U.S. federal income tax at the rate of 30% on any taxable dividends and other payments to Non-U.S. Persons that are subject to such withholding regardless of whether a lower treaty rate may be permitted. Any amounts overwithheld may be recovered by such persons by filing a claim for refund with the U.S. Internal Revenue Service within the time period appropriate to such claims. The Fund is also required in certain circumstances to apply backup withholding of 31% on taxable dividends and redemption proceeds paid to any shareholder who does not furnish to the Fund certain information and certifications or who is otherwise subject to backup withholding. Backup withholding will not however, be applied to payments that have been subject to 30% withholding. Distributions received from the Fund by Non-U.S. Persons may also be subject to tax under the laws of their own jurisdiction.

As long as it qualifies as a regulated investment company under the Code, the Fund will not be required to pay Massachusetts income or excise taxes. Distributions of the Fund that are derived from interest on obligations of the U.S. Government and certain of its agencies and instrumentalities (but generally not from capital gains realized upon the disposition of such obligations) may be exempt from state and local taxes in certain states. The Fund intends to advise shareholders of the extent, if any, to which its distributions consist of such interest. Shareholders are urged to consult their tax advisers regarding the possible exclusion of such portion of their dividends for state and local income tax purposes as well as regarding the tax consequences of an investment in the Fund.

The exemption of exempt-interest dividends for federal income tax purposes does not necessarily result in exemption under the tax laws of any state or local taxing authority. Some states do exempt from tax that portion of the exempt-interest dividends which represents interest received by a regulated investment company on its holdings of securities of that state and its political subdivisions and instrumentalities. Therefore, the Fund will report annually to its shareholders the percentage of interest income earned by the Fund during the preceding year on Municipal Bonds and will indicate, on a state-by-state basis only, the source of such income.

8. DETERMINATION OF NET ASSET VALUE; PERFORMANCE INFORMATION

NET ASSET VALUE

The net asset value per share of each class of the Fund is determined each day during which the New York Stock Exchange is open for trading. (As of the date of this Statement of Additional Information, the New York Stock Exchange is open for trading every weekday except for the following holidays or the days on which they are observed: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.) This

determination is made once during each such day as of the close of regular trading on the New York Stock Exchange by deducting the amount of the liabilities attributable to the class from the value of the assets attributable to the class and dividing the difference by the number of shares of the class outstanding. All other securities, futures contracts and options in the Fund's portfolio (other than short-term obligations) for which the principal market is one or more securities or commodities exchanges will be valued at the last reported sale price or at the settlement price prior to the determination (or if there has been no current sale, at the closing bid price) on the primary exchange on which such securities, futures contracts or options are traded; but if a securities exchange is not the principal market for securities, such securities will, if market quotations are readily available, be valued at current bid prices, unless such securities are reported on the NASDAQ system, in which case they are valued at the last sale price or, if no sales occurred during the day, at the last quoted bid price. Debt securities (other than short-term obligations) in the Fund's portfolio are valued on the basis of valuations furnished by a pricing service which utilizes both dealer-supplied valuations and electronic data processing techniques which take into account appropriate factors such as institutional-sized trading in similar groups of securities, yields, quality, coupon rate, maturity, type of issue, trading characteristics and other market data, without exclusive reliance upon quoted prices or exchange or over-the-counter prices, since such valuations are believed to reflect more accurately the fair value of such securities. Short-term obligations, if any, in the Fund's portfolio are valued at amortized cost, which constitutes fair value as determined by the Board of Trustees. Short-term securities with a remaining maturity in excess of 60 days will be valued based upon dealer supplied valuations. Portfolio securities and over-the-counter options for which there are no quotations or valuations are valued at fair value as determined in good faith by or at the direction of the Board of Trustees. A share's net asset value is effective for orders received by the dealer prior to its calculation and received by MFD, in its capacity as the Fund's distributor, prior to the close of the business day.

PERFORMANCE INFORMATION

TOTAL RETURN: The Fund will calculate its total rate of return for each class of shares for certain periods by determining the average annual compounded rates of return over those periods that would cause an investment of \$1,000 (made with all distributions reinvested and reflecting the CDSC or the maximum public offering price) to reach the value of that investment at the end of the periods. The Fund may also calculate (i) a total rate of return, which is not reduced by the CDSC (4% maximum for shares purchased on and after September 1, 1993) and therefore may result in a higher rate of return, (ii) a total rate of return assuming an initial account value of \$1,000, which will result in a higher rate of return with respect to Class A shares since the value of the initial account will not be reduced by the sales charge (4.75% maximum) and/or (iii) total rates of return which represent aggregate performance over a period or year-by-year performance and which may or may not reflect the effect of the maximum sales charge, other sales charge or CDSC. The average annual total rate of return for Class B shares, reflecting the CDSC, for the one-year and five-year periods ended September 30, 1994 and for the period from December 29, 1986 (the Fund's commencement of investment operations) to September 30, 1994 was -6.29%, +6.12% and +5.99%, respectively. The average annual total rates of return for Class B shares, not giving effect to the CDSC, for the one-year and five year periods and for the period from December 29, 1986 (the Fund's commencement of investment operations) to September 30, 1994 was -2.58%, +6.43% and +5.99%, respectively. The Fund's average annual total rate of return for Class A shares, reflecting the deduction of the initial sales charge, for the one-year period ended September 30, 1994 and for the period September 7, 1993 through September 30, 1994 was -6.25% and -5.64%, respectively. The Fund's average annual total rate of return for Class A shares, not giving effect to the initial sales charge, for the one-year period ended September 30, 1994 and for the period September 7, 1993 through September 30, 1994 was -1.53% and -1.18%, respectively. The Fund's aggregate total rate of return for Class C shares for the period January 3, 1994 through the Fund's fiscal year ended September 30, 1994 was -3.19%. The figures presented for Class C shares is not calculated on an annualized basis. The aggregate total rate of return represents a limited time frame and, like the total rates of return presented above for Class A and Class B shares, may not be indicative of future performance.

PERFORMANCE RESULTS -- The performance results below, based on an assumed initial investment of \$10,000 in Class B shares, cover the period from December 29, 1986 through December 31, 1994. It has been assumed that dividend and capital gain distributions were reinvested in additional shares. Any performance results or total rate of return quotation provided by the Fund should not be considered as representative of the performance of the Fund in the future since the net asset value of shares of the Fund will vary based not only on the type, quality and maturities of the securities held in the Fund's portfolio, but also on changes in the current value of such securities and on changes in the expenses of the Fund. These factors and possible differences in the methods used to calculate total rates of return should be considered when comparing the total rate of return of the Fund to total rates of return published for other investment companies or other investment vehicles. Total rate of return reflects the performance of both principal and income. Current net asset value and account balance information may be obtained by calling 1-800-MFS-TALK (637-8255).

MFS MUNICIPAL INCOME FUND - CLASS B

| YEAR ENDED | DIRECT | | DIVIDEND | | TOTAL VALUE |
|--------------------|------------|--------------|--------------|--|-------------|
| | INVESTMENT | REINVESTMENT | REINVESTMENT | | |
| December 31, 1986* | \$10,000 | \$0 | \$ 0 | | \$10,000 |
| December 31, 1987 | \$ 9,102 | \$0 | \$ 465 | | \$ 9,567 |
| December 31, 1988 | 9,657 | 0 | 1,145 | | 10,802 |
| December 31, 1989 | 9,929 | 0 | 1,874 | | 11,803 |
| December 31, 1990 | 9,681 | 0 | 2,541 | | 12,222 |
| December 31, 1991 | 10,153 | 33 | 3,430 | | 13,616 |
| December 31, 1992 | 10,247 | 204 | 4,238 | | 14,689 |
| December 31, 1993 | 10,743 | 214 | 5,335 | | 16,292 |
| December 31, 1994 | 9,681 | 193 | 5,554 | | 15,428 |

* For the period from the commencement of investment operations, December 29, 1986, through December 31, 1986.

EXPLANATORY NOTES: The results shown in the table take into account the annual Rule 12b-1 fees but not the CDSC. No adjustment has been made for any income taxes payable by shareholders.

YIELD: Any yield quotation for a class of shares of the Fund is based on the annualized net investment income per share of that class over a 30-day period. The yield for a class of shares of the Fund is calculated by dividing the net investment income per share allocated to that class earned during the period by the public offering price per share of that class on the last day of that period. The resulting figure is then annualized. Net investment income per share of a class is determined by dividing (i) the dividends and interest allocated to that class during the period, minus accrued expenses for the period, by (ii) the average number of shares of that class entitled to receive dividends during the period multiplied by the public offering price per share on the last day of the period. The Fund's yield calculations for Class A shares assume a maximum sales charge of 4.75%. The Fund's yield calculations for Class B shares assume no CDSC is paid.

The yield calculation for Class A, Class B and Class C shares for the 30-day period ended September 30, 1994 was 5.95%, 5.19% and 5.25%, respectively.

TAX-EQUIVALENT YIELD: The tax-equivalent yield for the Fund is calculated by determining the rate of return that would have to be achieved on a fully taxable investment to produce the after-tax equivalent of that yield. In calculating tax-equivalent yields the Fund assumes certain federal tax brackets for shareholders and does not take into account state taxes. The Fund's tax equivalent yield for Class A, Class B and Class C shares for the 30-day period ended September 30, 1994 was 8.10%, 6.94% and 7.17%, respectively (assuming a tax-bracket of 28%) and 8.45%, 7.25% and 7.48%, respectively (assuming a tax bracket of 31%).

CURRENT DISTRIBUTION RATE: Yield, which is calculated according to a formula prescribed by the SEC, is not indicative of the amounts which were or will be paid to the Fund's shareholders. Amounts paid to shareholders of each class are reflected in the quoted "current distribution rate" for that class. The current distribution rate for a class is computed by dividing the total amount of dividends per share paid by the Fund to shareholders of that class during the past 12 months by the maximum public offering price of that class at the end of such period. Under certain circumstances, such as when there has been a change in the amount of dividend payout, or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid over the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing, short-term capital gains and return of invested capital, and is calculated over a different period of time. The Fund's current distribution rate calculation for Class A shares assumes a maximum sales charge of 4.75%. The Fund's current distribution rate calculation for Class B shares assumes no CDSC is paid. The current distribution rate for Class A and Class B shares of the Fund for the 12 month period ended September 30, 1994 was 5.83% and 5.00%, respectively. The current distribution rate for Class C shares of the Fund, based on the annualization of the last dividend paid during the period ended September 30, 1994, was 5.16%.

GENERAL: From time to time the Fund may, as appropriate, quote Fund rankings or reprint all or a portion of evaluations of fund performance and operations appearing in various independent publications, including but not limited to the following: Money, Fortune, U.S. News and World Report, Kiplinger's Personal Finance, The Wall Street Journal, Barron's, Investors Business Daily, Newsweek, Financial World, Financial Planning, Investment Advisor, USA Today, Pensions and Investments, SmartMoney, Forbes, Global Finance, Registered Representative, Institutional Investor, the Investment Company Institute, Johnson's Charts, Morningstar, Lipper Analytical Services, Inc., CDA Wiesenberger, Shearson Lehman and Saloman Bros. Indices, Ibbotson, Business Week, Lowry Associates, Media General, Investment Company Data, The New York Times, Your Money, Strangers Investment Advisor, Financial Planning on Wall Street, Standard and Poor's, Individual Investor, The 100 Best Mutual Funds You Can Buy by Gordon K.

Williamson, Consumer Price Index, and Sanford C. Bernstein & Co. Fund performance may also be compared to the performance of other mutual funds tracked by financial or business publications or periodicals.

The Fund may also quote evaluations mentioned in independent radio or television broadcasts.

From time to time the Fund may use charts and graphs to illustrate the past performance of various indices such as those mentioned above and illustrations using hypothetical rates of return to illustrate the effects of compounding and tax-deferral.

The Fund may advertise examples of the effects of periodic investment plans, including the principle of dollar cost averaging. In such a program, an investor invests a fixed dollar amount in a fund at periodic intervals, thereby purchasing fewer shares when prices are high and more shares when prices are low. While such a strategy does not assure a profit or guard against a loss in a declining market, the investor's average cost per share can be lower than if fixed numbers of shares are purchased at the same intervals.

MFS FIRSTS: MFS has a long history of innovations.

- -- 1924 -- Massachusetts Investors Trust is established as the first mutual fund in America.
- -- 1924 -- Massachusetts Investors Trust is the first mutual fund to make full public disclosure of its operations in shareholder reports.
- -- 1932 -- One of the first internal research departments is established to provide in-house analytical capability for an investment management firm.
- -- 1933 -- Massachusetts Investors Trust is the first mutual fund to register under the Securities Act of 1933 ("Truth in Securities Act" or "Full Disclosure Act").
- -- 1936 -- Massachusetts Investors Trust is the first mutual fund to let shareholders take capital gain distributions either in additional shares or in cash.
- -- 1976 -- MFS(R) Municipal Bond Fund is among the first municipal bond funds established.
- -- 1979 -- Spectrum becomes the first combination fixed/variable annuity with no initial sales charge.
- -- 1981 -- MFS(R) World Governments Fund is established as America's first globally diversified fixed income mutual fund.
- -- 1984 -- MFS(R) Municipal High Income Fund is the first mutual fund to seek high tax-free income from lower-rated municipal securities.
- -- 1986 -- MFS(R) Managed Sectors Fund becomes the first mutual fund to target and shift investments among industry sectors for shareholders.
- -- 1986 -- MFS(R) Municipal Income Trust is the first closed-end, high-yield municipal bond fund traded on the New York Stock Exchange.
- -- 1986 -- MFS(R) Lifetime Investment ProgramSM is established as the first complete family of 12b-1 mutual funds with no initial sales charge.
- -- 1987 -- MFS(R) Multimarket Income Trust is the first-closed-end, multimarket high income fund listed on the New York Stock Exchange.
- -- 1989 -- MFS(R) Regatta becomes America's first non-qualified market-value-adjusted fixed/variable annuity.
- -- 1990 -- MFS(R) World Total Return Fund is the first global balanced fund.
- -- 1993 -- MFS(R) World Growth Fund is the first global emerging markets fund to offer the expertise of two sub-advisers.
- -- 1993 -- MFS becomes money manager of MFS(R) Union Standard Trust, the first trust to invest in companies deemed to be union-friendly by an Advisory Board of senior labor officials, senior managers of companies with significant labor contracts, academics and other national labor leaders or experts.

9. DISTRIBUTION PLANS

The Trustees have adopted a Distribution Plan for each of Class A, Class B and Class C shares (the "Distribution Plans") pursuant to Section 12(b) of the 1940 Act and Rule 12b-1 thereunder (the "Rule") after having concluded that there is a reasonable likelihood that each Distribution Plan would benefit the Fund and the respective class of shareholders. The Distribution Plans are designed to promote sales, thereby increasing the net assets of the Fund. Such an increase may reduce the expense ratio to the extent the Fund's fixed costs are spread over a larger net asset base. Also, an increase in net assets may lessen the adverse effects that could result were the Fund required to liquidate portfolio securities to meet redemptions. There is, however, no assurance that the net assets of the Fund will increase or that the other benefits referred to above will be realized.

CLASS A DISTRIBUTION PLAN: The Distribution Plan relating to Class A shares (the "Class A Distribution Plan") provides that the Fund will pay MFD up to (but not necessarily all of) an aggregate of 0.35% of the average daily net assets attributable to the Class A shares annually in order that MFD may pay expenses on behalf of the Fund related to the distribution and servicing of its Class A shares. The expenses to be paid by MFD on behalf of the Fund include a service fee to securities dealers which enter into a sales agreement with MFD of up to

0.25% per annum of the portion of the Fund's average daily net assets attributable to the Class A shares owned by investors for whom that securities dealer is the holder or dealer of record. These payments are partial consideration for personal services and/or account maintenance performed by such dealers with respect to Class A shares. MFD will also retain a distribution fee of 0.10% per annum of the Fund's average daily net assets attributable to Class A shares as partial consideration for services performed and expenses incurred in the performance of MFD's obligations as to Class A shares under the Distribution Agreement with the Fund. Any remaining funds may be used to pay for other distribution related expenses as described in the Prospectus. Service fees may be reduced for a securities dealer that is the holder or dealer of record for an investor who owns shares of the Fund having a net asset value at or above a certain dollar level. No service fee will be paid (i) to any securities dealer who is the holder or dealer of record for investors who own Class A shares having an aggregate net asset value less than \$750,000, or such other amount as may be determined from time to time by MFD (MFD, however, may waive this minimum amount requirement from time to time if the dealer satisfies certain criteria), or (ii) to any insurance company which has entered into an agreement with the Fund and MFD that permits such insurance company to purchase shares from the Fund at their net asset value in connection with annuity agreements issued in connection with the insurance company's separate accounts. Payments under the Class A Distribution Plan will commence on the date on which the value of the Fund's net assets attributable to Class A shares first equals or exceeds \$40,000,000, at which time MFD will waive the 0.10% distribution fee to which it is entitled under the plan until such time as the payment of this fee is approved by the Trust's Board of Trustees. Dealers may from time to time be required to meet certain other criteria in order to receive service fees. MFD or its affiliates are entitled to retain all service fees payable under the Class A Distribution Plan for which there is no dealer of record or for which qualification standards have not been met as partial consideration for personal services and/or account maintenance services performed by MFD or its affiliates for shareholder accounts. Certain banks and other financial institutions that have agency agreements with MFD will receive agency transaction and service fees that are the same as commissions and service fees to dealers.

The Class A Distribution Plan will remain in effect until August 1, 1995, and will continue in effect thereafter only if such continuance is specifically approved at least annually by vote of both the Trustees and a majority of the Trustees who are not "interested persons" or financially interested parties to the Plan ("Class A Distribution Plan Qualified Trustees"). The Class A Distribution Plan requires that the Fund and MFD each shall provide to the Trustees, and the Trustees shall review, at least quarterly, a written report of the amounts expended (and purposes therefor) under such Plan. The Class A Distribution Plan may be terminated at any time by vote of a majority of the Class A Distribution Plan Qualified Trustees or by vote of the holders of a majority of the Fund's Class A shares (as defined in "Investment Restrictions"). Agreements under the Class A Distribution Plan must be in writing, will be terminated automatically if assigned, and may be terminated at any time without payment of any penalty, by vote of a majority of the Class A Distribution Plan Qualified Trustees or by vote of the holders of a majority of the Fund's Class A shares. The Class A Distribution Plan may not be amended to increase materially the amount of permitted distribution expenses without the approval of a majority of the Fund's Class A shares (as defined in "Investment Restrictions") and may not be materially amended in any case without a vote of the Class A 12b-1 Plan Qualified Trustees. No Trustee who is not an "interested person" has any financial interest in the Class A Distribution Plan or in any related agreement.

CLASS B DISTRIBUTION PLAN: The Class B Distribution Plan relating to Class B shares (the "Class B Distribution Plan") provides that the Fund shall pay MFD, as the Fund's distributor for its Class B shares, a daily distribution fee equal on an annual basis to 0.75% of the Fund's average daily net assets and will pay MFD a service fee up to 0.25% per annum of the Fund's average daily net assets attributable to Class B shares (which MFD will in turn pay to securities dealers which enter into a sales agreement with MFD at a rate of up to 0.25% per annum of the Fund's average daily net assets attributable to Class B shares owned by investors for whom that securities dealer is the holder or dealer of record). This service fee is intended to be additional consideration for all personal services and/or account maintenance services rendered by the dealer with respect to Class B shares. MFD will also advance to dealers the first year service fee at a rate equal to 0.25% per annum of the amount invested. As compensation therefor, MFD may retain the service fee paid by the Fund with respect to such shares for the first year after purchase. Therefore, the total amount paid to a dealer upon the sale of shares is 4.00% of the purchase price of the shares (commission rate of 3.75% plus a service fee equal to 0.25% of the purchase price). Dealers will become eligible for additional service fees with respect to such shares in the 13 months following purchase. Except in the case of the first year service fee, no service fee will be paid to any securities dealer who is the holder or dealer of record for investors who own Class B shares having an aggregate net asset value of less than \$750,000 or such other amount as may be determined from time to time by MFD. MFD, however, may waive this minimum amount requirement from time to time if the dealer satisfies certain criteria. Dealers may from time to time be required to meet certain other criteria in order to receive service fees. MFD or its affiliates are entitled to retain all service fees payable under the Class B Distribution Plan with respect to accounts for which there is no dealer of record or for which qualification standards have not been met as partial consideration for personal services and/or account

maintenance services performed by MFD or its affiliates for shareholder accounts. The purpose of distribution payments to MFD under the Class B Distribution Plan is to compensate MFD for its distribution services to the Fund. MFD pays commissions to dealers as well as expenses of printing prospectuses and reports used for sales purposes, expenses with respect to the preparation and printing of sales literature and other distribution related expenses, including, without limitation, the cost necessary to provide distribution-related services, of personnel, travel, office expenses and equipment. The Class B Distribution Plan also provides that MFD will receive all CDSCs. (See "Distribution Plan" and "Purchase of Shares" in the Prospectus.)

For the period December 1, 1993 through March 31, 1994, the Fund incurred expenses of \$1,759,118 (equal to, on an annualized basis, 1.0% of its average daily net assets attributable to Class B shares), relating to the distribution and servicing of its Class B shares, of which MFD retained \$1,318,688 and securities dealers of the Fund and certain banks and other financial institutions received \$440,430.

In accordance with the Rule, all agreements relating to the Class B Distribution Plan entered into between the Fund or MFD and other organizations must be approved by the Board of Trustees, including a majority of the Trustees who are not "interested persons" (as defined in the 1940 Act) and who have no direct or indirect financial interest in the operation of the Class B Distribution Plan or in any agreement related to such Plan ("Class B Distribution Plan Qualified Trustees"). The Class B Distribution Plan further provides that the selection and nomination of Class B Distribution Plan Qualified Trustees shall be committed to the discretion of the non-interested Trustees then in office.

The Class B Distribution Plan will remain in effect until August 1, 1995 and will continue in effect thereafter only if such continuance is specifically approved at least annually by vote of both the Trustees and a majority of the Class B Distribution Plan Qualified Trustees. The Class B Distribution Plan requires that the Fund and MFD shall provide to the Trustees, and the Trustees shall review, at least quarterly, a written report of the amounts expended (and purposes therefor) under such Plan. The Class B Distribution Plan may be terminated at any time by vote of a majority of the Class B Distribution Plan Qualified Trustees or by vote of the holders of a majority of the Class B shares of the Fund (as defined in "Investment Restrictions" above). The Class B Distribution Plan may not be amended to increase materially the amount of permitted distribution expenses without the approval of Class B shareholders and may not be materially amended in any case without a vote of the majority of both the Trustees and the Class B Distribution Plan Qualified Trustees. No Trustee who is not an interested person of the Fund has any financial interest in the Class B Distribution Plan or in any related agreement.

CLASS C DISTRIBUTION PLAN: The Distribution Plan relating to Class C shares (the "Class C Distribution Plan") provides that the Fund will pay MFD a distribution fee of up to 0.75% per annum of the Fund's average daily net assets attributable to Class C shares and will pay MFD a service fee of up to 0.25% per annum of the Fund's average daily net assets attributable to Class C shares (which MFD will in turn pay to securities dealers which enter into a sales agreement with MFD at a rate of up to 0.25% per annum of the Fund's daily net assets attributable to Class C shares owned by investors for whom that securities dealer is the holder or dealer of record).

The distribution/service fees attributable to Class C shares are designed to permit an investor to purchase such shares through a broker-dealer without the assessment of an initial sales charge or a CDSC while allowing MFD to compensate broker-dealers in connection with the sale of such shares.

The service fee is intended to be additional consideration for all personal services and/or account maintenance services rendered by the dealer with respect to Class C shares. MFD or its affiliates are entitled to retain all service fees payable under the Class C Distribution Plan with respect to accounts for which there is no dealer of record as partial consideration for personal services and/or account maintenance services performed by MFD or its affiliates for shareholder accounts.

The purpose of the distribution payments to MFD under the Class C Distribution Plan is to compensate MFD for its distribution services to the Fund. Distribution payments under the Plan will be used by MFD to pay securities dealers a distribution fee in an amount equal on an annual basis to 0.75% of the Fund's average daily net assets attributable to Class C shares owned by investors for whom securities dealer is the holder or dealer of record. (Therefore, the total amount of distribution/service fees paid to a dealer on an annual basis is 1.00% of the Fund's average daily net assets attributable to Class C shares owned by investors for whom the securities dealer is the holder or dealer of record.) MFD also pays expenses of printing prospectuses and reports used for sales purposes, expenses with respect to the preparation and printing of sales literature and other distribution-related expenses, including, without limitation, the compensation of personnel and all costs of travel, office expense and equipment. Since MFD's compensation is not directly tied to its expenses, the amount of compensation received by MFD during any year may be more or less than its actual expenses. For this reason, this type of distribution fee arrangement is characterized by the staff of the SEC as being of the "compensation" variety. However, the Fund is not liable for any expenses

incurred by MFD in excess of the amount of compensation it receives. Certain banks and other financial institutions that have agency agreements with MFD will receive agency transaction and service fees that are the same as distribution and service fees to dealers. Fees payable under the Class C Distribution Plan are charged to, and therefore reduce, income allocated to Class C shares.

For the period January 1, 1994 through March 31, 1994, the Fund incurred expenses of \$7,994 (equal to, on an annualized basis, 1.0% of its average daily net assets attributable to Class C shares), relating to the distribution and servicing of its Class C shares, all of which was received by securities dealers of the Fund and certain banks and other financial institutions.

The Class C Distribution Plan will remain in effect until August 1, 1995 and will continue in effect thereafter only if such continuance is specifically approved at least annually by vote of both the Trustees and a majority of the Class C Distribution Plan Qualified Trustees. The Class C Distribution Plan requires that the Fund and MFD shall provide to the Trustees, and the Trustees shall review, at least quarterly, a written report of the amounts expended (and purposes therefor) under such Plan. The Class C Distribution Plan may be terminated at any time by vote of a majority of the Class C Distribution Plan Qualified Trustees or by vote of the holders of a majority of the Class C shares of the Fund (as defined in "Investment Restrictions" above). The Class C Distribution Plan may not be amended to increase materially the amount of permitted distribution expenses without the approval of Class C shareholders and may not be materially amended in any case without a vote of the majority of both the Trustees and the Class C Distribution Plan Qualified Trustees. No Trustee who is not an interested person of the Fund has any financial interest in the Class C Distribution Plan or in any related agreement.

10. DESCRIPTION OF SHARES, VOTING RIGHTS AND LIABILITIES

The Trust's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional Shares of Beneficial Interest (without par value) of one or more separate series and to divide or combine the shares of any series into a greater or lesser number of shares without thereby changing the proportionate beneficial interests in that series. The Trustees have currently authorized shares of the Fund and 18 other series. The Declaration of Trust further authorizes the Trustees to classify or reclassify any series of shares into one or more classes. Pursuant thereto, the Trustees have authorized the issuance of three classes of shares of the Fund (Class A, Class B and Class C shares). Each share of a class of the Fund represents an equal proportionate interest in the assets of the Fund allocable to that class. Upon liquidation of the Fund, shareholders of each class are entitled to share pro rata in the net assets of the Fund allocable to such class available for distribution to shareholders. The Trust reserves the right to create and issue additional series or classes of shares, in which case the shares of each class of a series would participate equally in the earnings, dividends and assets allocable to that class of the particular series.

Shareholders are entitled to one vote for each share held and may vote in the election of Trustees and on other matters submitted to meetings of shareholders. Although Trustees are not elected annually by the shareholders, shareholders have under certain circumstances the right to remove one or more Trustees in accordance with the provisions of Section 16(c) of the 1940 Act. No material amendment may be made to the Declaration of Trust without the affirmative vote of a majority of the Trust's shares (as defined in "Investment Restrictions") or by an instrument in writing without a meeting, signed by a majority of Trustees and consented to by the holders of not less than a majority of the shares outstanding and entitled to vote. Shares have no pre-emptive or conversion rights (except as described in "Purchases -- Conversion of Class B Shares" in the Prospectus). Shares are fully paid and non-assessable. The Trust may enter into a merger or consolidation, or sell all or substantially all of its assets (or all or substantially all of the assets belonging to any series of the Trust), if approved by the vote of the holders of two-thirds of the Trust's outstanding shares voting as a single class, or of the affected series of the Trust, as the case may be, except that if the Trustees of the Trust recommend such merger, consolidation or sale, the approval by vote of the holders of a majority of the Trust's or the affected series' outstanding shares (as defined in "Investment Restrictions") will be sufficient. The Trust or any series of the Trust may also be terminated (i) upon liquidation and distribution of its assets, if approved by the vote of the holders of two-thirds of its outstanding shares, or (ii) by the Trustees by written notice to the shareholders of the Trust or the affected series. If not so terminated, the Trust will continue indefinitely.

The Trust is an entity of the type commonly known as a "Massachusetts business trust." Under Massachusetts law, shareholders of such a trust may, under certain circumstances, be held personally liable as partners for its obligations. However, the Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Trust and provides for indemnification and reimbursement of expenses out of Trust property for any shareholder held personally liable for the obligations of the Trust. The Declaration of Trust also provides that it shall maintain appropriate insurance (for example, fidelity bonding and errors and omissions insurance) for the protection of the Trust, its shareholders, Trustees, officers, employees and agents covering possible tort or other liabilities. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances

in which both inadequate insurance existed and the Trust itself was unable to meet its obligations.

The Declaration of Trust further provides that obligations of the Trust are not binding upon the Trustees individually but only upon the property of the Trust and that the Trustees will not be liable for any action or failure to act, but nothing in the Declaration of Trust protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

11. INDEPENDENT ACCOUNTANTS AND FINANCIAL STATEMENTS

Deloitte & Touche LLP are the Fund's independent certified public accountants.

The Portfolio of Investments at March 31, 1994 and September 30, 1994, the Statement of Assets and Liabilities at March 31, 1994 and September 30, 1994, the Statement of Operations for the year ended March 31, 1994 and for the six months ended September 30, 1994, the Statement of Changes in Net Assets for each of the two years in the period ended March 31, 1994 and for the six months ended September 30, 1994, the Financial Highlights for each of the years in the eight year period ended March 31, 1994 and for the six months ended September 30, 1994, the Notes to Financial Statements and the Independent Auditors' Report, all of which are included in the Annual and Semi-Annual Reports to shareholders of the Fund, are incorporated by reference into this Statement of Additional Information and have been so incorporated in reliance upon the report of Deloitte & Touche LLP, independent certified public accountants, as experts in accounting and auditing. A copy of the Annual and Semi-Annual Reports accompany this Statement of Additional Information.

APPENDIX A
COMPENSATION TABLE

| TRUSTEE | TRUSTEE FEES FROM FUND\1/ | RETIREMENT BENEFIT ACCRUED AS PART OF FUND EXPENSE\1/ | ESTIMATED CREDITED YEARS OF SERVICE\2/ | TOTAL TRUSTEE FEES FROM FUND AND FUND COMPLEX\3/ |
|---------------------|---------------------------|---|--|--|
| Marshall N. Cohan | \$1,317 | \$1,365 | 14 | \$147,274 |
| J. David Gibbons | 867 | 931 | 13 | 132,024 |
| Walter E. Robb, III | 1,317 | 1,592 | 15 | 147,274 |
| Richard B. Bailey | 867 | 361 | 10 | 226,221 |
| Ward Smith | 1,317 | 220 | 13 | 147,274 |
| Abby M. O'Neill | 867 | 175 | 10 | 125,924 |
| Dr. Lawrence Cohn | 867 | 0 | 18 | 133,524 |
| J. Dale Sherratt | 1,317 | 0 | 20 | 147,274 |

\1/ For fiscal year ended March 31, 1994.

\2/ Based on normal retirement age of 75.

\3/ For calendar year 1994. All Trustees served as Trustees of 36 funds within the MFS Fund complex (having aggregate net assets at December 31, 1994, of approximately \$9,746,460,756) except Mr. Bailey, who served as Trustee of 56 funds within the MFS Fund complex (having aggregate net assets at December 31, 1994, of approximately \$24,474,119,825).

ESTIMATED ANNUAL BENEFITS PAYABLE BY FUND UPON RETIREMENT\4/

| AVERAGE TRUSTEE FEES | YEARS OF SERVICE | | | |
|----------------------|------------------|-------|-------|------------|
| | 3 | 5 | 7 | 10 OR MORE |
| \$ 800 | \$120 | \$200 | \$280 | \$400 |
| 950 | 143 | 238 | 333 | 475 |
| 1,100 | 165 | 275 | 385 | 550 |
| 1,250 | 188 | 313 | 438 | 625 |
| 1,400 | 210 | 350 | 490 | 700 |
| 1,550 | 233 | 388 | 543 | 775 |

\4/ Other funds in the MFS Fund complex provide similar retirement benefits to the Trustees.

INVESTMENT ADVISER

Massachusetts Financial Services Company
500 Boylston Street, Boston, MA 02116
(617) 954-5000

DISTRIBUTOR

MFS Fund Distributors, Inc.
500 Boylston Street, Boston, MA 02116
(617) 954-5000

CUSTODIAN AND DIVIDEND DISBURSING AGENT
 State Street Bank and Trust Company
 225 Franklin Street, Boston, MA 02110

SHAREHOLDER SERVICING AGENT
 MFS Service Center, Inc.
 500 Boylston Street, Boston, MA 02116
 Toll free: (800) 225-2606

MAILING ADDRESS:
 P.O. Box 2281, Boston, MA 02107-9906

INDEPENDENT ACCOUNTANTS
 Deloitte & Touche LLP
 125 Summer Street, Boston, MA 02110

MFS (R)
 Municipal
 Income Fund

500 BOYLSTON STREET
 BOSTON, MA 02116

MMI-13-3/95/500 02/202/302

<TABLE>
 PORTFOLIO OF INVESTMENTS - September 30, 1994
 Municipal Bonds - 97.9%

<CAPTION>

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|---|-----------------------------------|---------------|
| <S> | <C> | <C> | <C> |
| AAA | Student Loan Revenue - 1.2% Pennsylvania Higher Education Assistance Agency, 10.129s, 2026*<F3> | \$ 5,500 | \$ 5,458,750 |
| NR | General Obligation - 10.9% Arlington, TX, Independent School Refunding Rev., 0s, 2007 | \$ 3,070 | \$ 1,459,110 |
| A+ | Commonwealth of Massachusetts, 7s, 2007 | 2,590 | 2,779,148 |
| AA- | Commonwealth of Pennsylvania, 6.375s, 2011 | 1,250 | 1,254,512 |
| AA+ | Harris County, TX, Certificates of Obligation (Astrodome Improvements Project), 8.1s, 2008 | 1,385 | 1,525,647 |
| AAA | Lowell, MI, Area School District, FGIC, 0s, 2020 | 5,000 | 937,250 |
| AAA | Maricopa County, AZ, School District #11, Peoria Unified, 0s, 2004 | 5,245 | 2,980,051 |
| A- | New York, NY, 8.2s, 2003 | 5,000 | 5,631,050 |
| A- | New York, NY, 7.5s, 2008 | 1,350 | 1,451,506 |
| A- | New York, NY, 8.25s, 2010 | 4,500 | 5,077,980 |
| A- | New York, NY, 8s, 2018 | 30 | 33,305 |
| AAA | Northwest Texas, Independent School District, AMBAC, 0s, 2011 | 3,000 | 1,033,680 |
| AA | State of Texas, 7.625s, 2018 | 14,405 | 15,676,529 |
| AA | State of Wisconsin, 8.1s, 2018 | 7,115 | 7,763,248 |
| AA | State of Wisconsin, 7.6s, 2020 | 2,865 | 2,957,941 |
| | | | \$ 50,560,957 |
| AAA | State and Local Appropriation - 4.6% Houston, TX, Water Conveyance Systems Contract, Certificates of Participation, 6.25s, 2014 | \$ 1,100 | \$ 1,087,306 |
| AAA | Houston, TX, Water Conveyance Systems Contract, Certificates of Participation, 6.25s, 2015 | 2,300 | 2,272,906 |
| A+ | Indianapolis, IN, Local Public Improvement Bond Bank, 6.75s, 2020 | 1,000 | 990,230 |
| A+ | Massachusetts Bay Transportation Authority, 5.5s, 2012 | 4,500 | 4,063,950 |
| BBB | New York Dormitory Authority Rev. (City University), 7.5s, 2010 | 2,500 | 2,748,325 |
| BBB+ | New York Medical Care Facility, Financial Agency Rev., 8.875s, 2007 | 770 | 854,153 |
| BBB+ | New York Medical Care Facility, Financial Agency Rev., 7.875s, 2008 | 745 | 826,540 |
| BBB+ | New York Medical Care Facility, Financial Agency Rev., 7.875s, 2020 | 2,580 | 2,842,128 |

| | | | |
|------|---|-------|---------------|
| BBB+ | New York Medical Care Facility, Financial Agency Rev., 7.5s, 2021 | 540 | 581,526 |
| BBB | New York Urban Development Corp. (State Facilities), 7.5s, 2011 | 2,500 | 2,687,925 |
| AAA | Philadelphia, PA, Regional Port Authority Lease Rev., MVRIC, 8.87s, 2020*<F3> | 2,500 | 2,320,950 |
| | | | ----- |
| | | | \$ 21,275,939 |

 Refunded and Special Obligations - 17.9%

| | | | |
|-----|---|----------|--------------|
| AAA | Adams County, CO, Single Family Mortgage Rev., 8.875s, 2011 | \$ 2,510 | \$ 3,161,747 |
| NR | Chapel Hill, NC, Packaging Facilities Rev., 8.125s, 2000 | 980 | 1,138,917 |
| NR | Chapel Hill, NC, Packaging Facilities Rev., 8.25s, 2000 | 1,000 | 1,168,650 |
| AAA | Commonwealth of Massachusetts, 7.5s, 2000 | 1,990 | 2,257,118 |

PORTFOLIO OF INVESTMENTS - continued
 Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------|--|--------------------------------|---------------|
| | Refunded and Special Obligations - continued | | |
| A+ | Commonwealth of Massachusetts, 7.5s, 2000 | \$ 2,010 | \$ 2,279,802 |
| NR | Dayton, OH, Special Facilities Rev. (Emery Air Freight), "A", 12.5s, 2009 | 1,000 | 1,161,670 |
| NR | Illinois Education and Facilities Authority, 8.75s, 1995 | 1,500 | 1,588,884 |
| AA | Intermountain Power Agency, UT, Power Supply Rev., 7s, 1999 | 5,000 | 5,451,200 |
| AAA | Los Angeles, CA, Convention & Exhibition Center Authority, Certificates of Participation, 7.375s, 1999 | 2,000 | 2,221,380 |
| NR | Massachusetts Health & Education Facilities Authority Rev., 9.1s, 1996 | 915 | 986,233 |
| NR | Massachusetts Health & Education Facilities Authority Rev. (Suffolk University), 8s, 2000 | 1,000 | 1,144,050 |
| AAA | Massachusetts Water Resources Authority, 7.625s, 2000 | 3,200 | 3,614,368 |
| AAA | New York Local Government Assistance Corp., 7.25s, 2001 | 2,750 | 3,088,195 |
| A- | New York, NY, Pre-refunded, "A", 8s, 2001 | 2,970 | 3,451,170 |
| AAA | New York Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 680 | 766,292 |
| BBB+ | New York Medical Care Facility, Financial Agency Rev., 7.75s, 2000 | 1,030 | 1,166,949 |
| AAA | New York Medical Care Facility, Financial Agency Rev., 7.875s, 2000 | 670 | 771,170 |
| AAA | New York Medical Care Facility, Financial Agency Rev., 7.875s, 2000 | 3,565 | 4,103,315 |
| AAA | New York Medical Care Facility, Financial Agency Rev., 7.5s, 2001 | 1,460 | 1,656,443 |
| BBB | New York Urban Development Corp. (Correctional Facilities), 7.75s, 2000 | 5,000 | 5,665,750 |
| NR | New York Urban Development Corp. Rev., 7.3s, 2002 | 2,340 | 2,642,398 |
| A- | Pennsylvania Industrial Development Authority Rev., 7s, 2001 | 7,000 | 7,743,190 |
| AAA | Philadelphia, PA, Municipal Authority Rev., 7s, 2001 | 2,000 | 2,226,560 |
| NR | Texas Turnpike Authority Rev., 0s, 2002 | 3,000 | 3,870,420 |
| AAA | Washington County, PA, Authority Lease Rev., 7.45s, 2000 | 1,200 | 1,358,243 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #1, 7.25s, 2000 | 3,350 | 3,695,720 |
| AAA | Washington Public Power Supply System Rev., Nuclear Project #1, 14.375s, 2001 | 1,000 | 1,368,260 |
| AAA | Washington Public Power Supply System Rev., Nuclear Project #2, 7.375s, 2000 | 5,355 | 5,976,930 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #3, 7.25s, 2000 | 5,000 | 5,516,000 |
| BB+ | West Virginia Water Development Authority, 8.125s, 1998 | 1,000 | 1,124,900 |
| BB+ | West Virginia Water Development Authority, 8.625s, 1998 | 1,000 | 1,143,040 |
| | | | ----- |
| | | | \$ 83,508,964 |

 Single Family Housing Revenue - 9.4%

| | | | |
|-----|--|----------|--------------|
| AAA | Berkeley, Brookes & Fayette Counties, WV, MBIA, 0s, 2016 | \$14,000 | \$ 1,413,160 |
|-----|--|----------|--------------|

| | | | |
|-----|--|--------|-----------|
| AAA | Chicago, IL, Residential Mortgage Rev., 0s, 2009 | 7,000 | 2,425,570 |
| BB | Cook County, IL, 0s, 2015 | 16,975 | 1,807,328 |

PORTFOLIO OF INVESTMENTS - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|---|--|-----------------------------------|---------------|
| ----- | | | |
| S&P | | | |
| Bond Rating | | | |
| (Unaudited) Issuer | | | |
| ----- | | | |
| Single Family Housing Revenue - continued | | | |
| NR | De Kalb, IL, Single Family Mortgage Rev., 7.45s, 2009 | \$ 315 | \$ 328,391 |
| NR | Delaware Housing Authority Rev., 9.125s, 2018 | 915 | 953,842 |
| BB+ | Harris County, TX, Housing Finance Corp., 9.625s, 2003 | 310 | 309,801 |
| BB+ | Harris County, TX, Housing Finance Corp., 9.875s, 2014 | 555 | 554,545 |
| A+ | Illinois Housing Development Agency, 0s, 2016 | 8,785 | 942,630 |
| AAA | Kentucky Housing Corp., Housing Rev., FHA, 7.45s, 2023 | 6,580 | 6,714,758 |
| AAA | Louisiana Housing Finance Agency, Single Family Mortgage Rev., FGIC, 9.375s, 2015 | 325 | 338,091 |
| AA+ | Minnesota Housing Finance Agency, 9s, 2018 | 4,655 | 4,792,230 |
| NR | Mississippi Home Corp., Single Family Rev., 7.1s, 2023 | 910 | 932,140 |
| A+ | New Hampshire Housing Finance Authority, 7.2s, 2010 | 7,000 | 7,147,000 |
| A+ | New Hampshire Housing Finance Authority, 8.625s, 2013 | 780 | 809,367 |
| A+ | Tennessee Housing Development Agency, 8.25s, 2020 | 1,985 | 2,074,285 |
| A+ | Tennessee Housing Development Agency, 8.125s, 2021 | 2,145 | 2,229,749 |
| AA | Utah Housing Finance Agency, 8.625s, 2019 | 2,020 | 2,068,015 |
| AA | Utah Housing Finance Agency, 9.125s, 2019 | 230 | 236,240 |
| AA | Utah Housing Finance Agency, 9.25s, 2019 | 175 | 185,145 |
| A+ | Virginia Housing Development Authority, 7.1s, 2022 | 1,000 | 1,017,670 |
| A+ | West Virginia Housing Development Fund, 7.85s, 2014 | 6,150 | 6,344,279 |
| | | | ----- |
| | | | \$ 43,624,236 |
| ----- | | | |
| Multi-Family Housing Revenue - 3.9% | | | |
| NR | Colorado Housing Finance Authority, 8.3s, 2023 | \$ 2,750 | \$ 2,870,752 |
| NR | Maryland Community Development Administration, 8.5s, 2028 | 3,000 | 3,114,210 |
| A+ | New Jersey Housing & Mortgage Finance Agency, 6.6s, 2014 | 3,000 | 2,975,820 |
| A+ | Pennsylvania Housing Finance Agency, 7.6s, 2013 | 2,000 | 2,128,480 |
| AA- | Vermont Housing Finance Agency, 8.375s, 2020 | 2,795 | 2,896,766 |
| A | Wisconsin Housing & Economic Development Authority, 7.2s, 2013 | 4,000 | 4,094,800 |
| | | | ----- |
| | | | \$ 18,080,828 |
| ----- | | | |
| Insured Health Care Revenue - 2.9% | | | |
| AAA | Clermont County, OH, Hospital Facilities Rev. (Mercy Health System), AMBAC, MVRIC, 9.991s, 2021*<F3> | \$ 1,500 | \$ 1,533,675 |
| AAA | Colorado Health Facilities Authority Rev. (PSL Health Systems), FSA, 7.25s, 2016 | 2,000 | 2,154,140 |
| AAA | Fredericksburg, VA, Industrial Development Authority, Hospital Facilities Rev., 9.57s, 2023*<F3> | 1,500 | 1,504,755 |
| AAA | Jefferson County, KY, Hospital Rev. (Alliant Health System), MBIA, 9.192s, 2014*<F3> | 1,500 | 1,491,675 |
| AAA | Mississippi Hospital Equipment & Facilities Authority Rev. (Rush Medical Foundation), 6.7s, 2018 | 1,000 | 1,015,800 |
| AAA | Rio Grande Valley, TX, Health Facilities Development Corp., 7.72s, 2015(S)<F5> | 2,800 | 2,776,424 |
| AAA | Tulsa, OK, Industrial Authority Hospital Rev. (St. Johns Medical Center), 0s, 2006 | 6,430 | 3,072,190 |
| | | | ----- |
| | | | \$ 13,548,659 |

PORTFOLIO OF INVESTMENTS - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|--------|-----------------------------------|-------|
| ----- | | | |
| Health Care Revenue - 4.4% | | | |

| | | | |
|-----|--|----------|---------------|
| BB- | Bell County, TX, Health Facilities Development Corp. (Kings Daughters Hospital), 9.25s, 2008 | \$ 1,720 | \$ 1,906,276 |
| NR | Bell County, TX, Health Facilities Development Corp. (Advanced Living Technology), 10.5s, 2018 | 2,000 | 1,840,000 |
| BBB | Colorado Health Facilities Authority Rev. (Rocky Mountain Adventist), 6.625s, 2013 | 1,000 | 956,000 |
| NR | Fulton County, GA, Residential Care Facilities, Elderly Authority Rev. (Lenbrook Square Foundation), 9.75s, 2017 | 485 | 496,790 |
| NR | Gadsden County, FL, Industrial Development Authority, (RHA/FLA Properties), 10.45s, 2018 | 1,970 | 2,026,973 |
| NR | Louisiana Public Facilities Authority (Southwest Medical Center), 11s, 2006 | 1,681 | 1,032,526 |
| A | Massachusetts Health & Educational Facilities Rev., 6.875s, 2022 | 5,000 | 4,753,900 |
| BBB | New York Medical Care Facilities, Financing Agency Rev., 7.75s, 2020 | 1,025 | 1,124,118 |
| NR | Philadelphia, PA, Industrial Development Authority, 10.25s, 2018 | 1,500 | 1,548,240 |
| NR | Philadelphia, PA, Industrial Development Authority, 10.25s, 2018 | 2,000 | 2,033,800 |
| A- | St. Tammany Parish, LA, Hospital Service District #1, Hospital Rev., 6.5s, 2017 | 1,140 | 1,067,678 |
| A | Torrance, CA, Hospital Rev., 6.875s, 2015 | 1,815 | 1,801,260 |
| | | | ----- |
| | | | \$ 20,587,561 |

| | | | |
|-----|---|----------|---------------|
| | Electric and Gas Utility Revenue - 8.0% | | |
| NR | Chelan County, WA, Public Utility District #1, Consolidated Rev., 9.3s, 2017 | \$ 4,450 | \$ 4,941,057 |
| A+ | Georgia Municipal Electric Authority, 6.375s, 2016 | 2,000 | 1,970,920 |
| NR | Midland, MI, Environmental Development Authority, Pollution Control Rev. (Midland Cogeneration), 9.5s, 2009 | 2,000 | 2,168,920 |
| NR | Montana Board of Investment Resources Recovery Rev. (Yellowstone Energy), 7s, 2019 | 3,000 | 2,819,970 |
| A+ | Municipal Electric Authority, GA, Special Obligation, 6.5s, 2020 | 7,350 | 7,285,761 |
| A- | North Carolina Eastern Municipal Power Agency, 7.25s, 2007 | 3,250 | 3,543,865 |
| AAA | Sacramento, CA, Municipal Utility District, Electric Rev., 5.32s, 2007(S)<F5> | 2,000 | 1,630,560 |
| AAA | Texas Municipal Power Agency Rev., 0s, 2011 | 2,530 | 852,306 |
| AAA | Texas Municipal Power Agency Rev., 0s, 2013 | 6,000 | 1,744,620 |
| AAA | Texas Municipal Power Agency Rev., 0s, 2014 | 7,685 | 2,093,087 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #1, 0s, 2003 | 2,000 | 1,167,920 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #1, 7s, 2011 | 4,050 | 4,168,422 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #3, 0s, 2004 | 4,885 | 2,657,245 |
| | | | ----- |
| | | | \$ 37,044,653 |

| | | | |
|-----|---|----------|--------------|
| | Water and Sewer Utility Revenue - 5.5% | | |
| AAA | Contra Costa, CA, Water District Rev., 5.5s, 2019 | \$ 4,000 | \$ 3,544,480 |
| AA+ | Gwinnett County, GA, Water and Sewer Rev., 0s, 2009 | 6,000 | 2,453,520 |

PORTFOLIO OF INVESTMENTS - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|---|-----------------------------------|---------------|
| | Water and Sewer Utility Revenue - continued | | |
| AAA | Harris County, TX, Flood Control District FGIC, 0s, 2009 | \$ 3,205 | \$ 1,230,431 |
| AAA | Harris County, TX, Flood Control District FGIC, 0s, 2010 | 3,545 | 1,266,877 |
| A | Massachusetts Water Resources Authority, 6.25s, 2010 | 3,000 | 2,965,530 |
| A | Massachusetts Water Resources Authority, 6.5s, 2019 | 7,495 | 7,510,365 |
| A | New York, NY, City Municipal Water Finance Authority, 5.5s, 2019 | 3,400 | 2,949,432 |
| AAA | Salt Lake County, UT, Water Conservancy District Rev., 0s, 2008 | 2,100 | 879,480 |
| AAA | Salt Lake County, UT, Water Conservancy District Rev., 0s, 2009 | 3,800 | 1,452,512 |
| A- | Union County, NJ, Utilities Authority Solid Waste, 7.2s, 2014 | 1,500 | 1,510,365 |
| | | | ----- |
| | | | \$ 25,762,992 |

| ----- | | | |
|-------------------------|--|----------|--------------|
| Turnpike Revenue - 1.6% | | | |
| NR | Massachusetts Industrial Finance Agency, Tunnel Rev. (Mass. Turnpike), 9s, 2020 | \$ 2,900 | \$ 3,040,447 |
| A | New Jersey Turnpike Authority, Turnpike Rev., 6.5s, 2016 | 1,450 | 1,483,408 |
| NR | San Joaquin Hills, CA, Transportation Corridor Agency, Toll Road Rev., 0s, 2005 | 1,800 | 761,904 |
| NR | San Joaquin Hills, CA, Transportation Corridor Agency, Toll Road Rev., 0s, 2009 | 6,750 | 2,000,093 |
| | | | ----- |
| | | | \$ 7,285,852 |

| ----- | | | |
|----------------------------------|--|----------|---------------|
| Airport and Port Revenue - 12.4% | | | |
| BB+ | Alliance Airport Authority, Inc., TX, Special Facilities Rev., 7.5s, 2029 | \$ 4,500 | \$ 4,374,090 |
| AAA | Chicago, IL, O'Hare International Airport, Special Facilities Rev. (United Airlines), 6.75s, 2012 | 2,000 | 2,030,140 |
| BB | Chicago, IL, O'Hare International Airport, Special Facilities Rev. (United Airlines), 8.4s, 2018 | 2,055 | 2,178,095 |
| BB | Chicago, IL, O'Hare International Airport, Special Facilities Rev. (United Airlines), 8.85s, 2018 | 6,640 | 7,238,662 |
| NR | Cleveland, OH, Airport, Special Rev. (Continental Airlines), 9s, 2019 | 5,300 | 5,468,699 |
| AAA | Connecticut Airport Rev., FGIC, 7.65s, 2012 | 1,000 | 1,117,330 |
| BB | Denver, CO, City & County Airport Rev., 8.875s, 2012 | 6,000 | 6,390,480 |
| BB | Denver, CO, City & County Airport Rev., 8.75s, 2023 | 4,750 | 5,005,170 |
| AAA | Hawaii Airports Systems Rev., 5.75s, 2008 | 2,300 | 2,193,924 |
| AAA | Hawaii Airports Systems Rev., 7.5s, 2020 | 5,350 | 5,800,577 |
| BB | Kenton County, KY, Airport Board Special Facilities (Delta Airlines), 7.5s, 2020 | 4,000 | 3,866,200 |
| AAA | Metropolitan Washington District of Columbia Airports Authority, 7.25s, 2010 | 4,000 | 4,274,320 |
| NR | St. Augustine, FL, Airport Authority (Grumman Repair Facility), 11s, 2004 | 500 | 541,355 |
| BB+ | Tulsa, OK, Municipal Airport Trust Rev., 7.375s, 2020 | 3,000 | 2,902,650 |
| BB+ | Tulsa, OK, Municipal Airport Trust Rev., 7.6s, 2030 | 815 | 799,042 |
| A+ | Virginia Port Authority, 8.2s, 2008 | 3,000 | 3,326,130 |
| | | | ----- |
| | | | \$ 57,506,864 |

PORTFOLIO OF INVESTMENTS - continued
Municipal Bonds - continued

| ----- | | | |
|---|--|-----------------------------------|---------------|
| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
| ----- | | | |
| Sales and Excise Tax Revenue - 0.3% | | | |
| AAA | Metropolitan Pier & Exposition Authority, IL, Dedicated State Tax Rev., 0s, 2018 | \$ 6,400 | \$ 1,323,008 |
| ----- | | | |
| Industrial Revenue (Corporate Guarantee) - 7.6% | | | |
| BBB | Brazos River Authority, TX, Pollution Control Rev. (Texas Utilities), 9.875s, 2017 | \$ 8,890 | \$ 9,969,690 |
| BBB | Brazos River Authority, TX, Pollution Control Rev. (Texas Utilities), 9.25s, 2018 | 1,000 | 1,113,570 |
| A- | Burke County, GA, Pollution Control Rev. (Georgia Power Co./Vogtle Project), 9.375s, 2017 | 2,650 | 2,965,535 |
| NR | Burns Harbor, IN, Solid Waste Disposal Facilities Rev., 8s, 2024 | 3,000 | 3,115,710 |
| A | Charleston County, SC, Resource Recovery Rev. (Foster Wheeler), 9.25s, 2010 | 3,200 | 3,535,745 |
| AA- | Chicago, IL, Gas Supply Rev. (People's Gas), 8.1s, 2020 | 2,000 | 2,204,900 |
| A- | Erie County, PA (International Paper), 7.875s, 2016 | 1,200 | 1,304,220 |
| A- | Matagorda County, TX, Pollution Control Rev. (Central Power & Light), 7.875s, 2016 | 1,500 | 1,594,065 |
| BBB+ | Maury County, TN, Industrial Development Board, Pollution Control Rev., 6.5s, 2024 | 3,000 | 2,907,630 |
| NR | Port of New Orleans, LA (Avondale Industries), 8.5s, 2014 | 2,000 | 2,011,580 |
| BB- | Port of New Orleans, LA (Continental Grain Co.), 7.5s, 2013 | 1,000 | 978,620 |
| NR | San Joaquin Hills, CA, Transportation Corridor Agency, 0s, 2004 | 3,000 | 1,381,050 |
| BBB | West Side Calhoun County, TX, Navigation District, 8.2s, 2021 | 2,000 | 2,179,140 |
| | | | ----- |
| | | | \$ 35,261,455 |

| Universities - 0.2% | | | |
|--|---|----------|---------------|
| AAA | University of Illinois, University Rev., 0s, 2009 | \$ 2,915 | \$ 1,147,344 |
| Special Assessment District - 0.6% | | | |
| NR | Northeast Maryland, Waste Disposal Authority (Montgomery County Resource Recovery), 6.3s, 2016 | \$ 3,000 | \$ 2,833,320 |
| Miscellaneous Revenue - 6.5% | | | |
| NR | Atlanta, GA, Downtown Development Authority, 11.5s, 2015**<F4>+<F2> | \$ 1,055 | \$ 316,548 |
| NR | Bristol, CT, Resource Recovery Facilities, 6.5s, 2014(SS)<F6> | 8,000 | 7,409,520 |
| NR | Crystal City, TX, Lease Obligations, 10.5s, 2008+<F1> | 1,252 | 1,172,925 |
| BB- | Greater Detroit, MI, Resource Recovery Authority, 9.25s, 2008 | 2,130 | 2,254,818 |
| A | Hillsborough County, FL, Capital Improvement Rev., 6.75s, 2022 | 2,810 | 2,864,317 |
| NR | Martha's Vineyard, MA, Land Bank, 8.125s, 2011 | 2,000 | 1,999,540 |
| NR | Massachusetts Health & Education Facilities Authority Rev. (Learning Center for Deaf Children), 9.25s, 2014 | 1,000 | 1,061,820 |
| NR | Pittsylvania County, VA, Industrial Development Authority Rev., 7.5s, 2014 | 6,000 | 6,017,340 |
| A | Pennsylvania State Finance Authority Rev., 6.6s, 2009 | 3,305 | 3,318,683 |
| NR | Retema, TX, Special Facilities Rev. (Retema Park Racetrack Project), 8.75s, 2018 | 4,000 | 3,937,680 |
| | | | \$ 30,353,191 |
| Total Municipal Bonds (Identified Cost, \$436,871,756) | | | \$455,164,573 |

PORTFOLIO OF INVESTMENTS - continued
Floating Rate Demand Notes - 0.9%

| Issuer | Principal Amount (000 Omitted) | Value |
|--|-----------------------------------|---------------|
| Jackson County, MS, Pollution Control Rev. due 6/01/23 | \$ 100 | \$ 100,000 |
| Perry County, MS, Pollution Control Rev., due 3/01/02 | 2,600 | 2,600,000 |
| Uinta County, WY, Pollution Control Rev., due 8/15/20 | 1,700 | 1,700,000 |
| Total Floating Rate Demand Notes, at Identified Cost | | \$ 4,400,000 |
| Total Investments (Identified Cost, \$441,271,756) | | \$459,564,573 |
| Other Assets, Less Liabilities - 1.2% | | 5,610,013 |
| Net Assets - 100.0% | | \$465,174,586 |

<FN>

<F1> + Restricted security (see Note 8).

<F2> ++ Security valued by or at the direction of the Trustees.

<F3> * Inverse floating rate security.

<F4> ** Non-income producing security in default.

<F5> (S) Indexed security (see Note 7).

<F6>(SS) When-issued security. At September 30, 1994, the Fund had sufficient cash and/or securities at least equal to the value of the when-issued security.

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS

Statement of Assets and Liabilities

<CAPTION>

September 30, 1994

| <S> | <C> |
|--|---------------|
| Assets: | |
| Investments, at value (identified cost, \$441,271,756) | \$459,564,573 |
| Cash | 34,849 |
| Receivable for investments sold | 11,104,272 |

| | |
|--|---------------|
| Receivable for Fund shares sold | 701,047 |
| Interest receivable | 8,976,833 |
| Other assets | 7,096 |
| | ----- |
| Total assets | \$480,388,670 |
| | ----- |
| Liabilities: | |
| Distributions payable | \$ 885,117 |
| Payable for investments purchased | 5,480,953 |
| Payable for when-issued investments purchased | 8,000,000 |
| Payable for Fund shares reacquired | 618,449 |
| Payable for daily variation margin on open futures contracts | 62,500 |
| Payable to affiliates - | |
| Management fee | 9,652 |
| Shareholder servicing agent fee | 2,766 |
| Distribution fee | 9,186 |
| Accrued expenses and other liabilities | 145,461 |
| | ----- |
| Total liabilities | \$ 15,214,084 |
| | ----- |
| Net assets | \$465,174,586 |
| | ----- |
| Net assets consist of: | |
| Paid-in capital | \$454,180,336 |
| Unrealized appreciation on investments | 18,589,692 |
| Net realized loss on investments | (6,448,156) |
| Accumulated distributions in excess of net investment income | (1,147,286) |
| | ----- |
| Total | \$465,174,586 |
| | ----- |
| Shares of beneficial interest outstanding | 54,968,184 |
| | ----- |

| | |
|--|--------|
| Class A shares: | |
| Net asset value and redemption price per share (net assets of \$7,350,484 / 869,078 shares of beneficial interest outstanding) | \$8.46 |
| | ---- |
| Offering price per share (100/95.25) | \$8.88 |
| | ---- |

| | |
|---|--------|
| Class B shares: | |
| Net asset value, redemption price and offering price per share (net assets of \$447,603,367 / 52,891,853 shares of beneficial interest outstanding) | \$8.46 |
| | ---- |

| | |
|---|--------|
| Class C shares: | |
| Net asset value, redemption price and offering price per share (net assets of \$10,220,735 / 1,207,253 shares of beneficial interest outstanding) | \$8.47 |
| | ---- |

On sales of \$100,000 or more, the offering price of Class A shares is reduced. A contingent deferred sales charge may be imposed on redemptions of Class A and Class B shares.

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS - continued
Statement of Operations

<CAPTION>

Six Months Ended September 30, 1994

| | |
|---|--------------|
| | <C> |
| Net investment income: | |
| Interest income | \$17,362,684 |
| | ----- |
| Expenses - | |
| Management fee | \$ 1,805,022 |
| Trustees' compensation | 23,001 |
| Shareholder servicing agent fee (Class A) | 4,900 |
| Shareholder servicing agent fee (Class B) | 511,377 |
| Shareholder servicing agent fee (Class C) | 6,800 |
| Distribution and service fee (Class B) | 2,324,431 |
| Distribution and service fee (Class C) | 45,329 |
| Custodian fee | 74,593 |
| Printing | 38,452 |
| Auditing fees | 27,100 |
| Postage | 26,015 |
| Legal fees | 10,464 |
| Miscellaneous | 169,790 |

| | |
|--|----------------|
| Total expenses | \$ 5,067,274 |
| Net investment income | \$12,295,410 |
| Realized and unrealized gain (loss) on investments: | |
| Realized gain (loss) (identified cost basis) - | |
| Investment transactions | \$ (6,750,065) |
| Futures contracts | 1,532,894 |
| Net realized gain (loss) on investments | \$ (5,217,171) |
| Change in unrealized appreciation (depreciation) - | |
| Investment transactions | \$ (700,666) |
| Futures contracts | 145,312 |
| Net unrealized gain (loss) on investments | \$ (555,354) |
| Net realized and unrealized gain (loss) on investments | \$ (5,772,525) |
| Increase (decrease) in net assets from operations | \$ 6,522,885 |

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS - continued
Statement of Changes in Net Assets

<CAPTION>

| | Six Months Ended September 30, 1994 | Four Months Ended March 31, 1994 | Year Ended November 30, 1993 |
|---|--|-------------------------------------|---------------------------------|
| <S> | <C> | <C> | <C> |
| Increase (decrease) in net assets: | | | |
| From operations - | | | |
| Net investment income | \$ 12,295,410 | \$ 8,135,114 | \$ 24,569,248 |
| Net realized gain (loss) on investments | (5,217,171) | (1,579,438) | 2,174,746 |
| Net unrealized gain (loss) on investments | (555,354) | (21,759,776) | 19,852,443 |
| Increase (decrease) in net assets from operations | \$ 6,522,885 | \$ (15,204,100) | \$ 46,596,437 |
| Distributions declared to shareholders - | | | |
| From net investment income (Class A) | \$ (196,787) | \$ (24,388) | \$ (2,142) |
| From net investment income (Class B) | (10,374,004) | (6,513,043) | (25,152,570) |
| From net investment income (Class C) | (226,137) | (36,953) | -- |
| In excess of net investment income (Class A) | -- | (444) | (150) |
| In excess of net investment income (Class B) | (1,156,201) | (1,488,102) | (1,560,580) |
| In excess of net investment income (Class C) | -- | (1,021) | -- |
| From net realized gain on investments (Class A) | -- | (332) | -- |
| From net realized gain on investments (Class B) | -- | (319,911) | (5,237,004) |
| In excess of net realized gain on investments (Class A) | -- | (1,280) | -- |
| In excess of net realized gain on investments (Class B) | -- | (1,229,705) | -- |
| Total distributions declared to shareholders | \$ (11,953,129) | \$ (9,615,179) | \$ (31,952,446) |
| Fund share (principal) transactions - | | | |
| Net proceeds from sale of shares | \$ 24,505,586 | \$ 31,229,236 | \$118,919,014 |
| Net asset value of shares issued to shareholders in reinvestment of distributions | 6,494,788 | 5,241,616 | 18,199,816 |
| Cost of shares reacquired | (51,861,665) | (38,825,729) | (83,071,056) |
| Increase (decrease) in net assets from Fund share transactions | \$ (20,861,291) | \$ (2,354,877) | \$ 54,047,774 |
| Total increase (decrease) in net assets | \$ (26,291,535) | \$ (27,174,156) | \$ 68,691,765 |
| Net assets: | | | |
| At beginning of period | 491,466,121 | 518,640,277 | 449,948,512 |
| At end of period (including accumulated distributions in excess of net investment income of \$(1,147,286), \$(1,489,567)) | | | |

and \$(1,560,730), respectively)

\$465,174,586

\$ 491,466,121

\$518,640,277

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS - continued
Financial Highlights

<CAPTION>

| | Six Months Ended September 30, 1994 | Four Months Ended March 31, 1994 | Period Ended November 30, 1993*<F1> | Six Months Ended September 30, 1994 | Four Months Ended March 31, 1994 |
|--|--|---|---|--|---|
| | Class A | | | Class B | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Per share data (for a share outstanding throughout each period): | | | | | |
| Net asset value - beginning of period | \$ 8.56 | \$ 8.99 | \$ 9.15 | \$ 8.56 | \$ 8.99 |
| Income from investment operations++<F4>- | | | | | |
| Net investment income | \$ 0.26 | \$ 0.15 | \$ 0.12 | \$ 0.22 | \$ 0.14 |
| Net realized and unrealized gain (loss) on investments | (0.10) | (0.51) | (0.16) | (0.11) | (0.51) |
| Total from investment operations | \$ 0.16 | (0.36) | \$(0.04) | 0.11 | \$(0.37) |
| Less distributions declared to shareholders - | | | | | |
| From net investment income | \$(0.26) | \$(0.02) | \$(0.11) | \$(0.19) | \$(0.01) |
| In excess of net investment income | -- | -- | (0.01) | (0.02) | -- |
| From net realized gains | -- | (0.01) | -- | -- | (0.01) |
| In excess of net realized gains | -- | (0.04) | -- | -- | (0.04) |
| Total distributions declared to shareholders | \$(0.26) | \$(0.07) | \$(0.12) | \$(0.21) | \$(0.06) |
| Net asset value - end of period | \$ 8.46 | \$ 8.56 | \$ 8.99 | \$ 8.46 | \$ 8.56 |
| Total return#<F2> | 1.85% | (7.90)%<F3> | (1.80)%<F3> | 1.31% | (8.97)%<F3> |
| Ratios (to average net assets)/Supplemental data: | | | | | |
| Expenses | 1.05%<F3> | 1.07%<F3> | 0.76%<F3> | 2.12%<F3> | 2.24%<F3> |
| Net investment income | 6.16%<F3> | 5.31%<F3> | 4.94%<F3> | 5.10%<F3> | 4.74%<F3> |
| Portfolio turnover | 9% | 9% | 30% | 9% | 9% |
| Net assets at end of period (000 omitted) | \$7,350 | \$5,595 | \$461 | \$447,603 | \$479,478 |

<FN>

<F1> * For the period from the commencement of offering of Class A shares, September 7, 1993 to November 30, 1993.

<F2> # Total returns do not include the sales charge. If the sales charge had been included, the results would have been lower.

<F3> + Annualized.

<F4>++ For periods subsequent to November 30, 1993, per share data is based on average shares outstanding.

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS -continued
Financial Highlights - continued

<CAPTION>

| | Year Ended November 30, | | | | | | |
|--|-------------------------|------|------|------|------|------|-----------|
| | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987*<F1> |
| | Class B | | | | | | |

| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
|--|-----------|-----------|-----------|-----------|-----------|-----------|--------------|
| Per share data (for a share outstanding throughout each period): | | | | | | | |
| Net asset value - beginning of period | \$ 8.73 | \$ 8.50 | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 | \$ 8.47 |
| Income from investment operations - | | | | | | | |
| Net investment income | \$ 0.42 | \$ 0.47 | \$ 0.49 | \$ 0.49 | \$ 0.51 | \$ 0.50 | \$ 0.38 |
| Net realized and unrealized gain (loss) on investments | 0.42 | 0.26 | 0.25 | (0.15) | 0.30 | 0.43 | (0.83) |
| Total from investment operations | \$ 0.84 | \$ 0.73 | \$ 0.74 | \$ 0.34 | \$ 0.81 | \$ 0.93 | \$(0.45) |
| Less distributions declared to shareholders - | | | | | | | |
| From net investment income | \$(0.45) | \$(0.48) | \$(0.49) | \$(0.50) | \$(0.51) | \$(0.49) | \$(0.35) |
| In excess of net investment income | (0.03) | -- | -- | -- | -- | -- | -- |
| From net realized gains | (0.10) | -- | -- | -- | -- | -- | -- |
| From paid-in capital | -- | \$(0.02) | -- | -- | -- | -- | -- |
| Total distributions declared to shareholders | \$(0.58) | \$(0.50) | \$(0.49) | \$(0.50) | \$(0.51) | \$(0.49) | \$(0.35) |
| Net asset value - end of period | \$ 8.99 | \$ 8.73 | \$ 8.50 | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 |
| Total return | 9.95% | 8.82% | 9.21% | 4.18% | 10.24% | 12.53% | (5.79)%+<F2> |
| Ratios (to average net assets)/Supplemental data: | | | | | | | |
| Expenses | 2.11% | 2.03% | 2.04% | 2.05% | 2.07% | 2.09% | 2.03%+<F2> |
| Net investment income | 4.92% | 5.50% | 5.82% | 5.99% | 6.09% | 6.38% | 6.00%+<F2> |
| Portfolio turnover | 30% | 52% | 73% | 91% | 127% | 171% | 138% |
| Net assets at end of period (000 omitted) | \$518,179 | \$449,949 | \$409,084 | \$379,239 | \$343,887 | \$244,825 | \$183,935 |

<FN>

<F1>* For the period from the commencement of investment operations, December 29, 1986 to November 30, 1987.

<F2>+ Annualized.

See notes to financial statements

</TABLE>

<TABLE>

FINANCIAL STATEMENTS - continued
Financial Highlights - continued

<CAPTION>

| | Six Months Ended September 30, 1994 | Period Ended March 31, 1994*<F1> |
|---|--|-------------------------------------|
| | Class C | |
| <S> | <C> | <C> |
| Per share data (for a share outstanding throughout each period): | | |
| Net asset value - beginning of period | \$ 8.56 | \$ 9.07 |
| Income from investment operations++<F3> - | | |
| Net investment income | \$ 0.22 | \$ 0.09 |
| Net realized and unrealized gain (loss) on investments | (0.09) | (0.59) |
| Total from investment operations | \$ 0.13 | \$(0.50) |
| Less net investment income distributions declared to shareholders | \$(0.22) | \$(0.01) |
| Net asset value - end of period | \$ 8.47 | \$ 8.56 |
| Total return | 1.45% | (19.42)%+<F2> |

Ratios (to average net assets)/Supplemental data:

| | | |
|---|------------|------------|
| Expenses | 2.05%+<F2> | 2.18%+<F2> |
| Net investment income | 5.13%+<F2> | 4.62%+<F2> |
| Portfolio turnover | 9% | 9% |
| Net assets at end of period (000 omitted) | \$10,221 | \$6,393 |

<FN>

<F1> * For the period from the commencement of offering of Class C shares, January 3, 1994 to March 31, 1994.

<F2> + Annualized.

<F3>++ For periods subsequent to November 30, 1993, per share data is based on average shares outstanding.

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

(1) Business and Organization

MFS Municipal Income Fund (the Fund) is a diversified series of MFS Municipal Series Trust (the Trust). The Trust is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as an open-end management investment company.

(2) Significant Accounting Policies

Investment Valuations - Debt securities (other than short-term obligations which mature in 60 days or less), including listed issues and forward contracts, are valued on the basis of valuations furnished by dealers or by a pricing service with consideration to factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data, without exclusive reliance upon exchange or over-the-counter prices. Short-term obligations, which mature in 60 days or less, are valued at amortized cost, which approximates value. Futures contracts, options and options on futures contracts listed on commodities exchanges are valued at closing settlement prices. Over-the-counter options are valued by brokers through the use of a pricing model which takes into account closing bond valuations, implied volatility and short-term repurchase rates. Securities for which there are no such quotations or valuations are valued at fair value as determined in good faith by or at the direction of the Trustees.

Repurchase Agreements - The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. The Fund requires that the securities purchased in a repurchase transaction be transferred to the custodian in a manner sufficient to enable the Fund to obtain those securities in the event of a default under the repurchase agreement. The Fund monitors, on a daily basis, the value of the securities transferred to ensure that the value, including accrued interest, of the securities under each repurchase agreement is greater than amounts owed to the Fund under each such repurchase agreement.

Written Options - The Fund may write covered call or put options for which premiums are received and are recorded as liabilities, and are subsequently adjusted to the current value of the options written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or are closed are offset against the proceeds or amount paid on the transaction to determine the realized gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the securities underlying the written option.

Futures Contracts - The Fund may enter into interest rate futures contracts for the delayed delivery of fixed-income securities and indexes of such securities at a fixed price on a future date and may enter into options on such futures contracts. In entering such contracts, the Fund is required to deposit either in cash or securities an amount equal to a certain percentage of the contract amount. Subsequent payments are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying security, and are recorded for financial statement purposes as unrealized gains or losses by the Fund. The Fund's investment in interest rate futures contracts is designed to hedge against anticipated future changes in interest rates or securities prices. The Fund may also invest in financial futures contracts for non-hedging purposes. Should interest rates or securities prices move unexpectedly, the Fund may not achieve the anticipated benefits of the financial futures contracts and may realize a loss.

Security Loans - The Fund may lend its securities to member banks of the Federal Reserve System and to member firms of the New York Stock Exchange or subsidiaries thereof. The loans are collateralized at all times by cash or securities with a market value at least equal to the market value of securities loaned. As with other extensions of credit, the Fund may bear the risk of delay in recovery or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund receives compensation for lending its securities in the form of fees or from all or a portion of the income from investment of the collateral. The Fund would also continue to earn income on the securities loaned. At September 30, 1994, the Fund had no securities on loan.

Investment Transactions and Income - Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and original issue discount are amortized or accreted for both financial statement and tax reporting purposes as required by federal income tax regulations. Interest payments received in additional securities are recorded on the ex-interest date in an amount equal to the value of the security on such date.

The Fund uses the effective interest method for reporting interest income on payment-in-kind (PIK) bonds, whereby interest income on PIK bonds is recorded ratably by the Fund at a constant yield to maturity. Legal fees and other related expenses incurred to preserve and protect the value of a security owned are added to the cost of the security; other legal fees are expensed. Capital infusions, which are generally non-recurring, incurred to protect or enhance the value of high-yield debt securities, are reported as an addition to the cost basis of the security. Costs that are incurred to negotiate the terms or conditions of capital infusions or that are expected to result in a plan of reorganization are considered workout expenses and are reported as realized losses. Ongoing costs incurred to protect or enhance an investment, or costs incurred to pursue other claims or legal actions, are reported as operating expenses.

Tax Matters and Distributions - The Fund's policy is to comply with the provisions of the Internal Revenue Code (the Code) applicable to regulated investment companies and to distribute to shareholders all of its net income, including any net realized gain on investments. Accordingly, no provision for federal income or excise tax is provided.

The Fund files a tax return annually using tax accounting methods required under provisions of the Code which may differ from generally accepted accounting principles, the basis on which these financial statements are prepared. Accordingly, the amount of net investment income and net realized gain reported on these financial statements may differ from that reported on the Fund's tax return and, consequently, the character of distributions to shareholders reported in the financial highlights may differ from that reported to shareholders on Form 1099-DIV.

Distributions paid by the Fund from net interest received on tax-exempt municipal bonds are not includable by shareholders as gross income for federal income tax purposes because the Fund intends to meet certain requirements of the Code applicable to regulated investment companies, which will enable the Fund to pay exempt-interest dividends. The portion of such interest, if any, earned on private activity bonds issued after August 7, 1986, may be considered a tax preference item to shareholders. Distributions to shareholders are recorded on the ex-dividend date.

The Fund distinguishes between distributions on a tax basis and a financial reporting basis and requires that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over-distributions for financial statement purposes, are classified as distributions in excess of net investment income or accumulated net realized gains.

Multiple Classes of Shares of Beneficial Interest - The Fund offers Class A, Class B and Class C shares. Class A and Class C shares were first offered to the public on September 7, 1993 and January 3, 1994, respectively. The three classes of shares differ in their respective shareholder servicing agent, distribution and service fees. Shareholders of each class also bear certain expenses that pertain only to that particular class. All shareholders bear the common expenses of the Fund pro rata based on average daily net assets of each class, without distinction between share classes. Dividends are declared separately for each class. No class has preferential dividend rights; differences in per share dividend rates are generally due to differences in separate class expenses, including distribution and shareholder service fees.

(3) Transactions with Affiliates

Investment Adviser - The Fund has an investment advisory agreement with Massachusetts Financial Services Company (MFS) to provide overall investment advisory and administrative services, and general office facilities. Prior to September 1, 1993, Lifetime Advisers, Inc. (LAI), a wholly owned subsidiary of MFS, was the investment adviser for the Fund. The management fee, computed daily

and paid monthly at an annual rate of 0.30% of average daily net assets and 6.43% of investment income, amounted to \$1,805,022 for the period ended September 30, 1994.

The Fund pays no compensation directly to its Trustees who are officers of the investment adviser, or to officers of the Fund, all of whom receive remuneration for their services to the Fund from MFS. Certain of the officers and Trustees of the Fund are officers or directors of MFS, MFS Financial Services, Inc. (FSI) and MFS Service Center, Inc. (MFSC). The Fund has an unfunded defined benefit plan for all of its independent Trustees. Included in Trustees' compensation is a net periodic pension expense of \$6,751 for the period ended September 30, 1994.

Distributor - FSI, a wholly owned subsidiary of MFS, as distributor, received \$3,857 as its portion of the sales charge on sales of Class A shares of the Fund. The Trustees have adopted separate distribution plans for Class A, Class B and Class C shares pursuant to Rule 12b-1 of the Investment Company Act of 1940 as follows:

The Class A Distribution Plan provides that the Fund will pay FSI up to 0.35% of its average daily net assets attributable to Class A shares annually in order that FSI may pay expenses on behalf of the Fund related to the distribution and servicing of its shares. These expenses include a service fee to each securities dealer that enters into a sales agreement with FSI of up to 0.25% per annum of the Fund's average daily net assets attributable to Class A shares which are attributable to that securities dealer, a distribution fee to FSI of up to 0.10% per annum of the Fund's average daily net assets attributable to Class A shares, commissions to dealers and payments to FSI wholesalers for sales at or above a certain dollar level, and other such distribution-related expenses that are approved by the Fund. Payments will commence under the distribution plan when the value of the net assets of the Fund attributable to Class A shares first equals or exceeds \$40 million.

The Class B and Class C Distribution Plans provide that the Fund will pay FSI a daily distribution fee, equal to 0.75% per annum, and a service fee of up to 0.25% per annum, of the Fund's average daily net assets attributable to Class B and Class C shares. FSI will pay to securities dealers that enter into a sales agreement with FSI, all or a portion of the service fee, attributable to Class B and Class C shares, and will pay to such securities dealers all of the distribution fee attributable to Class C shares. The service fee is intended to be additional consideration for services rendered by the dealer with respect to Class B and Class C shares. Fees incurred under the distribution plans during the period ended September 30, 1994 were 1.0% of average daily net assets attributable to Class B and Class C shares on an annualized basis and amounted to \$2,324,431 and \$45,329, respectively (of which FSI retained \$47,354 and \$3,499 for Class B and Class C shares, respectively).

A contingent deferred sales charge is imposed on shareholder redemptions of Class A shares, on purchases of \$1 million or more, in the event of a share redemption within 12 months following the share purchase. A contingent deferred sales charge is imposed on shareholder redemptions of Class B shares in the event of a share redemption within six years of purchase. FSI receives all contingent deferred sales charges. Contingent deferred sales charges imposed during the period ended September 30, 1994 was \$332,112 for Class B shares.

Shareholder Servicing Agent - MFSC, a wholly owned subsidiary of MFS, earned \$4,900, \$511,377 and \$6,800 for Class A, Class B, and Class C shares, respectively, for its services as shareholder servicing agent for the period ended September 30, 1994. The fee is calculated as a percentage of the average daily net assets of each class of shares at an effective annual rate of up to 0.15%, up to 0.22% and up to 0.15% attributable to Class A, Class B and Class C shares, respectively.

(4) Portfolio Securities

Purchases and sales of investments, other than U.S. government securities, purchased option transactions and short-term obligations, aggregated \$44,606,400 and \$69,106,969, respectively.

The cost and unrealized appreciation or depreciation in value of the investments owned by the Fund, as computed on a federal income tax basis, are as follows:

| | |
|-------------------------------|---------------|
| Aggregate cost | \$441,271,756 |
| | ----- |
| Gross unrealized appreciation | \$ 24,443,924 |
| Gross unrealized depreciation | (6,151,025) |
| | ----- |
| Net unrealized appreciation | \$ 18,292,899 |
| | ----- |

At March 31, 1994, the Fund, for federal income tax purposes, had a capital loss carryforward of \$1,413,222, which may be applied against any net taxable realized gains of each succeeding year until the earlier of its utilization or expiration on March 31, 2002.

(5) Shares of Beneficial Interest

The Fund's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest (without par value). Transactions in Fund shares were as follows:

</TABLE>

<TABLE>

<CAPTION>

Class A Shares

| | Six Months Ended September 30, 1994 | | Four Months Ended March 31, 1994 | |
|---|--|--------------|-------------------------------------|--------------|
| | Shares | Amount | Shares | Amount |
| <S> | <C> | <C> | <C> | <C> |
| Shares sold | 411,312 | \$ 3,515,871 | 766,727 | \$ 6,792,015 |
| Shares issued to shareholders in reinvestment of distributions | 4,305 | 36,803 | 1,368 | 12,126 |
| Shares reacquired | (200,291) | (1,710,053) | (165,634) | (1,507,352) |
| Net increase | 215,326 | \$ 1,842,621 | 602,461 | \$ 5,296,789 |

Class B Shares

| | Six Months Ended September 30, 1994 | | Four Months Ended March 31, 1994 | |
|---|--|-----------------|-------------------------------------|-----------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 1,631,728 | \$ 14,001,860 | 1,771,398 | \$ 16,008,151 |
| Shares issued to shareholders in reinvestment of distributions | 735,875 | 6,297,579 | 581,143 | 5,207,213 |
| Shares reacquired | (5,483,849) | (46,965,760) | (3,964,973) | (35,578,939) |
| Net decrease | (3,116,246) | \$ (26,666,321) | (1,612,432) | \$ (14,363,575) |

Class C Shares

| | Six Months Ended September 30, 1994 | | Period Ended March 31, 1994*<F1> | |
|---|--|--------------|-------------------------------------|--------------|
| | Shares | Amount | Shares | Amount |
| Shares sold | 814,164 | \$ 6,987,855 | 940,881 | \$ 8,429,070 |
| Shares issued to shareholders in reinvestment of distributions | 18,738 | 160,406 | 2,564 | 22,277 |
| Shares reacquired | (372,146) | (3,185,852) | (196,948) | (1,739,438) |
| Net increase | 460,756 | \$ 3,962,409 | 746,497 | \$ 6,711,909 |

<FN>

<F1>* For the period from the commencement of offering of Class C shares, January 3, 1994 to March 31, 1994.

</TABLE>

(6) Line of Credit

The Fund entered into an agreement which enables it to participate with other funds managed by MFS, or an affiliate of MFS, in an unsecured line of credit with a bank which permits borrowings up to \$300 million, collectively. Borrowings may be made to temporarily finance the repurchase of Fund shares. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's base rate. In addition, a commitment fee, based on the average daily unused portion of the line of credit, is allocated among the participating funds at the end of each quarter. The commitment fee allocated to the Fund for the period ended September 30, 1994 was \$3,575.

(7) Financial Instruments

The Fund regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities in order to manage exposure to market risks such as interest rates and foreign currency exchange rates. These financial instruments include written options, futures contracts and indexed securities. The notional or contractual amounts of these instruments represent the investment the Fund has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only

when all related and offsetting transactions are considered. A summary of obligations under these financial instruments at September 30, 1994 is as follows:

Futures Contracts

| Expiration | Contracts | Position | Unrealized Appreciation |
|---------------|--------------------|----------|-------------------------|
| December 1994 | 250 Treasury Bonds | Short | \$296,875 |

At September 30, 1994, the Fund had sufficient cash and/or securities to cover margin requirements on open futures contracts.

Indexed Securities

The Fund also invests in indexed securities whose value may be linked to interest rates, commodities, indices or other financial indicators. Indexed securities are fixed-income securities whose proceeds at maturity (principal-indexed securities) or interest rates (coupon-indexed securities) rise and fall according to the change in one or more specified underlying instruments. Indexed securities may be more volatile than the underlying instrument itself. The following is a summary of such securities held at September 30, 1994.

| Description | Index | Principal (000 omitted) | Value | Unrealized Depreciation |
|--|------------|-------------------------|-------------|-------------------------|
| Rio Grande Valley, TX Health Facilities Development Corp., 7.72s, 2015 | J.J. Kenny | \$2,800 | \$2,776,424 | \$ (23,576) |
| Sacramento, CA, Municipal Utility District, Electric Rev., 5.32s, 2007 | PSA | 2,000 | 1,630,560 | (369,440) |
| | | | | \$ (393,016) |

(8) Restricted Securities

The Fund may invest not more than 15% of its net assets in securities which are subject to legal or contractual restrictions on resale. At September 30, 1994, the Fund owned the following restricted securities (constituting 0.25% of net assets) which may not be publicly sold without registration under the Securities Act of 1933. The Fund does not have the right to demand that such securities be registered. The value of these securities is determined by valuations supplied by a pricing service or brokers.

| Description | Date of Acquisition | Par Amount | Cost | Value |
|--|---------------------|-------------|-----------|-------------|
| Crystal City, TX, Lease Obligations, 10.5s, 2008 | 5/25/88 | \$1,251,761 | \$948,056 | \$1,172,925 |

INDEPENDENT AUDITORS' REPORT

To the Trustees of MFS Municipal Series Trust and Shareholders of MFS Municipal Income Fund:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of MFS Municipal Income Fund (one of the series constituting MFS Municipal Series Trust) as of September 30, 1994, the related statement of operations for the six months then ended, the statement of changes in net assets for the six months then ended, the four months ended March 31, 1994, and the year ended November 30, 1993, and the financial highlights for the six months ended September 30, 1994, the four months ended March 31, 1994 and for each of the years in the seven-year period ended November 30, 1993. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of the securities owned at September 30, 1994 by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis

for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of MFS Municipal Income Fund at September 30, 1994, the results of its operations, the changes in its net assets, and its financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Boston, Massachusetts

November 4, 1994

 This report is prepared for the general information of shareholders. It is authorized for distribution to prospective investors only when preceded or accompanied by a current prospectus.

<TABLE>
 Portfolio of Investments - March 31, 1994
 Municipal Bonds - 98.9%

| <CAPTION> | | | |
|----------------------------|---|-----------------------------------|---------------|
| S&P | | | |
| Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
| <S> | <C> | <C> | <C> |
| | Student Loan Revenue - 1.2% | | |
| AAA | Pennsylvania Higher Education Assistance Agency, 10.758s, 2026 | \$ 5,500 | \$ 5,816,250 |
| | General Obligations - 11.7% | | |
| NR | Arlington, TX, Independent School Refunding Rev., 0s, 2007<F1> | \$ 3,070 | \$ 1,404,525 |
| A+ | Commonwealth of Massachusetts, 7s, 2007 | 2,590 | 2,800,438 |
| AAA | Commonwealth of Pennsylvania, 0s, 2007<F1> | 4,520 | 2,034,000 |
| AA- | Commonwealth of Pennsylvania, 6.375s 2011 | 1,250 | 1,264,062 |
| AA+ | Harris County, TX, Certificates of Obligation (Astrodome Improvements Project), 8.1s, 2008 | 1,385 | 1,542,543 |
| AAA | Lowell, MI, Area School District, FGIC, 0s, 2020<F1> | 5,000 | 925,000 |
| AAA | Maricopa County, AZ, School District Number 11 Peoria, 0s, 2004<F1> | 5,245 | 2,884,750 |
| A- | New York, NY, 8.2s 2003 | 5,000 | 5,668,750 |
| A- | New York, NY, 7.5s, 2008 | 1,350 | 1,471,500 |
| A- | New York, NY, 8.25s, 2010 | 4,500 | 5,180,625 |
| A- | New York, NY, 8s, 2018 | 3,000 | 3,401,250 |
| AAA | Northwest Texas, Independent School District, AMBAC, 0s, 2011<F1> | 3,000 | 1,027,500 |
| AA | State of Texas, 7.625s, 2018 | 14,405 | 15,731,463 |
| AA | State of Wisconsin, 8.1s, 2018 | 7,115 | 7,835,394 |
| AA | State of Wisconsin, 7.6s, 2020 | 2,865 | 2,958,113 |
| AAA | Westmoreland County, PA, 0s, 2009<F1> | 3,120 | 1,224,600 |
| | | | \$ 57,360,513 |
| | State and Local Appropriations -5.8% | | |
| AAA | Houston, TX, water Conveyance Systems Contract, Certificates of Participation, 6.25s, 2014 | \$ 1,100 | \$ 1,093,125 |
| AAA | Houston, TX, Water Conveyance Systems Contract, Certificates of Participation, 6.25s, 2015 | 2,300 | 2,285,625 |
| A+ | Indianapolis, IN, Local Public Improvement Bond Bank, 6.75s, 2020 | 1,000 | 1,008,750 |
| A+ | Massachusetts Bay Transportation Authority, 5.5s, 2012 | 4,500 | 4,111,875 |
| BBB | New York Dormitory Authority Rev. (City University), 7.5s, 2010 | 2,500 | 2,753,125 |
| A | New York Local Government Assistance Corp., 5.5s, 2017 | 3,400 | 3,051,500 |
| BB+ | New York State, Medical Care Facility, 7.55s, 2021 | 540 | 589,950 |
| BB+ | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 2007 | 770 | 862,400 |
| BB+ | New York State, Medical Care Facility, Financial Agency Rev., 7.875s, 2008 | 800 | 901,000 |
| BB+ | New York State, Medical Care Facility, Financial Agency Rev., 7.875s, 2020 | 2,735 | 3,039,269 |
| BBB | New York Urban Development Corp. (State Facilities), 7.5s, 2011 | 2,500 | 2,712,500 |
| AAA | Philadelphia, PA, Regional Port Authority Lease Rev., 9.545s, 2020 | 2,500 | 2,559,375 |

| | | | |
|-----|---|-------|---------------|
| AAA | Sand Bernardino, CA, Short Rites, 8.55s, 2016<F2> | 3,500 | 3,438,750 |
| | | | ----- |
| | | | \$ 28,407,244 |

Portfolio of Investments - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|---|-----------------------------------|--------------|
| | Refunded and Special Obligations - 13.1% | | |
| AAA | Adams County, CO, Single Family Mortgage Rev., 8.875s, 2011 | \$ 2,510 | \$ 3,203,388 |
| AAA | Commonwealth of Massachusetts, 7.5s, 2000 | 1,990 | 2,290,988 |
| A+ | Commonwealth of Massachusetts, 7.5s, 2000 | 2,010 | 2,314,013 |
| NR | Dayton, OH, Special Facilities Rev. (Emery Air Freight), "A", 12.5s, 2009 | 1,000 | 1,168,750 |
| AA | Intermountain Power Agency, Utah Power Supply Rev., 7s, 1999 | 5,000 | 5,531,250 |
| NR | Los Angeles, CA, Convention & Exhibition Center Authority, Certificates of Participation, 7.375s, 1999 | 2,000 | 2,247,500 |
| NR | Massachusetts Health & Education Facilities Authority (Suffolk University), 8s, 2000 | 1,000 | 1,163,750 |
| AAA | Massachusetts Water Resources Authority, 7.625s, 2000 | 3,200 | 3,668,000 |
| A | New York Local Government Assistance Corp., 7.25s, 2001 | 2,750 | 3,124,687 |
| AAA | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 680 | 784,550 |
| BB + | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 1,030 | 1,181,925 |
| AAA | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 670 | 781,387 |
| AAA | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 3,565 | 4,157,681 |
| AAA | New York State, Medical Care Facility, Financial Agency Rev., 8.875s, 1997 | 1,460 | 1,677,175 |
| BBB | New York Urban Development Corp. (Correctional Facilities), 7.75s, 2000 | 5,000 | 5,737,500 |
| BBB | New York Urban Development Corp. Rev., 7.3s, 2002 | 2,340 | 2,673,450 |
| AAA | Philadelphia, PA, Municipal Authority Rev., 7s, 2001 | 2,000 | 2,250,000 |
| AAA | Washington County, PA, Authority Lease Rev., 7.45s, 2000 | 1,200 | 1,374,000 |
| AA | Washington Public Power Supply System Rev., Nuclear Proj. #1, 7.25s, 2000 | 3,350 | 3,743,625 |
| AAA | Washington Public Power Supply System Rev., Project #1, 14.375s, 2001 | 1,000 | 1,390,000 |
| AAA | Washington Public Power Supply System Rev., Nuclear Project #2, 7.375s, 2000 | 5,355 | 6,057,844 |
| AA | Washington Public Power Supply System Rev., Nuclear Project #3, 7.25s, 2000 | 5,000 | 5,587,500 |
| BB+ | West Virginia Water Development Authority, 8.125s, 1998 | 1,000 | 1,148,750 |
| BB+ | West Virginia Water Development Authority, 8.625s, 1998 | 1,000 | 1,168,750 |
| | | | ----- |
| | | | \$64,426,463 |

| | | | |
|-----|---|----------|--------------|
| | Single-Family Housing Revenue - 10.2% | | |
| AAA | Berkeley, Brookes, & Fayette Counties, WV, MBIA, 0s, 2016<F1> | \$14,000 | \$ 1,540,000 |
| AAA | Chicago, IL, Residential Mortgage Refunding Rev., 0s, 2009<F1> | 7,000 | 2,450,000 |
| BB | Cook County, IL, 0s, 2015+ | 23,280 | 2,357,100 |
| NR | De Kalb, IL, Single Family Mortgage Rev., 7.45s, 2009 | 350 | 368,375 |
| NR | Delaware Housing Authority Rev., 9.125s, 2018 | 915 | 934,444 |
| NR | El Paso, TX, Housing Finance Corp., 8.75s, 2011 | 2,040 | 2,208,300 |

Portfolio of Investments - continued
Municipal Bonds - continued

| <CAPTION> | | | |
|-----------------------------------|---|-----------------------------------|------------|
| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
| | Single-Family Housing Revenue - continued | | |
| BB+ | Harris County, TX, Housing Finance Corp., 9.625s, 2003 | \$ 390 | \$ 383,663 |
| BB+ | Harris County, TX, Housing Finance Corp., 9.875s, 2014 | 615 | 599,625 |
| A+ | Illinois Housing Development Agency, 0s, 2016<F1> | 8,785 | 911,444 |
| AAA | Jefferson County, CO, 8.875s, 2013 | 1,055 | 1,110,387 |
| AAA | Kentucky Housing Corp., Housing Rev., 7.45s, 2023 | 6,750 | 6,825,937 |
| AAA | Louisiana Housing Finance Agency, Single Family | | |

| | | | |
|-----|--|-------|-----------|
| | Mortgage Rev., FGIC, 9.375s, 2015 | 380 | 395,675 |
| AA+ | Minnesota Housing Finance Agency, 9s, 2018 | 4,655 | 4,823,743 |
| NR | Mississippi Home Corp., Single Family Rev., 7.1s, 2023 | 945 | 983,981 |
| A+ | New Hampshire Housing Finance Authority, 7.2s, 2010 | 7,000 | 7,297,500 |
| A+ | New Hampshire Housing Finance Authority, 8.625s, 2013 | 805 | 841,225 |
| A+ | Tennessee Housing Development Agency, 8.25s, 2020 | 1,985 | 2,089,213 |
| A+ | Tennessee Housing Development Agency, 8.125s, 2021 | 2,145 | 2,246,888 |
| AA | Utah Housing Finance Agency, 8.625s, 2019 | 3,120 | 3,225,300 |
| AA | Utah Housing Finance Agency, 9.125s, 2019 | 480 | 519,600 |
| AA | Utah Housing Finance Agency, 9.25s, 2019 | 345 | 394,594 |
| A+ | Virginia Housing Development Authority, 7.1s, 2022 | 1,000 | 1,017,500 |
| A+ | West Virginia Housing Development Fund, 7.85s, 2014 | 6,150 | 6,380,625 |

\$ 49,905,119

Multi-Family Housing Revenue - 3.9%

| | | | |
|-----|--|----------|------------|
| NR | Baytown, TX, Property Management & Development Corp. (Baytown Terrace Project), 6.1s, 2021 | \$ 1,000 | \$ 965,000 |
| AA | Colorado Housing Finance Authority, 8.3s, 2023 | 2,750 | 2,894,375 |
| NR | Maryland Community Development Administration, 8.5s, 2028 | 3,000 | 3,138,750 |
| A | New Jersey Housing & Mortgage Finance Agency Rev., 6.6s, 2014 | 3,000 | 3,060,000 |
| A+ | Pennsylvania Housing Finance Agency, 7.6s, 2013 | 2,000 | 2,147,500 |
| AA- | Vermont Housing Finance Agency, 8.375s, 2020 | 2,795 | 2,934,750 |
| A | Wisconsin Housing & Economic Development Authority Housing, 7.2s, 2013 | 4,000 | 4,150,000 |

\$ 19,290,375

Insured Health Care Revenue - 3.4%

| | | | |
|-----|--|----------|--------------|
| AAA | California Statewide Community Development Authority Rev., 0s, 2005<F1> | \$ 3,000 | \$ 1,522,500 |
| AAA | Claremont County, OH, Hospital Facilities Rev. (Mercy Health System), AMBAC, MVR, 10.691s, 2021 | 1,500 | 1,696,875 |
| AAA | Colorado Health Facilities Authority Rev. (PSL Health Systems), FSA, 7.25s, 2016 | 2,000 | 2,177,500 |
| AAA | Fredericksburg, VA, Industrial Development Authority Hospital, 10.127s, 2023 | 1,500 | 1,593,750 |
| AAA | Jefferson County, KY, Hospital Rev. (Alliant Health System), MBIA, 10.14s, 2014 | 1,500 | 1,595,625 |
| A | Massachusetts Health & Education Facilities Authority (Youville Hospital), 9.1s, 2015 | 915 | 987,056 |
| AAA | Mississippi Hospital Equipment & Facilities Authority Rev. (Rush Medical Foundation), 6.7s, 2018 | 1,000 | 1,022,500 |

Portfolio of Investments - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|--|---|-----------------------------------|------------------------|
| ----- Insured Health Care Revenue - continued | | | |
| AAA | Rio Grande Valley, TX, Health Facilities Development Corp., 9.46s, 2015<F2> | \$ 2,800 | \$ 2,943,500 |
| AAA | Tulsa, OK, industrial Authority Hospital Rev., 0s, 2006<F3> | 6,430 | 2,965,838 |
| | | | ----- \$ 16,505,144 |

Health Care Revenue - 4.1%

| | | | |
|-----|--|----------|--------------|
| BB- | Bell County, TX, Health Facilities Authority (Kings Daughters Hospital), 9.25s, 2008 | \$ 1,785 | \$ 2,008,125 |
| NR | Bell County, TX, Health Facilities Development Corp. (Advanced Living Technology), 10.5s, 2018 | 2,000 | 1,840,000 |
| BBB | Colorado Health Facilities Authority Rev. (Rocky Mountain Adventist), 6.625s, 2013 | 1,000 | 963,750 |
| NR | Fulton County, GA, Residential Care Facilities, Elderly Authority Rev. (Lenbrook Square Foundation), 9.75s, 2017 | 485 | 501,369 |
| NR | Gadsden County, FL, industrial Development Authority (RHA/FLA Properties), 10.45s, 2018 | 1,990 | 2,069,600 |
| NR | Louisiana Public Facilities Authority (Southwest Medical Center), 11s 2006<F1> | 1,735 | 1,197,276 |
| A | Massachusetts Health & Educational Facilities Rev., 6.875s, 2022 | 5,000 | 5,062,500 |
| NR | Philadelphia, PA, industrial Development Authority, 10.25s, 2018 | 1,500 | 1,567,500 |
| NR | Philadelphia, PA, industrial Development Authority, 10.25s, 2018 | 2,000 | 2,052,500 |
| A-- | St. Tammany Parish, LA, Hospital Service District #1, Hospital Rev., 6.5s, 2017 | 1,140 | 1,083,000 |
| A | Torrance, CA, Hospital Rev., 6.875s, 2015 | 1,845 | 1,911,881 |

\$ 20,257,501

| | | | |
|------|---|----------|--------------|
| | Electric and Gas Utility Revenue - 8.9% | | |
| NR | Chelan County, WA, Public Utility District #1, Consolidated Rev., 9.3s, 2062 | \$ 4,450 | \$ 5,006,250 |
| AA - | Georgia Municipal Electric Authority, 6.375s, 2016 | 2,000 | 2,012,500 |
| AA | Intermountain Power Agency, Utah Power Supply Rev., 8.28s, 2021 | 4,500 | 3,948,750 |
| AA | Los Angeles, CA, Electric Plant Rev., 4.25s, 2014 | 2,000 | 1,535,000 |
| NR | Midland Michigan Environmental Development Authority, Pollution Control Rev. (Midland Cogeneration), 9.5s, 2009 | 2,000 | 2,215,000 |
| NR | Montana Board of investment Resources Recovery Rev. (Yellowstone Energy), 7s, 2019 | 3,000 | 2,910,000 |
| AA-- | Municipal Electric Authority, GA, Special Obligation, 6.5s, 2020 | 7,350 | 7,469,438 |
| A-- | North Carolina Eastern Municipal Power Agency, 7.25s, 2007 | 3,250 | 3,522,187 |
| AAA | Sacramento, CA, Metropolitan Utility District, Electric Rev., 8.7s, 2007<F2> | 2,000 | 1,872,500 |
| AAA | Texas Municipal Power Agency Rev., 0s, 2013<F3> | 6,000 | 1,725,000 |
| AA | Washington Public Power Supply System Rev., Nuclear Proj. #1, 0s, 2003<F3> | 2,000 | 1,147,500 |
| AA | Washington Public Power Supply System Rev., Nuclear Proj. #1, 7s, 2011 | 4,050 | 4,247,438 |

Portfolio of Investments - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|--|-----------------------------------|------------------------|
| | Electric and Gas Utility Revenue - continued | | |
| AA | Washington Public Power Supply System Rev., Nuclear Proj. #3, 0s, 2004<F3> | \$ 4,885 | \$ 2,613,475 |
| AA | Washington Public Power Supply System Rev., Nuclear Proj. #3, 0s, 2015<F3> | 4,500 | 1,091,250 |
| AAA | Washington Public Power Supply System Rev., Nuclear Proj. #3, 7.125s, 2016 | 2,000 | 2,160,000 |
| | | | ----- \$ 43,476,288 |
| | Water and Sewer Utility Revenue - 4.6% | | |
| AA+ | Gwinnett County, GA, Water and Sewer Rev., 0s, 2009<F3> | \$ 6,000 | \$ 2,310,000 |
| AA+ | Harris County, TX, Flood Control District, 0s, 2009<F3> | 3,205 | 1,205,881 |
| AA+ | Harris County, TX, Flood Control District, 0s, 2009<F3> | 5,845 | 2,199,181 |
| AA+ | Harris County, TX, Flood Control District, 0s, 2010<F3> | 3,545 | 1,240,750 |
| A | Massachusetts Water Resources Authority, 6.25s, 2010 | 3,000 | 2,955,000 |
| A | Massachusetts Water Resources Authority, 5.25s, 2015 | 1,825 | 1,576,343 |
| A | Massachusetts Water Resources Authority, 6.5s, 2019 | 7,495 | 7,551,213 |
| AAA | Salt Lake County, UT, Water Conservancy District, 0s, 2008<F3> | 2,100 | 847,875 |
| AAA | Salt Lake County, UT, Water Conservancy District, 0s, 2009<F3> | 3,800 | 1,425,000 |
| A-- | Union County, NJ, Utilities Authority Solid Waste, 7.2s, 2014 | 1,500 | 1,520,625 |
| | | | ----- \$ 22,831,868 |
| | Turnpike Revenue - 3.4% | | |
| AAA | Harris County, TX, Toll Road, Senior Loan, 5s, 2016 | \$ 2,650 | \$ 2,219,375 |
| NR | Massachusetts industrial Finance Agency, Tunnel Rev. (Mass. Turnpike), 9s, 2020 | 2,925 | 2,983,500 |
| AAA | New Hampshire Turnpike, System Rev., 7s, 2015 | 5,000 | 4,518,750 |
| A | New Jersey Turnpike Authority, Turnpike Rev., 6.5s, 2016 | 1,450 | 1,497,125 |
| NR | San Joaquin Hills, CA, Transportation Corridor, 0s, 2009<F3> | 6,750 | 1,864,687 |
| NR | San Joaquin Hills, CA, Transportation Corridor Agency, Toll Road Rev., 0s, 2005<F3> | 1,800 | 729,000 |
| NR | Texas Turnpike Authority (Houston Ship Channel Bridge), 0s to 1/01/96 (12.625s thereafter), 2020<F3> | 3,000 | 3,063,750 |
| | | | ----- \$ 16,876,187 |
| | Airport and Port Revenue -12.8% | | |
| AAA | Chicago, IL, O'Hare international Airport, Special Facilities Rev. (United Airlines), 8.75s, 2012 | \$ 2,000 | \$ 2,052,500 |
| BB | Chicago, IL, O'Hare International Airport, Special Facilities Rev. (United Airlines), 8.4s, 2018 | 2,055 | 2,198,850 |
| BB | Chicago, IL, O'Hare international Airport, Special Facilities Rev. (United Airlines), 8.85s, 2018 | 6,740 | 7,498,250 |
| NR | Cleveland, OH, Airport Special Facilities Rev. | | |

| | | | |
|-----|---|-------|-----------|
| AAA | (Continental Airlines), 9s, 2019 | 5,300 | 5,518,625 |
| BB | Connecticut Airport Rev., FGIC, 7.65s, 2012 | 1,000 | 1,125,000 |
| BBB | Dallas-Fort Worth, TX, International Airport Facility Improvement Corp., 7.625s, 2021 | 4,500 | 4,573,125 |
| BBB | Denver, CO, Apartment Revenue, 6.75s, 2013 | 2,535 | 2,420,925 |
| BBB | Denver, CO, City & County Airport Rev., 8.875s, 2012 | 6,000 | 6,712,500 |
| BBB | Denver, CO, City & County Airport Rev., 7.75s, 2013 | 1,500 | 1,590,000 |
| BBB | Denver, CO, City & County Airport Rev., 8.75s, 2023 | 4,750 | 5,278,437 |

Portfolio of Investments - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|---|---|-----------------------------------|---------------|
| ----- | | | |
| S&P | | | |
| Bond Rating | | | |
| (Unaudited) | | | |
| ----- | | | |
| Airport and Port Revenue - continued | | | |
| AAA | Hawaii Airports Systems Rev., 5.75s 2008 | \$ 2,300 | \$ 2,208,000 |
| AAA | Hawaii Airports Systems Rev., Second Series, FGIC, 7.5s, 2020 | 5,350 | 5,831,500 |
| BB | Kenton County, KY, Airport Board Special Facilities (Delta Airlines), 7.5s, 2020 | 4,000 | 4,030,000 |
| AAA | Metropolitan Washington District of Columbia Airports Authority, 7.25s, 2010 | 4,000 | 4,320,000 |
| NR | St. Augustine, FL, Airport Authority, Airport Rev. (Grumman Repair Facility), 11s, 2004 | 500 | 550,000 |
| BB+ | Tulsa, OK, Municipal Airport Trust Rev., 7.6s, 2030 | 3,815 | 3,891,300 |
| A+ | Virginia Port Authority, 8.2s, 2008 | 3,000 | 3,337,500 |
| | | | ----- |
| | | | \$ 63,136,512 |
| ----- | | | |
| Sales and Excise Tax Revenue - 0.3% | | | |
| AAA | Metropolitan Pier & Exposition Authority, Dedicated State Tax Rev., 0s, 2018 | \$ 6,400 | \$ 1,320,000 |
| ----- | | | |
| Industrial Revenue (Corporate Guarantee) - 5.7% | | | |
| BBB | Brazos River Authority, TX, Pollution Control Rev. (Texas Utilities), 9.875s, 2017 | \$ 8,890 | \$ 10,134,600 |
| BBB | Brazos River Authority, TX, Pollution Control Rev. (Texas Utilities), 9.25s, 2018 | 1,000 | 1,127,500 |
| A-- | Burke County, GA, Pollution Control Rev. (Georgia Power Co./Vogtle Project), 9.375s, 2017 | 2,650 | 3,017,687 |
| A | Charleston County, SC, Resource Recovery Rev. (Foster Wheeler), 9.25s, 2010 | 3,200 | 3,612,000 |
| AA-- | Chicago, IL, Gas Supply Rev. (People's Gas), 8.1s, 2020 | 2,000 | 2,237,500 |
| A-- | Erie County, PA (International Paper), 7.875s, 2016 | 1,200 | 1,320,000 |
| NR | Illinois Development Finance Authority, Economic Development Rev. (America Tire), 10.5s, 2007 | 750 | 637,500 |
| A-- | Matagorda County, TX, Pollution Control Rev. (Central Power & Light), 7.875s, 2016 | 1,500 | 1,612,500 |
| BB-- | Port of New Orleans, LA (Continental Grain Co.), 7.5s, 2013 | 1,000 | 992,500 |
| NR | San Joaquin Hills, CA, Transportation Corridor, 0s, 2004<F3> | 3,000 | 1,320,000 |
| BBB | West Side Calhoun County, TX, Navigation District, 8.2s, 2021 | 2,000 | 2,205,000 |
| | | | ----- |
| | | | \$ 28,216,787 |
| ----- | | | |
| Universities - 0.6% | | | |
| NR | Illinois Educational Facilities Authority Rev., 8.75s, 2015 | \$ 1,500 | \$ 1,599,375 |
| AAA | University of Illinois, University Rev., 0s, 2009<F3> | 2,915 | 1,129,562 |
| | | | ----- |
| | | | \$ 2,728,937 |

Portfolio of Investments - continued
Municipal Bonds - continued

| S&P Bond Rating (Unaudited) | Issuer | Principal Amount (000 Omitted) | Value |
|-----------------------------------|--|-----------------------------------|------------|
| ----- | | | |
| Miscellaneous Revenue - 8.5% | | | |
| NR | Atlanta, GA, Downtown Development Authority, 11.5s, 2015<F1><F5> | \$ 1,055 | \$ 422,064 |
| NR | Bristol, CT, Resource Recovery Facilities, 6.5s, 2014<F4> | 8,000 | 7,620,000 |
| NR | Chapel Hill, NC, Parking Facilities Rev. (Rosemary Street Project), 8.125s, 2013 | 980 | 1,041,250 |
| NR | Chapel Hill, NC, Parking Facilities Rev. (Rosemary Street Project), 8.25s, 2023 | 1,000 | 1,063,750 |
| NR | Crystal City, TX, Lease Obligations, 10.5s, 2008<F1> | 1,251 | 1,189,173 |
| BB- | Greater Detroit, MI, Resource Recovery Authority, | | |

| | | | |
|-----|---|-------|---------------|
| A | 9.25s, 2008 Hillsborough County, FL, Capital improvement Rev., 6.75s, 2022 | 2,130 | 2,279,100 |
| NR | Martha's Vineyard, MA, Land Bank, 8.125s, 2011 | 2,810 | 2,890,788 |
| NR | Massachusetts Health & Education Facilities Authority (Learning Center for Deaf Children), 9.25s, 2014 | 2,000 | 2,025,000 |
| BB+ | New York State Medical Care Facility, 7.75s, 2020 | 1,000 | 1,035,000 |
| A- | Pennsylvania industrial Development Authority Rev., 7s, 2011 | 1,055 | 1,116,981 |
| NR | Retema, TX, Special Facilities Rev. (Retema Park Racetrack Project), 8.75s, 2018 | 7,000 | 7,288,750 |
| AAA | San Mateo County, CA, Joint Powers Financing Authority, 6s, 2019 | 4,000 | 3,700,000 |
| A | State of Pennsylvania Finance Authority Rev., 6.6s, 2009 | 4,675 | 4,552,281 |
| AAA | Tulsa, OK, Public Facilities Authority, AMBAC, 5.55s, 2005 | 3,305 | 3,276,081 |
| | | 2,175 | 2,107,031 |
| | | | ----- |
| | | | \$ 41,607,249 |

| | | | |
|----|---|----------|--------------|
| NR | Special Assessment District - 0.7% Northeast Maryland, Waste Disposal Authority (Montgomery County Resource Recovery), 6.3s, 2016 | \$ 3,750 | \$ 3,562,500 |
|----|---|----------|--------------|

Total Municipal Bonds (Identified Cost, \$466,731,454) \$485,724,937

Floating Rate Demand Notes - 0.2%

| | | | |
|--|--|--------|------------|
| | Parish of East Baton Rouge, LA, Pollution Control Rev., due 11/01/19 | \$ 300 | \$ 300,000 |
| | Peninsula Ports Authority, VA (Shell Oil Co.), due 12/01/05 | 100 | 100,000 |
| | Unita County, WY, Pollution Control Rev., due 8/15/20 | 700 | 700,000 |

Total Floating Rate Demand Notes, at Identified Cost \$ 1,100,000

Total Investments (Identified Cost, \$467,831,454) \$486,824,937

Other Assets, Less Liabilities - 0.9% 4,641,184

Net Assets - 100.0% \$491,466,121

<FN>

<F1>Security valued by or at the direction of the Trustees.

<F2>Indexed security (see Note 7).

<F3>Non-income producing security in default.

<F4>When-issued security. At March 31, 1994, the Fund had sufficient cash and/or securities at least equal to the value of the when-issued security.

<F5>Non-income producing.

See notes to financial statements

</TABLE>

<TABLE>

Financial Statements
Statement of Assets and Liabilities

<CAPTION>

March 31 1994

<S>

<C>

Assets:

| | |
|---|---------------|
| Investments, at value (identified cost, \$467,831,454) | \$486,824,937 |
| Cash | 1,039,653 |
| Receivable for investments sold | 7,491,454 |
| Receivable for daily variation margin on open futures contracts | 17,188 |
| Receivable for Fund shares sold | 4,277,514 |
| Interest receivable | 9,345,063 |
| Other assets | 19,426 |
| Total assets | \$509,015,235 |

Liabilities:

| | |
|---|------------|
| Distributions payable | \$ 896,518 |
| Payable for investments purchased | 6,906,186 |
| Payable for when-issued investments purchased | 8,000,000 |
| Payable for Fund shares reacquired | 1,535,503 |
| Payable to affiliates | |
| Management fee | 30,288 |
| Shareholder servicing agent fee | 2,964 |
| Distribution fee | 13,425 |
| Accrued expenses and other liabilities | 164,230 |

Total liabilities \$ 17,549,114

Net assets \$491,466,121

Net assets consist of:

Paid-in capital \$475,041,627

| | |
|---|---------------|
| Unrealized appreciation on investments | 19,145,046 |
| Accumulated distributions in excess of net realized gain on investments | (1,230,985) |
| Accumulated distributions in excess of net investment income | (1,489,567) |
| | ----- |
| Total | \$491,466,121 |
| | ----- |
| Shares of beneficial interest outstanding | 57,408,348 |
| | ----- |
| Class A shares: | |
| Net asset value and redemption price per share (net assets of \$5,594,908 / 653,752 shares of beneficial interest outstanding) | \$8.56 |
| | ----- |
| Offering price per share (100/5.25) | \$8.99 |
| | ----- |
| Class B shares: | |
| Net asset value offering price and redemption price per share (net assets of \$479,478,472 / 56,008,099 shares of beneficial interest outstanding) | \$8.56 |
| | ----- |
| Class C shares: | |
| Net asset value offering price and redemption price per share (net assets of \$6,392,741/746,497 shares of beneficial interest outstanding) | \$8.56 |
| | ----- |

On sales of \$ 100,000 or more, the offering price of Class A shares is reduced. A contingent deferred sales charge may be imposed on redemptions of Class A, Class B and Class C shares.

See notes to financial statements
</TABLE>

<TABLE>
Financial Statements - continued
Statement of Operations

<CAPTION>

| | Four Months Ended March 31, 1994 | Year Ended November 30, 1993 |
|--|-------------------------------------|---------------------------------|
| <S> | <C> | <C> |
| Net investment income | | |
| Interest income | \$ 11,966,182 | \$35,097,495 |
| | ----- | ----- |
| Expenses -- | | |
| Management fee | \$ 1,301,038 | \$ 3,751,548 |
| Trustees' compensation | 10,848 | 33,617 |
| Shareholder servicing agent fee (Class A) | 687 | 65 |
| Shareholder servicing agent fee (Class B) | 384,766 | 1,041,705 |
| Shareholder servicing agent fee (Class C) | 1,212 | |
| Distribution and service fee (Class B) | 1,759,118 | 4,985,509 |
| Distribution and service fee (Class C) | 7,981 | |
| Custodian fee | 61,028 | 174,090 |
| Printing | 60,049 | 54,007 |
| Auditing fees | 38,916 | 54,047 |
| Legal fees | 20,328 | 48,565 |
| Postage | 14,939 | 47,497 |
| Miscellaneous | 170,158 | 337,597 |
| | ----- | ----- |
| Total expenses | \$ 3,831,068 | \$10,528,247 |
| | ----- | ----- |
| Net investment income | \$ 8,135,114 | \$24,569,248 |
| | ----- | ----- |
| Realized and Unrealized gain (loss) on investments: | | |
| Realized gain (loss) (identified cost basis) -- | | |
| Investment transactions | \$ (1,579,438) | \$ 3,158,715 |
| Futures contracts | - | (983,969) |
| | ----- | ----- |
| Net realized gain (loss) on investments | \$ (1,579,438) | \$ 2,174,746 |
| | ----- | ----- |
| Change in unrealized appreciation (depreciation) -- | | |
| Investments | \$ (21,911,339) | \$20,124,474 |
| Futures contracts | 151,563 | (272,031) |
| | ----- | ----- |
| Net unrealized gain (loss) on investments | \$ (21,759,776) | \$19,852,443 |
| | ----- | ----- |
| Net realized and unrealized gain (loss) on investments | \$ (23,339,214) | \$22,027,189 |
| | ----- | ----- |
| Increase (decrease) in net assets from operations | \$ (15,204,100) | \$46,596,437 |
| | ----- | ----- |

See notes to financial statements
</TABLE>

<TABLE>
Financial Statements, - continued
Statement of Changes in Net Assets

<CAPTION>

| | Four Months Ended March 31, 1994 | Year Ended November 30, | |
|---|-------------------------------------|-------------------------|-----------------|
| | | 1993 | 1992 |
| <S> | <C> | <C> | <C> |
| Increase (decrease) in net assets: | | | |
| From operations -- | | | |
| Net investment income | \$ 8,135,114 | \$ 24,569,248 | \$ 23,383,890 |
| Net realized gain (loss) on investments | (1,579,438) | 2,174,746 | 4,966,272 |
| Net unrealized gain (loss) on investments | (21,759,776) | 19,852,443 | 7,393,722 |
| Increase (decrease) in net assets from operations | \$ (15,204,100) | \$ 46,596,437 | \$ 35,743,884 |
| Equalization | \$ -- | \$ -- | \$ 60,720 |
| Distributions declared to shareholders -- | | | |
| From net investment income (Class A) | \$ (24,388) | \$ (2,142) | \$ -- |
| From net investment income (Class B) | (6,513,043) | (25,152,570) | (23,444,653) |
| From net investment income (Class C) | (36,953) | -- | -- |
| In excess of net investment income (Class A) | (444) | (150) | -- |
| In excess of net investment income (Class B) | (1,488,102) | (1,560,580) | -- |
| In excess of net investment income (Class C) | (1,021) | -- | -- |
| From net realized gain on investments (Class A) | (332) | -- | -- |
| From net realized gain on investments (Class B) | (319,911) | (5,237,004) | (1,001,217) |
| In excess of net realized gain on investments (Class A) | (1,280) | -- | -- |
| In excess of net realized gain on investments (Class B) | (1,229,705) | -- | -- |
| Total distributions declared to shareholders | \$ (9,615,179) | \$ (31,952,446) | \$ (24,445,870) |
| Fund share (principal) transactions -- | | | |
| Net proceeds from sale of shares | \$ 31,229,236 | \$118,919,014 | \$ 86,677,236 |
| Net asset value of shares issued to shareholders in reinvestment of distributions | 5,241,616 | 18,199,816 | 13,232,047 |
| Cost of shares reacquired | (38,825,729) | (83,071,056) | (70,403,847) |
| Increase (decrease) in net assets from Fund share transactions | \$ (2,354,877) | \$ 54,047,774 | \$ 29,505,436 |
| Total increase (decrease) in net assets | \$ (27,174,156) | \$ 68,691,765 | \$ 40,864,170 |
| Net assets: | | | |
| At beginning of period | 518,640,277 | 449,948,512 | 409,084,342 |
| At end of period (including undistributed [distributions in excess of] net investment income of \$(1,489,567), \$(1,560,730) and \$1,925,820, respectively) | \$491,466, 121 | \$518,640,277 | \$449,948,512 |

See notes to financial statements

</TABLE>

<TABLE>

Financial Statements - continued

Financial Highlights

<CAPTION>

| | Four Months Ended | | Four Months Ended | | Year Ended November 30, | |
|--|-------------------|------------------------------------|-------------------|------------------------------|------------------------------|--|
| | March 31, 1994 | Period Ended November 30, 1993<F1> | March 31, 1994 | Year Ended November 30, 1993 | Year Ended November 30, 1992 | |
| <S> | <C> | <C> | <C> | <C> | <C> | |
| Per share data (for a share outstanding throughout each period): | | | | | | |
| Net asset value-beginning of period | \$ 8.99 | \$ 9.15 | \$ 8.99 | \$ 8.73 | \$ 8.50 | |
| Income from investment operations<F4>-- | | | | | | |
| Net investment income | \$ 0.15 | \$ 0.12 | \$ 0.14 | \$ 0.42 | \$ 0.47 | |
| Net realized and unrealized gain (loss) on investments | (0.51) | (0.16) | (0.51) | 0.42 | 0.26 | |
| Total from investment operations | \$ (0.36) | \$ (0.04) | \$ (0.37) | \$ 0.84 | \$ 0.73 | |
| Less distributions declared to shareholders -- | | | | | | |
| From net investment income | \$ (0.02) | \$ (0.11) | \$ (0.01) | \$ (0.45) | \$ (0.48) | |
| In excess of net investment income | -- | (0.01) | -- | (0.03) | -- | |
| From net realized gains | (0.01) | -- | (0.01) | (0.10) | -- | |
| In excess of net realized gains | (0.04) | -- | (0.04) | -- | -- | |
| From paid-in capital-- | -- | -- | -- | -- | (0.02) | |
| Total distributions declared to shareholders | \$ (0.07) | \$ (0.12) | \$ (0.06) | \$ (0.58) | \$ (0.50) | |
| Net asset value - end of period | \$ 8.56 | \$ 8.99 | \$ 8.56 | \$ 8.99 | \$ 8.73 | |

| | | | | | |
|---|-------------|-------------|-------------|-----------|-----------|
| Total return<F2> | (7.90)%<F3> | (1.80)%<F3> | (8.97)%<F3> | 9.95% | 8.82% |
| Ratios (to average net assets)/Supplemental data: | | | | | |
| Expenses | 1.07%<F3> | 0.76%<F3> | 2.24%<F3> | 2.11% | 2.03% |
| Net investment income | 5.31%<F3> | 4.94%<F3> | 4.74%<F3> | 4.92% | 5.50% |
| Portfolio turnover | 9% | 30% | 9% | 30% | 52% |
| Net assets at end of period (000 omitted) | \$5,595 | \$461 | \$479,478 | \$518,179 | \$449,949 |

<FN>
<F1>For the period from the commencement of offering of Class A shares, September 7, 1993 to November 30, 1993.
<F2>Total returns do not include the sales charge. If the sales charge had been included, the results would have been lower.
<F3>Annualized.
<F4>Per share data for the four months ended March 31, 1994 is based on average shares outstanding.

See notes to financial statements
</TABLE>

Financial Statements-continued
Financial Highlights-continued
<TABLE>

<CAPTION>

| | Year Ended November 30, | | | | | Period Ended |
|---|-------------------------|-----------|-----------|-----------|-------------|--------------------|
| | 1991 | 1990 | 1989 | 1988 | 1987<F1> | March 31, 1994<F2> |
| | Class B | | | | | Class C |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Per share data (for a share outstanding throughout each period): | | | | | | |
| Net asset value-beginning of period | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 | \$ 8.47 | \$ 9.07 |
| Income from investment operations<F5>-- | | | | | | |
| Net investment income | 0.49 | \$ 0.49 | \$ 0.51 | \$ 0.50 | 0.38 | \$ 0.09 |
| Net realized and unrealized gain (loss) on investments | 0.25 | (0.15) | 0.30 | 0.43 | (0.83) | (0.59) |
| Total from investment operations | \$ 0.74 | \$ 0.34 | \$ 0.81 | \$ 0.93 | \$(0.45) | \$(0.50) |
| Less net investment income distributions declared to shareholders | \$(0.49) | \$(0.50) | \$(0.51) | \$(0.49) | \$(0.35) | \$(0.01) |
| Net asset value-end of period | \$ 8.50 | \$ 8.25 | \$ 8.41 | \$ 8.11 | \$ 7.67 | \$ 8.56 |
| Total return<F3> | 9.21% | 4.18% | 10.24% | 12.53% | (5.79)%<F3> | (19.42)%<F3> |
| Ratios (to average net assets)/Supplemental data: | | | | | | |
| Expenses | 2.04% | 2.05% | 2.07% | 2.09% | 2.03%<F3> | 2.18% |
| Net investment income | 5.82% | 5.99% | 6.09% | 6.38% | 6.00%<F3> | 4.62% |
| Portfolio turnover | 73% | 91% | 127% | 171% | 138% | 9% |
| Net assets at end of period (000 omitted) | \$409,084 | \$379,239 | \$343,887 | \$244,825 | \$183,935 | \$6,393 |

<FN>
<F1>For the period from the commencement of investment operations, December 29, 1986 to November 30, 1987.
<F2>For the period from the commencement of offering of Class C shares, January 3, 1994 to March 31, 1994.
<F3>Total returns do not include the sales charge. If the charge had been included, the results would have been lower.
<F4>Annualized.
<F5>Per share data for the four months ended March 31, 1994 is based on average shares outstanding.
See notes to financial statements
</TABLE>

Notes to Financial Statements

(1) Business and Organization

MFS Municipal income Fund (the Fund) is a diversified series of MFS (R) Municipal Series Trust (the Trust). The Trust is organized as a Massachusetts business trust and is registered under the investment Company Act of 1940, as amended, as an open-end management investment company. During 1993 the Fund changed its fiscal year end from November 30 to March 31, and financial statements are thus being presented for the four-month period ended March 31, 1994. The Fund offers Class A, Class B and Class C shares.

(2) Significant Accounting Policies

Investment Valuations - Debt securities (other than short-term obligations which mature in 60 days or less), including listed issues and forward contracts, are valued on the basis of valuations furnished by dealers or by a pricing service with consideration to factors such as institutional size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data, without exclusive reliance upon exchange or over-the-counter prices. Short-term obligations, which mature in 60 days or less, are valued at amortized cost, which approximates value. Futures contracts, options and options on futures contracts listed on commodities exchanges are valued at closing settlement prices. Over-the-counter options are valued by brokers through the use of a pricing model which takes into account

closing bond valuations, implied volatility and short-term repurchase rates. Securities for which there are no such quotations or valuations are valued at fair value as determined in good faith by or at the direction of the Trustees.

Repurchase Agreements - The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. The Fund requires that the securities purchased in a repurchase transaction be transferred to the custodian in a manner sufficient to enable the Fund to obtain those securities in the event of a default under the repurchase agreement. The Fund monitors, on a daily basis, the value of the securities transferred to ensure that the value, including accrued interest, of the securities under each repurchase agreement is greater than amounts owed to the Fund under each such repurchase agreement.

Written Options - The Fund may write covered call or put options for which premiums are received and are recorded as liabilities, and are subsequently adjusted to the current value of the options written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or are closed are offset against the proceeds or amount paid on the transaction to determine the realized gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the securities underlying the written option.

Futures Contracts - The Fund may enter into financial futures contracts for the delayed delivery of fixed income securities and indexes on such securities at a fixed price on a future date and may enter into options on such futures contracts. The Fund is required to deposit either in cash or securities an amount equal to a certain percentage of the contract amount. Subsequent payments are made or received by the Fund each day, dependent on the daily fluctuations in the value of the underlying security, and are recorded for financial statement purposes as unrealized gains or losses by the Fund. The Fund's investment in financial futures contracts is designed to hedge against anticipated future changes in interest or securities prices. Should interest or securities prices move unexpectedly, the Fund may not achieve the anticipated benefits of the financial futures contracts and may realize a loss.

Notes to Financial Statements - continued

Security Loans - The Fund may lend its securities to member banks of the Federal Reserve System and to member firms of the New York Stock Exchange or subsidiaries thereof. The loans are collateralized at all times by cash or securities with a market value at least equal to the market value of securities loaned. As with other extensions of credit, the Fund may bear the risk of delay in recovery or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund receives compensation for lending its securities in the form of fees or from all or a portion of the income from investment of the collateral. The Fund would also continue to earn income on the securities loaned. At March 31, 1994, the Fund had no securities on loan.

Investment Transactions and Income - Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and original issue discount are amortized or accreted for both financial statement and tax reporting purposes as required by federal income tax regulations. Interest payments received in additional securities are recorded on the ex-interest date in an amount equal to the value of the security on such date.

Effective December 1, 1992, the Fund adopted Statement of Position (SOP) 93-1, Financial Accounting and Reporting for High-Yield Debt Securities by investment Companies, which establishes the use of the effective interest method for reporting interest income on payment in-kind (PIK) bonds, whereby interest income on PIK bonds is recorded ratably by the Fund at a constant yield to maturity. The SOP also provides guidance on accounting for, and reporting of, costs incurred in support of defaulted debt securities. Capital infusions, which are generally non-recurring and incurred to protect or enhance the value of high-yield debt securities are reported as an addition to the cost basis of the security. Costs that are incurred to negotiate the terms or conditions of capital infusions or that are expected to result in a plan of reorganization are considered workout expenses and are reported as realized losses. Ongoing costs incurred to protect or enhance an investment, or costs incurred to pursue other claims or legal actions are reported as operating expenses. The adoption of this SOP had no significant effect on the financial statements of the Fund.

Tax Matters and Distributions - The Fund's policy is to comply with the provisions of the internal Revenue Code (the Code) applicable to regulated investment companies and to distribute to shareholders all of its net income, including any net realized gain on investments. Accordingly, no provision for federal income or excise tax is provided. Distributions paid by the Fund from net interest received on tax-exempt municipal bonds are not includable by shareholders as gross income for federal income tax purposes because the Fund intends to meet certain requirements of the Code applicable to regulated investment companies which will enable the Fund to pay tax-exempt interest dividends. The portion of such interest, if any, earned on private activity bonds issued after August 7, 1986 may be considered a tax preference item to

shareholders.

The Fund files a tax return annually using tax accounting methods required under provisions of the Code which may differ from generally accepted accounting principles, the basis on which these financial statements are prepared. Accordingly, the amount of net investment income and net realized gain reported on these financial statements may differ from that reported on the Fund's tax return and, consequently, the character of distributions to shareholders reported in the financial highlights may differ from that reported to shareholders on Form 1099-DIV. Distributions to shareholders are recorded on the ex-dividend date.

Notes to Financial Statements - continued

Effective December 1, 1992, the Fund adopted Statement of Position (SOP) 93-2, Determination, Disclosure, and Financial Statement Presentation of income, Capital Gain, and Return of Capital Distributions by investment Companies. The SOP distinguishes between distributions on a tax basis and a financial reporting basis and requires that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. The SOP also requires that differences in the recognition or classification of income between the financial statements and tax earnings and profits which result in temporary over-distributions for financial statement purposes, are classified as distributions in excess of net investment income or accumulated net realized gains. The cumulative effect of adopting the SOP decreased undistributed net investment income and increased paid-in capital and accumulated net realized gain on investments by \$62,989, \$62,835 and \$154, respectively. This change had no effect on the net assets or net asset value per share of the Fund.

Equalization- Prior to December 1, 1992, the Fund followed the accounting practice known as equalization by which a portion of the proceeds from sales and costs of reacquisitions of Fund shares is allocated to undistributed net investment income. As a result, undistributed net investment income per share was unaffected by sales or reacquisitions of Fund shares. Effective December 1, 1992, the Fund discontinued the use of equalization. This change had no effect on the Fund's net assets, net asset value per share, and distributions. Discontinuing the use of equalization will result in a simpler and more meaningful financial statement presentation. The cumulative effect of the change was to decrease undistributed net investment income and increase paid-in capital by \$1,277,367.

Multiple Classes of Shares of Beneficial Interest - The Fund offers Class A, Class B and Class C shares. Class A and Class C shares were first offered to the public on September 7, 1993 and January 3, 1994, respectively. The three classes of shares differ in their respective sales charges, service fees and distribution fees. Shareholders of each class also bear certain expenses that pertain only to that particular class. All shareholders bear the common expenses of the Fund pro rata based on average daily net assets, without distinction between share class. Dividends are declared separately for each class. No class has preferential dividend rights; differences in per share dividend rates are generally due to differences in separate class expenses, including distribution and service fees.

(3) Transactions with Affiliates

Investment Adviser - The Fund has an investment advisory agreement with Massachusetts Financial Services Company (MFS) to provide overall investment advisory and administrative services, and general of five facilities. Prior to September 1, 1993, Lifetime Advisers, Inc. (LAI), a wholly owned subsidiary of MFS, was the investment adviser for the Fund. The management fee, computed and paid monthly at an annual rate of 0.30% of average daily net assets and 6.43% of investment income, amounted to \$1,301,038 for the four months ended March 31, 1994 and \$3,751,548 for the year ended November 30, 1993.

The Fund pays no compensation directly to its Trustees who are officers of the investment adviser, or to officers of the Fund, all of whom receive remuneration for their services to the Fund from MFS. Certain of the officers and Trustees of the Fund are of fixers or directors of LAI, MFS, MFS Financial Services, inc. (FSI) and MFS Service Center, inc. (MFSC). The Fund has an unfunded defined benefit plan for all its independent Trustees. Included in Trustees' compensation is a net periodic pension expense of \$2,115 for the four months ended March 31, 1994 and \$6,192 for the year ended November 30, 1993.

Notes to Financial Statements - continued

Distributor - FSI, a wholly owned subsidiary of MFS, as distributor, received \$5,109 as its portion of the sales charge on sales of Class A shares of the Fund. The Trustees have adopted separate Distribution Plans for Class A, Class B and Class C shares pursuant to Rule 12b-1 of the investment Company Act of 1940 as follows:

The Class A Distribution Plan provides that the Fund will pay FSI up to 0.35% of its average daily net assets attributable to Class A shares annually in order that FSI may pay expenses on behalf of the Fund related to the distribution and servicing of its shares. These expenses include a service fee to each securities dealer that enters into a sales agreement with FSI of up to 0.25% of the Fund's

average daily net assets attributable to Class A shares which are attributable to that securities dealer, commissions to dealers and payments to FSI wholesalers for sales at or above a certain dollar level, and other such distribution-related expenses that are approved by the Fund. Payments will commence under the distribution plan on the date on which the net assets of the Fund attributable to Class A shares first equals or exceeds \$40 million.

The Class B Distribution Plan provides that the Fund will pay FSI a distribution fee, equal to 0.75% annually, and a service fee of up to 0.25%, of the Fund's average daily net assets attributable to Class B shares which FSI will pay to each securities dealer that enters into a sales agreement with FSI at a rate of up to 0.25% of the Fund's average daily net assets attributable to Class B shares. The service fee is intended to be additional consideration for services rendered by the dealer with respect to Class B shares. Fees incurred under the distribution plan during the period ended March 31, 1994 and year ended November 30, 1993 were 1.00% of average daily net assets attributable to Class B shares on an annualized basis and amounted to \$1,759,118 and \$4,985,509, respectively.

The Class C Distribution Plan provides that the Fund will pay FSI a monthly distribution fee, equal to 0.75% annually, and a service fee of up to 0.25%, of the Fund's average daily net assets attributable to Class C shares which FSI will pay to each securities dealer that enters into a sales agreement with FSI at a rate of up to 0.25% of the Fund's average daily net assets attributable to Class C shares. The service fee is intended to be additional consideration for services rendered by the dealer with respect to Class C shares. Fees incurred under the distribution plan during the four months ended March 31, 1994 were 1.00% of average daily net assets attributable to Class C shares on an annualized basis and amounted to \$7,981.

A contingent deferred sales charge is imposed on shareholder redemptions of Class A shares, on purchases of \$1 million or more, in the event of a share redemption within 12 months following the share purchase. A contingent deferred sales charge is imposed on shareholder redemptions of Class B shares in the event of a share redemption within six years of purchase. FSI receives all contingent deferred sales charges. Contingent deferred sales charges imposed during the four months ended March 31, 1994 were \$0 and \$291,492 for Class A and Class B shares, respectively.

Shareholder Servicing Agent - MFSC, a wholly owned subsidiary of MFS, earned \$687, \$384,766 and \$1,212 for Class A, Class B and Class C shares, respectively, during the four months ended March 31, 1994 and \$65 and \$1,041,705, respectively, for Class A and Class B shares for the year ended November 30, 1993. The fee is calculated as a percentage of average daily net assets of each class of shares at an effective annual rate of up to 0.15%, 0.22% and 0.15% attributable to Class A, Class B and Class C shares, respectively.

Notes to Financial Statements - continued

(4) Portfolio Securities

Purchases and sales of investments, other than U.S. government securities, purchased options transactions and short-term obligations, aggregated \$47,924,790 and \$53,002,471, respectively.

The cost and unrealized appreciation or depreciation in value of the investments owned by the Fund, as computed on a federal income tax basis, are as follows:

| | |
|-------------------------------|----------------|
| Aggregate cost | \$ 467,831,454 |
| | ----- |
| Gross unrealized appreciation | \$ 27,891,736 |
| Gross unrealized depreciation | (8,898,253) |
| | ----- |
| Net unrealized appreciation | \$ 18,993,483 |
| | ----- |

At March 31, 1994, the Fund, for federal income tax purposes, had a capital loss carryforward of \$1,413,222, which may be applied against any net taxable realized gains of each succeeding year until the earlier of its utilization or expiration on March 31, 2002.

(5) Shares of Beneficial Interest

The Fund's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest (without par value). Transactions in Fund shares were as follows:

<TABLE>

Class A Shares

<CAPTION>

| | Four Months Ended March 31, 1994 | | Period Ended November 30, 1993<F1> | |
|-------------------------------|-------------------------------------|--------------|---------------------------------------|------------|
| | Shares | Amount | Shares | Amount |
| <S> | <C> | <C> | <C> | <C> |
| Shares sold | 766,727 | \$ 6,792,015 | 51,270 | \$ 466,122 |
| Shares issued to shareholders | | | | |

| | | | | |
|----------------------------------|-----------|--------------|--------|------------|
| in reinvestment of distributions | 1,368 | 12,126 | 134 | 1,211 |
| Shares reacquired | (165,634) | (1,507,352) | (113) | (1,021) |
| Net increase | 602,461 | \$ 5,296,789 | 51,291 | \$ 466,312 |

Class B Shares
<CAPTION>

| | Four Months Ended March 31, 1994 | | Year Ended November 30, 1993 | | Year Ended November 30, 1992 | |
|--|-------------------------------------|-----------------|---------------------------------|---------------|---------------------------------|--------------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Shares sold | 1,771,398 | \$ 16,008,151 | 13,299,141 | \$118,452,892 | 10,070,064 | \$86,677,236 |
| Shares issued to shareholders in reinvestment of distributions | 581,143 | 5,207,213 | 2,056,699 | 18,198,605 | 1,542,486 | 13,232,047 |
| Shares reacquired | (3,964,973) | (35,578,939) | (9,277,213) | (83,070,035) | (8,203,836) | (70,403,847) |
| Net increase (decrease) | (1,612,432) | \$ (14,363,575) | 6,078,627 | \$ 53,581,462 | 3,408,714 | \$29,505,436 |

Class C Shares
<CAPTION>

| | Period Ended March 31, 1994<F2> | |
|--|------------------------------------|--------------|
| | Shares | Amount |
| <S> | <C> | <C> |
| Shares sold | 940,881 | \$ 8,429,070 |
| Shares issued to shareholders in reinvestment of distributions | 2,564 | 22,277 |
| Shares reacquired | (196,948) | (1,739,438) |
| Net increase | 746,497 | \$ 6,711,909 |

<FN>

<F1> Period from September 7, 1993 (commencement of offering of Class A shares) to November 30, 1993.

<F2> Period from January 3, 1994 (commencement of offering of Class C shares) to March 31, 1994

</TABLE>

Notes to Financial Statements - continued

(6) Line of credit

The Fund has entered into an agreement which enables it to participate with other funds managed by MFS, or an affiliate of MFS, in an unsecured line of credit with a bank which permits borrowings up to \$300 million, collectively. Borrowings may be made to temporarily finance the repurchase of Fund shares. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's base rate. In addition, a commitment fee, based on the average daily unused portion of the line of credit, is allocated among the participating funds at the end of each quarter. The commitment fee allocated to the Fund for the four months ended March 31, 1994 and for the year ended November 30, 1993 was \$665 and \$10,096, respectively.

(7) Financial Instruments

The Fund regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities and to assist in managing exposure to market risks such as interest rates. These financial instruments include written options and futures contracts. The potential or contractual amounts of these instruments represent the investment the Fund has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. A summary of obligations under these financial instruments at March 31, 1994 is as follows:

Futures Contracts

| Expiration | Contracts | Position | Unrealized Appreciation |
|------------|--------------------|----------|----------------------------|
| June 1994 | 100 Treasury Bonds | Short | \$134,375 |
| June 1994 | 100 Treasury Bonds | Short | 9,375 |
| June 1994 | 50 Treasury Bonds | Short | 7,813 |
| | | | \$151,563 |

At March 31, 1994, the Fund had sufficient cash and/or securities to cover margin requirements on open futures contracts.

The Fund also invests in indexed securities whose value may be linked to interest rates, commodities, indices or other financial indicators. Indexed securities are fixed-income securities whose proceeds at maturity (principal-indexed securities) or interest rates (coupon-indexed securities) rise and fall according to the change in one or more specified underlying instruments. Indexed securities may be more volatile than the underlying instrument itself. A summary of indexed securities held at March 31, 1994 follows on the next page.

Notes to Financial Statements-continued

<TABLE>

Coupon indexed Securities

| Description | Index | Principal (000 omitted) | Value | Unrealized Appreciation (Depreciation) |
|--|------------|----------------------------|-------------|--|
| <S> | <C> | <C> | <C> | <C> |
| New Hampshire Turnpike System Rev., 7s, 2015 | PSA | \$5,000 | \$4,518,750 | \$(481,250) |
| Rio Grande Valley, TX, Health Facilities Development Corp., 9.46s, 2015 | J.J. Kenny | 2,800 | 2,943,500 | 176,736 |
| Sacramento, CA, Metropolitan Utility District, Electric Rev., 8.7s, 2007 | PSA | 2,000 | 1,872,500 | (127,500) |
| San Bernardino, CA, Short Rites, 8.55s, 2016 | J.J. Kenny | 3,500 | 3,438,750 | (274,213) |
| | | | | ----- |
| | | | | \$(706,227) |
| | | | | ----- |

</TABLE>

Independent Auditors' Report

To the Trustees of MFS Municipal Series Trust and the Shareholders of MFS Municipal Income Fund:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of MFS Municipal Income Fund (one of the series constituting MFS Municipal Series Trust) as of March 31, 1994, the related statement of operations for the four months ended March 31, 1994 and the year ended November 30, 1993, the statement of changes in net assets for the four months ended March 31, 1994 and the years ended November 30, 1993 and 1992, and the financial highlights for the four months ended March 31, 1994 and each of the years in the seven-year period ended November 30, 1993. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of the securities owned as of March 31, 1994 by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of MFS Municipal Income Fund at March 31, 1994, the results of its operations, the changes in its net assets, and its financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE
Boston, Massachusetts
May 5, 1994

This report is prepared for the general information of shareholders. It is authorized for distribution to prospective investors only when preceded or

PART C

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS

- (A) FINANCIAL STATEMENTS INCLUDED IN PART A:
MFS Municipal Income Fund
For the period from commencement of investment operations on December 29, 1986 to March 31, 1994, and the the six months ended September 30, 1994:
Financial Highlights

FINANCIAL STATEMENTS INCLUDED IN PART B:

MFS MUNICIPAL INCOME FUND

At March 31, 1994:

Portfolio of Investments*
Statement of Assets and Liabilities*

At September 30, 1994:

Portfolio of Investments**
Statement of Assets and Liabilities**

For the two years ended March 31, 1994:

Statement of Changes in Net Assets*

For the six months ended September 30, 1994:

Statement of Changes in Net Assets**

For the year ended March 31, 1994:

Statement of Operations*

For the six months ended September 30, 1994:

Statement of Operations**

- - - - -

* Incorporated herein by reference to the Fund's Annual Report to Shareholders dated March 31, 1994 which was filed with the Securities and Exchange Commission ("SEC") on May 26, 1994.

** Incorporated herein by reference to the Fund's Semi-Annual Report to Shareholders dated September 30, 1994 which was filed with the Securities and Exchange Commission ("SEC") on December 8, 1994.

(B) EXHIBITS

- 1 Amended and Restated Declaration of Trust, dated February 3, 1995; filed herewith.
- 2 Amended and Restated By-Laws dated December 14, 1994; filed herewith.
- 3 Not Applicable.
- 4 Form of Share Certificate for Class A, B and C Shares. (12)
- 5 (a) Investment Advisory Agreement, dated August 24, 1984 for all series other than Arkansas, Florida and Texas. (7)
(b) Investment Advisory Agreement dated February 1, 1992, for the MFS Arkansas Municipal Bond Fund. (8)
(c) Investment Advisory Agreement dated February 1, 1992, for the MFS Florida Municipal Bond Fund.

- (8)
- (d) Investment Advisory Agreement dated February 1, 1992, for the MFS Texas Municipal Bond Fund. (8)
- (e) Investment Advisory Agreement dated August 1, 1992, for the MFS Mississippi Municipal Bond Fund. (9)
- (f) Investment Advisory Agreement dated August 1, 1992, for the MFS Washington Municipal Bond Fund. (10)
- (g) Investment Advisory Agreement dated February 1, 1993, for MFS Louisiana Municipal Bond Fund. (10)
- (h) Investment Advisory Agreement dated February 1, 1993, for MFS Pennsylvania Municipal Bond Fund. (10)
- (i) Investment Advisory Agreement for MFS California Municipal Bond Fund, dated September 1, 1993. (13)
- (j) Investment Advisory Agreement, dated September 1, 1993, for the MFS Municipal Income Fund. (13)
- 6 (a) Amended and Restated Distribution Agreement for the MFS Municipal Series Trust, dated January 1, 1995; filed herewith.
- (b) Form of Dealer Agreement between MFS Financial Services, Inc. and a dealer, dated December 28, 1994, and form of Mutual Fund Agreement between MFS Financial Services, Inc. and a bank or NASD affiliate, dated December 28, 1994; filed herewith.
- 7 Retirement Plan for Non-Interested Person Trustees, dated January 1, 1991. (10)
- 8 (a) Custodian Agreement, dated June 15, 1988. (7)
- (b) Amendments to Custodian Agreement, dated August 10, 1988 and October 1, 1989, respectively. (6)
- (c) Amendment No. 3 to the Custodian Agreement, dated December 11, 1991. (8)
- 9 (a) Shareholder Servicing Agent Agreement, dated August 1, 1985. (4)
- (b) Exchange Privilege Agreement, dated September 1, 1993. (13)
- (c) Loan Agreement among MFS Borrowers and The First National Bank of Boston dated September 29, 1989, as amended through and including the Second Amendment dated April 21, 1994. (25)
- (d) Form of Amendment to Shareholder Servicing Agreement dated December 31, 1992. (10)
- (e) Amendment to Shareholder Servicing Agreement dated September 7, 1993. (13)
- (f) Amendment to Shareholder Servicing Agreement dated December 31, 1993. (13)
- 10 Consent and Opinion of Counsel filed with Registrant's Rule 24f-2 Notice on May 26, 1994.
- 11 Consent of Deloitte & Touche - MFS Municipal Income Fund; filed herewith.
- 12 Not Applicable.

- 13 Investment Representation Letters. (1)
- 14 Not Applicable.
- 15 (a) Form of Amended and Restated Distribution Plan for Class A shares for each of the series of MFS Municipal Series Trust except for MFS Municipal Income Fund, MFS New York Municipal Bond Fund, MFS Pennsylvania Municipal Bond Fund and MFS California Municipal Bond Fund. (11)
- (b) Form of Distribution Plan for Class A shares for MFS California Municipal Bond Fund. (11)
- (c) Form of Distribution Plan for Class B shares for each series of MFS Municipal Series Trust except MFS Municipal Income Fund, MFS New York Municipal Bond Fund and MFS Pennsylvania Municipal Bond Fund. (11)
- (d) Form of Distribution Plan for Class C shares for MFS California Municipal Bond Fund, MFS North Carolina Municipal Bond Fund and MFS Virginia Municipal Bond Fund. (12)
- (e) Distribution Plans for Class A, Class B and Class C shares of MFS Municipal Income Fund; filed herewith.
- (f) Distribution Plans for Class A and Class B shares of MFS New York Municipal Bond Fund; filed herewith.
- (g) Distribution Plans for Class A and Class B shares of MFS Pennsylvania Municipal Bond Fund; filed herewith.
- 16 Schedule of Computation for Performance Quotations - Average Annual Total Rate of Return, Aggregate Total Rate of Return, Distribution Rate, Tax-Equivalent Yield and Yield; filed herewith.

Power of Attorney, dated October 13, 1993. (12)

-
- (1) Incorporated by reference to Registration Statement filed with the SEC on October 5, 1984.
- (2) Incorporated by reference to Post-Effective Amendment No. 1 filed with the SEC on February 8, 1985.
- (3) Incorporated by reference to Post-Effective Amendment No. 2 filed with the SEC on April 5, 1985.
- (4) Incorporated by reference to Post-Effective Amendment No. 3 filed with the SEC on May 30, 1986.
- (5) Incorporated by reference to Post-Effective Amendment No. 8 filed with the SEC on June 13, 1988.
- (6) Incorporated by reference to Post-Effective Amendment No. 11 filed with the SEC on March 30, 1990.
- (7) Incorporated by reference to Post-Effective Amendment No. 12 filed with the SEC on March 29, 1991.
- (8) Incorporated by reference to Post-Effective Amendment No. 16 filed with the SEC on May 28, 1992.
- (9) Incorporated by reference to Post-Effective Amendment No. 18 filed with the SEC on November 18, 1993.
- (10) Incorporated by reference to Post-Effective Amendment No. 20 filed with the SEC on April 1, 1993.
- (11) Incorporated by reference to Post-Effective Amendment No. 22 filed with the SEC on June 28, 1993.
- (12) Incorporated by reference to Post-Effective Amendment No. 23 filed with the SEC on October 29, 1993.
- (13) Incorporated by reference to Post-Effective Amendment No. 24 filed with the SEC on March 30, 1994.
- (14) Incorporated by reference to Post-Effective Amendment No. 25 filed with the SEC on May 31 1994.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT

Not applicable.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES

(1)
TITLE OF CLASS

(2)
Number of Record Holders
(As of January 31, 1995)

CLASS A SHARES

| | | |
|--|---------------------------|--------|
| Shares of Beneficial Interest (without par value) | Alabama Portfolio | 1,520 |
| | Arkansas Portfolio | 3,798 |
| | California Portfolio | 4,543 |
| | Florida Portfolio | 1,852 |
| | Georgia Portfolio | 1,906 |
| | Louisiana Portfolio | 406 |
| | Maryland Portfolio | 4,478 |
| | Massachusetts Portfolio | 5,264 |
| | Mississippi Portfolio | 2,127 |
| | New York Portfolio | 3,401 |
| | North Carolina Portfolio | 11,120 |
| | Pennsylvania Portfolio | 648 |
| | South Carolina Portfolio | 3,879 |
| | Tennessee Portfolio | 2,619 |
| | Texas Portfolio | 444 |
| | Virginia Portfolio | 10,640 |
| | Washington Portfolio | 572 |
| | West Virginia Portfolio | 3,289 |
| | MFS Municipal Income Fund | 209 |

CLASS B SHARES

| | | |
|--|---------------------------|--------|
| Shares of Beneficial Interest (without par value) | Alabama Portfolio | 128 |
| | Arkansas Portfolio | 210 |
| | California Portfolio | 575 |
| | Florida Portfolio | 294 |
| | Georgia Portfolio | 299 |
| | Louisiana Portfolio | 91 |
| | Maryland Portfolio | 393 |
| | Massachusetts Portfolio | 245 |
| | Mississippi Portfolio | 262 |
| | New York Portfolio | 355 |
| | North Carolina Portfolio | 788 |
| | Pennsylvania Portfolio | 221 |
| | South Carolina Portfolio | 402 |
| | Tennessee Portfolio | 214 |
| | Texas Portfolio | 66 |
| | Virginia Portfolio | 616 |
| | Washington Portfolio | 96 |
| | West Virginia Portfolio | 337 |
| | MFS Municipal Income Fund | 12,369 |

CLASS C SHARES

| | | |
|--|---------------------------|-----|
| Shares of Beneficial Interest (without par value) | North Carolina Portfolio | 149 |
| | California Portfolio | 75 |
| | Virginia Portfolio | 108 |
| | MFS Municipal Income Fund | 326 |

ITEM 27. INDEMNIFICATION

Reference is hereby made to (a) Article V of Registrant's Declaration of Trust, filed as an Exhibit to Post-Effective Amendment No. 2 to its Registration Statement; (b) Section 4 of the Distribution Agreement between Registrant and MFS Financial Services, Inc., filed as an Exhibit to Post-Effective Amendment No. 23; and (c) the undertaking of the Registrant regarding indemnification set forth in its Registration Statement as initially filed.

The Trustees and officers of the Registrant and the personnel of the Registrant's investment adviser and distributor will be insured under an errors and omissions liability insurance policy. The Registrant and its officers are also insured under the fidelity bond required by Rule 17g-1 under the Investment Company Act of 1940.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

Massachusetts Financial Services Company ("MFS") serves as investment adviser to the following open-end funds comprising the MFS Family of Funds: Massachusetts Investors Trust, Massachusetts Investors Growth Stock Fund, MFS Growth Opportunities Fund, MFS Government Securities Fund, MFS Government Mortgage Fund, MFS Government Limited Maturity Fund, MFS Series Trust I (which

has three series: MFS Managed Sectors Fund, MFS Cash Reserve Fund and MFS World Asset Allocation Fund), MFS Series Trust II (which has four series: MFS Emerging Growth Fund, MFS Capital Growth Fund, MFS Intermediate Income Fund and MFS Gold & Natural Resources Fund), MFS Series Trust III (which has two series: MFS High Income Fund and MFS Municipal High Income Fund), MFS Series Trust IV (which has four series: MFS Money Market Fund, MFS Government Money Market Fund, MFS Municipal Bond Fund and MFS OTC Fund), MFS Series Trust V (which has two series: MFS Total Return Fund and MFS Research Fund), MFS Series Trust VI (which has three series: MFS World Total Return Fund, MFS Utilities Fund and MFS World Equity Fund), MFS Series Trust VII (which has two series: MFS World Governments Fund and MFS Value Fund), MFS Series Trust VIII (which has two series: MFS Strategic Income Fund and MFS World Growth Fund), MFS Municipal Series Trust (which has 19 series: MFS Alabama Municipal Bond Fund, MFS Arkansas Municipal Bond Fund, MFS California Municipal Bond Fund, MFS Florida Municipal Bond Fund, MFS Georgia Municipal Bond Fund, MFS Louisiana Municipal Bond Fund, MFS Maryland Municipal Bond Fund, MFS Massachusetts Municipal Bond Fund, MFS Mississippi Municipal Bond Fund, MFS New York Municipal Bond Fund, MFS North Carolina Municipal Bond Fund, MFS Pennsylvania Municipal Bond Fund, MFS South Carolina Municipal Bond Fund, MFS Tennessee Municipal Bond Fund, MFS Texas Municipal Bond Fund, MFS Virginia Municipal Bond Fund, MFS Washington Municipal Bond Fund, MFS West Virginia Municipal Bond Fund and MFS Municipal Income Fund) and MFS Fixed Income Trust (which has three series: MFS Bond Fund, MFS Limited Maturity Fund and MFS Municipal Limited Maturity Fund) (the "MFS Funds"). The principal business address of each of the aforementioned funds is 500 Boylston Street, Boston, Massachusetts 02116.

MFS also serves as investment adviser of the following no-load, open-end funds: MFS Institutional Trust ("MFSIT") (which has two series), MFS Variable Insurance Trust ("MVI") (which has twelve series) and MFS Union Standard Trust ("UST") (which has two series). The principal business address of each of the aforementioned funds is 500 Boylston Street, Boston, Massachusetts 02116.

In addition, MFS serves as investment adviser to the following closed-end funds: MFS Municipal Income Trust, MFS Multimarket Income Trust, MFS Government Markets Income Trust, MFS Intermediate Income Trust, MFS Charter Income Trust and MFS Special Value Trust (the "MFS Closed-End Funds"). The principal business address of each of the aforementioned funds is 500 Boylston Street, Boston, Massachusetts 02116.

Lastly, MFS serves as investment adviser to MFS/Sun Life Series Trust ("MFS/SL"), Sun Growth Variable Annuity Fund, Inc. ("SGVAF"), Money Market Variable Account, High Yield Variable Account, Capital Appreciation Variable Account, Government Securities Variable Account, World Governments Variable Account, Total Return Variable Account and Managed Sectors Variable Account. The principal business address of each is One Sun Life Executive Park, Wellesley Hills, Massachusetts 02181.

MFS International Ltd. ("MIL"), a limited liability company organized under the laws of the Republic of Ireland and a subsidiary of MFS, whose principal business address is 41-45 St. Stephen's Green, Dublin 2, Ireland, serves as investment adviser to and distributor for MFS International Funds (which has four portfolios: MFS International Funds-U.S. Equity Fund, MFS International Funds-U.S. Emerging Growth Fund, MFS International Funds-International Governments Fund and MFS International Fund-Charter Income Fund) (the "MIL Funds"). The MIL Funds are organized in Luxembourg and qualify as an undertaking for collective investments in transferable securities (UCITS). The principal business address of the MIL Funds is 47, Boulevard Royal, L-2449 Luxembourg.

MIL also serves as investment adviser to and distributor for MFS Meridian U.S. Government Bond Fund, MFS Meridian Charter Income Fund, MFS Meridian Global Government Fund, MFS Meridian U.S. Emerging Growth Fund, MFS Meridian Global Equity Fund, MFS Meridian Limited Maturity Fund, MFS Meridian World Growth Fund, MFS Meridian Money Market Fund and MFS Meridian U.S. Equity Fund (collectively the "MFS Meridian Funds"). Each of the MFS Meridian Funds is organized as an exempt company under the laws of the Cayman Islands. The principal business address of each of the MFS Meridian Funds is P.O. Box 309, Grand Cayman, Cayman Islands, British West Indies.

MFS Fund Distributors, Inc. ("MFD"), a wholly owned subsidiary of MFS, serves as distributor for the MFS Funds, MVI, UST and MFSIT.

Clarendon Insurance Agency, Inc. ("CIAI"), a wholly owned subsidiary of MFS, serves as distributor for certain life insurance and annuity contracts issued by Sun Life Assurance Company of Canada (U.S.).

MFS Service Center, Inc. ("MFSC"), a wholly owned subsidiary of MFS, serves as shareholder servicing agent to the MFS Funds, the MFS Closed-End Funds, MFS Institutional Trust, MFS Variable Insurance Trust and MFS Union Standard Trust.

MFS Asset Management, Inc. ("AMI"), a wholly owned subsidiary of MFS, provides investment advice to substantial private clients.

MFS Retirement Services, Inc. ("RSI"), a wholly owned

subsidiary of MFS, markets MFS products to retirement plans and provides administrative and record keeping services for retirement plans.

MFS

The Directors of MFS are A. Keith Brodtkin, Jeffrey L. Shames, Arnold D. Scott, John R. Gardner and John D. McNeil. Mr. Brodtkin is the Chairman, Mr. Shames is the President, Mr. Scott is a Senior Executive Vice President and Secretary, James E. Russell is a Senior Vice President and the Treasurer, Stephen E. Cavan is a Senior Vice President, General Counsel and an Assistant Secretary, and Robert T. Burns is a Vice President and an Assistant Secretary of MFS.

MASSACHUSETTS INVESTORS TRUST
MASSACHUSETTS INVESTORS GROWTH STOCK FUND
MFS GROWTH OPPORTUNITIES FUND
MFS GOVERNMENT SECURITIES FUND
MFS GOVERNMENT MORTGAGE FUND
MFS SERIES TRUST I
MFS SERIES TRUST V
MFS GOVERNMENT LIMITED MATURITY FUND
MFS SERIES TRUST VI

A. Keith Brodtkin is the Chairman and President, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost, Vice President of MFS, is Assistant Treasurer, James R. Bordewick, Jr., Vice President and Associate General Counsel of MFS, is Assistant Secretary.

MFS SERIES TRUST II

A. Keith Brodtkin is the Chairman and President, Leslie J. Nanberg, Senior Vice President of MFS, is a Vice President, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer, and James R. Bordewick, Jr., is Assistant Secretary.

MFS GOVERNMENT MARKETS INCOME TRUST
MFS INTERMEDIATE INCOME TRUST

A. Keith Brodtkin is the Chairman and President, Patricia A. Zlotin, Executive Vice President of MFS and Leslie J. Nanberg, Senior Vice President of MFS, are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer, and James R. Bordewick, Jr., is the Assistant Secretary.

MFS SERIES TRUST III

A. Keith Brodtkin is the Chairman and President, James T. Swanson, Robert J. Manning, Cynthia M. Brown and Joan S. Batchelder, Senior Vice Presidents of MFS, Bernard Scozzafava, Vice President of MFS, and Matthew Fontaine, Assistant Vice President of MFS, are Vice Presidents, Sheila Burns-Magnan and Daniel E. McManus, Assistant Vice Presidents of MFS, are Assistant Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer, and James R. Bordewick, Jr., is Assistant Secretary.

MFS SERIES TRUST IV
MFS FIXED INCOME TRUST

A. Keith Brodtkin is the Chairman and President, Robert A. Dennis and Geoffrey L. Kurinsky, Senior Vice Presidents of MFS, are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS SERIES TRUST VII

A. Keith Brodtkin is the Chairman and President, Leslie J. Nanberg and Stephen C. Bryant, Senior Vice Presidents of MFS, are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS SERIES TRUST VIII

A. Keith Brodtkin is the Chairman and President, Jeffrey L. Shames, Leslie J. Nanberg, Patricia A. Zlotin, James T. Swanson and John D. Laupheimer, Jr., Vice President of MFS, are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS MUNICIPAL SERIES TRUST

A. Keith Brodtkin is the Chairman and President, Cynthia M.

Brown and Robert A. Dennis are Vice Presidents, David B. Smith, Geoffrey L. Schechter and David R. King, Vice Presidents of MFS, are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS VARIABLE INSURANCE TRUST
MFS INSTITUTIONAL TRUST

A. Keith Brodtkin is the Chairman and President, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is the Assistant Treasurer and James R. Bordewick, Jr., is the Assistant Secretary.

MFS UNION STANDARD TRUST

A. Keith Brodtkin is the Chairman and President, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost and Karen C. Jordan are Assistant Treasurers and James R. Bordewick, Jr., is the Assistant Secretary.

MFS MUNICIPAL INCOME TRUST

A. Keith Brodtkin is the Chairman and President, Cynthia M. Brown and Robert J. Manning are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost, is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS MULTIMARKET INCOME TRUST
MFS CHARTER INCOME TRUST

A. Keith Brodtkin is the Chairman and President, Patricia A. Zlotin, Leslie J. Nanberg and James T. Swanson are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost, Vice President of MFS, is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

MFS SPECIAL VALUE TRUST

A. Keith Brodtkin is the Chairman and President, Jeffrey L. Shames, Patricia A. Zlotin and Robert J. Manning are Vice Presidents, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, and James O. Yost, is Assistant Treasurer and James R. Bordewick, Jr., is Assistant Secretary.

SGVAF

W. Thomas London is the Treasurer.

MIL

A. Keith Brodtkin is a Director and the President, Arnold D. Scott, Jeffrey L. Shames are Directors, Ziad Malek, Senior Vice President of MFS, is a Senior Vice President and Managing Director, Thomas J. Cashman, Jr., a Vice President of MFS, is a Senior Vice President, Stanley T. Kwok is a Vice President, Anthony F. Clarizio is an Assistant Vice President, Stephen E. Cavan is a Director, Senior Vice President and the Clerk, James R. Bordewick, Jr. is a Director, Senior Vice President and an Assistant Clerk, Robert T. Burns is an Assistant Clerk and James E. Russell is the Treasurer.

MIL FUNDS

A. Keith Brodtkin is the Chairman, President and a Director, Arnold D. Scott and Jeffrey L. Shames are Directors, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James O. Yost is the Assistant Treasurer and James R. Bordewick, Jr., is the Assistant Secretary, and Ziad Malek is a Senior Vice President.

MFS MERIDIAN FUNDS

A. Keith Brodtkin is the Chairman, President and a Director, Arnold D. Scott and Jeffrey L. Shames are Directors, Stephen E. Cavan is the Secretary, W. Thomas London is the Treasurer, James R. Bordewick, Jr., is the Assistant Secretary and Ziad Malek is a Senior Vice President.

MFD

A. Keith Brodtkin is the Chairman, Arnold D. Scott and Jeffrey L. Shames are Directors, William W. Scott, Jr., an Executive Vice President of MFS, is the President, Stephen E. Cavan is the Secretary, Robert T. Burns is the Assistant Secretary, and James E. Russell is the Treasurer.

CIAI

A. Keith Brodtkin is the Chairman, Arnold D. Scott and Jeffrey L. Shames are Directors, Cynthia Orcott is President, Bruce C. Avery, Executive Vice President of MFS, is the Vice President, James E. Russell is the Treasurer, Stephen E. Cavan is the Secretary, and Robert T. Burns is the Assistant Secretary.

MFSC

A. Keith Brodtkin is the Chairman, Arnold D. Scott and Jeffrey L. Shames are Directors, Joseph A. Recomendés, Senior Vice President of MFS, is the President, James E. Russell is the Treasurer, Stephen E. Cavan is the Secretary, and Robert T. Burns is the Assistant Secretary.

AMI

A. Keith Brodtkin is the Chairman and a Director, Jeffrey L. Shames, Leslie J. Nanberg and Arnold D. Scott are Directors, Thomas J. Cashman is the President and a Director, James E. Russell is the Treasurer and Robert T. Burns is the Secretary.

RSI

William W. Scott, Jr., Joseph A. Recomendés and Bruce C. Avery are Directors, Arnold D. Scott is the Chairman, Douglas C. Grip, a Senior Vice President of MFS, is the President, James E. Russell is the Treasurer, Stephen E. Cavan is the Secretary, Robert T. Burns is the Assistant Secretary and Henry A. Shea is an Executive Vice President.

In addition, the following persons, Directors or officers of MFS, have the affiliations indicated:

| | |
|-------------------|---|
| A. Keith Brodtkin | Director, Sun Life Assurance Company of Canada (U.S.), One Sun Life Executive Park, Wellesley Hills, Massachusetts Director, Sun Life Insurance and Annuity Company of New York, 67 Broad Street, New York, New York |
| John R. Gardner | President and a Director, Sun Life Assurance Company of Canada, Sun Life Centre, 150 King Street West, Toronto, Ontario, Canada (Mr. Gardner is also an officer and/or Director of various subsidiaries and affiliates of Sun Life) |
| John D. McNeil | Chairman, Sun Life Assurance Company of Canada, Sun Life Centre, 150 King Street West, Toronto, Ontario, Canada (Mr. McNeil is also an officer and/or Director of various subsidiaries and affiliates of Sun Life) |

ITEM 29. DISTRIBUTORS

- (a) Reference is hereby made to Item 28 above.
- (b) Reference is hereby made to Item 28 above.
- (c) Not Applicable.

ITEM 30. LOCATION OF ACCOUNTS AND RECORDS

The accounts and records of the Registrant are located, in whole or in part, at the office of the Registrant and the following locations:

| NAME | ADDRESS |
|---|--|
| Massachusetts Financial Services Company (investment adviser) | 500 Boylston Street Boston, MA 02116 |
| MFS Financial Services, Inc. (principal underwriter) | 500 Boylston Street Boston, MA 02116 |
| State Street Bank and Trust Company (custodian) | State Street South 5 - West North Quincy, MA 02171 |
| MFS Service Center, Inc. (transfer agent) | 500 Boylston Street Boston, MA 02116 |

ITEM 31. MANAGEMENT SERVICES

Not applicable.

ITEM 32. UNDERTAKINGS

(a) Not applicable.

(b) Not applicable.

(c) The Registrant undertakes to furnish each person to whom a prospectus of a series of the Registrant is delivered with a copy of that series' latest annual report to shareholders upon request and without charge.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Post-Effective Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Boston and The Commonwealth of Massachusetts on the 21st day of February, 1995.

MFS MUNICIPAL SERIES TRUST

On behalf of MFS Municipal Income Fund

By: JAMES R. BORDEWICK, JR.
Name: James R. Bordewick, Jr.
Title: Assistant Secretary

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to its Registration Statement has been signed below by the following persons in the capacities indicated on February 21, 1995.

SIGNATURE

TITLE

A. KEITH BRODKIN*
A. Keith Brodtkin

Chairman, President (Principal
Executive Officer) and Trustee

W. THOMAS LONDON*
W. Thomas London

Treasurer (Principal Financial Officer
and Principal Accounting Officer)

RICHARD B. BAILEY*
Richard B. Bailey

Trustee

MARSHALL N. COHAN*
Marshall N. Cohan

Trustee

LAWRENCE H. COHN, M.D.*
Lawrence H. Cohn, M.D.

Trustee

SIR J. DAVID GIBBONS*
Sir J. David Gibbons

Trustee

ABBY M. O'NEILL*
Abby M. O'Neill

Trustee

WALTER E. ROBB, III*
Walter E. Robb, III

Trustee

ARNOLD D. SCOTT*
Arnold D. Scott

Trustee

JEFFREY L. SHAMES*
Jeffrey L. Shames

Trustee

J. DALE SHERRATT*
J. Dale Sherratt

Trustee

WARD SMITH*
Ward Smith

Trustee

By: JAMES R. BORDEWICK, JR.
Name: James R. Bordewick, Jr.
as Attorney-in-fact

*Executed by James R. Bordewick, Jr.
on behalf of those indicated pursuant
to a Power of Attorney dated
October 13, 1993 incorporated by
reference to the Registrant's Post-
Effective Amendment No. 23 filed
with the SEC on October 29, 1993.

INDEX TO EXHIBITS

MFS MUNICIPAL SERIES TRUST

MFS MUNICIPAL INCOME FUND

| EXHIBIT NO. | DESCRIPTION OF EXHIBIT | PAGE NO. |
|-------------|--|----------|
| 1 | Amended and Restated Declaration of Trust, dated February 3, 1995. | |
| 2 | Amended and Restated By-Laws, dated December 14, 1994. | |
| 6(a) | Amended and Restated Distribution Agreement for the MFS Municipal Series Trust, dated January 1, 1995. | |
| (b) | Form of Dealer Agreement between MFS Financial Services, Inc. and a dealer, dated December 28, 1994, and form of Mutual Fund Agreement between MFS Financial Services, Inc. and a bank or NASD affiliate, dated December 28, 1994. | |
| 11 | Consent of Deloitte & Touche -- MFS Municipal Income Fund. | |
| 15(e) | Distribution Plans for Class A, Class B and Class C shares of MFS Municipal Income Fund. | |
| (f) | Distribution Plans for Class A and Class B shares of MFS New York Municipal Bond Fund. | |
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| 16 | Schedule of Computation for Performance Quotations - Average Annual Total Rate of Return, Aggregate Total Rate of Return, Distribution Rate, Tax-Equivalent Yield and Yield. | |
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MFS MUNICIPAL SERIES TRUST

AMENDED AND RESTATED

DECLARATION OF TRUST

FEBRUARY 2, 1995

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AMENDED AND RESTATED
DECLARATION OF TRUST
OF
MFS MUNICIPAL SERIES TRUST
500 Boylston Street
Boston, Massachusetts 02116

AMENDED AND RESTATED DECLARATION OF TRUST, made as of this 2nd day
February, 1995 by the Trustees hereunder.

WHEREAS, the Trust was established pursuant to a Declaration of Trust dated August 23, 1984 for the investment and reinvestment of funds contributed thereto; and

WHEREAS, the Trustees desire that the beneficial interest in the trust assets continue to be divided into transferable Shares of Beneficial Interest (without par value) issued in one or more series, as hereinafter provided; and

WHEREAS, the Declaration of Trust has been, from time to time, amended in accordance with the provisions of the Declaration; and

WHEREAS, the Trustees now desire further to amend and to restate the Declaration of Trust and hereby certify, as provided in Section 11.1 of the Declaration, that this Amended and Restated Declaration of Trust has been further amended and restated in accordance with the provisions of the Declaration;

NOW THEREFORE, the Trustees hereby confirm that all money and property contributed to the trust established hereunder shall be held and managed in trust for the benefit of holders, from time to time, of the Shares of Beneficial Interest (without par value) issued hereunder and subject to the provisions hereof.

ARTICLE I NAME AND DEFINITIONS

Section 1.1 - Name. The name of the trust created hereby is the MFS Municipal Series Trust, the current address of which is 500 Boylston Street, Boston, Massachusetts 02116.

Section 1.2 - Definitions. Wherever they are used herein, the following terms have the following respective meanings:

(a) "By-Laws" means the By-Laws referred to in Section 3.9 hereof, as from time to time amended.

(b) "Commission" has the meaning given that term in the 1940 Act.

(c) "Declaration" means this Declaration of Trust as amended from time to time. Reference in this Declaration of Trust to "Declaration," "hereof," "herein" and "hereunder" shall be deemed to refer to this Declaration rather than the article or section in which such words appear.

(d) "Distributor" means the party, other than the Trust, to the contract described in Section 4.2 hereof.

(e) "Interested Person" has the meaning given that term in the 1940

Act.

(f) "Investment Adviser" means a party furnishing services to the Trust pursuant to any contract described in Section 4.1 hereof.

(g) "Majority Shareholder Vote" has the same meaning as the phrase "vote of a majority of the outstanding voting securities" as defined in the 1940 Act, except that such term may be used herein with respect to the Shares of the Trust as a whole or the Shares of any particular series, as the context may require.

(h) "1940 Act" means the Investment Company Act of 1940 and the Rules and Regulations thereunder, as amended from time to time.

(i) "Person" means and includes individuals, corporations, partnerships, trusts, associations, joint ventures and other entities, whether or not legal entities, and governments and agencies and political subdivisions thereof, whether domestic or foreign.

(j) "Shareholder" means a record owner of outstanding Shares.

(k) "Shares" means the Shares of Beneficial Interest into which the beneficial interest in the Trust shall be divided from time to time or, when used in relation to any particular series of Shares established by the Trustees pursuant to Section 6.9 hereof, equal proportionate transferable units into which such series of Shares shall be divided from time to time. The term "Shares" includes fractions of Shares as well as whole Shares.

(l) "Transfer Agent" means the party, other than the Trust, to a contract described in Section 4.3 hereof.

(m) "Trust" means the trust created hereby.

(n) "Trust Property" means any and all property, real or personal, tangible or intangible, which is owned or held by or for the account of the Trust or the Trustees, including, without limitation, any and all property allocated or belonging to any series of Shares pursuant to Section 6.9 hereof.

(o) "Trustees" means the persons who have signed the Declaration, so long as they shall continue in office in accordance with the terms hereof, and all other persons who may from time to time be duly elected or appointed, qualified and serving as Trustees in accordance with the provisions hereof, and reference herein to a Trustee or the Trustees shall refer to such person or persons in their capacity as trustees hereunder.

ARTICLE II

TRUSTEES

Section 2.1 - Number of Trustees. The number of Trustees shall be such number as shall be fixed from time to time by a written instrument signed by a majority of the Trustees, provided, however, that the number of Trustees shall in no event be less than three (3).

Section 2.2 - Term of Office of Trustees. Subject to the provisions of Section 16(a) of the 1940 Act, the Trustees shall hold office during the lifetime of this Trust and until its termination as hereinafter provided; except:

(a) that any Trustee may resign his trust (without need for prior or subsequent accounting) by an instrument in writing signed by him and delivered to the other Trustees, which shall take effect upon such delivery or upon such later date as is specified therein;

(b) that any Trustee may be removed with cause, at any time by written instrument, signed by at least two-thirds of the remaining Trustees, specifying the date when such removal shall become effective;

(c) that any Trustee who requests in writing to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees, specifying the date of his retirement; and

(d) a Trustee may be removed at any meeting of Shareholders by a vote of two-thirds of the outstanding Shares of each series. Upon the resignation or removal of a Trustee, or his otherwise ceasing to be a Trustee, he shall execute and deliver such documents as the remaining Trustees shall require for the purpose of conveying to the Trust or the remaining Trustees any Trust Property held in the name of the resigning or removed Trustee. Upon the incapacity or death of any Trustee, his legal representative shall execute and deliver on his behalf such documents as the remaining Trustees shall require as provided in the preceding sentence.

Section 2.3 - Resignation and Appointment of Trustees. In case of the declination, death, resignation, retirement, removal or inability of any of the Trustees, or in case a vacancy shall, by reason of an increase in number, or for any other reason, exist, the remaining Trustees shall fill such vacancy by appointing such other person as they in their discretion shall see fit. Such appointment shall be evidenced by a written instrument signed by a majority of the Trustees in office. Any such appointment shall not become effective, however, until the person named in the written instrument of appointment shall have accepted in writing such appointment and agreed in writing to be bound by the terms of the Declaration. Within twelve months of such appointment, the Trustees shall cause notice of such appointment to be mailed to each Shareholder

at his address as recorded on the books of the Trustees. An appointment of a Trustee may be made by the Trustees then in office and notice thereof mailed to Shareholders as aforesaid in anticipation of a vacancy to occur by reason of retirement, resignation or increase in number of Trustees effective at a later date, provided that said appointment shall become effective only at or after the effective date of said retirement, resignation or increase in number of Trustees. The power of appointment is subject to the provisions of Section 16(a) of the 1940 Act.

Section 2.4 - Vacancies. The death, declination, resignation, retirement, removal or incapacity of the Trustees, or any one of them, shall not operate to annul the Trust or to revoke any existing agency created pursuant to the terms of this Declaration. Whenever a vacancy in the number of Trustees shall occur, until such vacancy is filled as provided in Section 2.3, the Trustees in office, regardless of their number, shall have all the powers granted to the Trustees and shall discharge all the duties imposed upon the Trustees by the Declaration. A written instrument certifying the existence of such vacancy signed by a majority of the Trustees shall be conclusive evidence of the existence of such vacancy.

Section 2.5 - Delegation of Power to Other Trustees. Any Trustee may, by power of attorney, delegate his power for a period not exceeding six months at any one time to any other Trustee or Trustees; provided that in no case shall less than two Trustees personally exercise the powers granted to the Trustees under the Declaration except as herein otherwise expressly provided.

ARTICLE III POWERS OF TRUSTEES

Section 3.1 - General. The Trustees shall have exclusive and absolute control over the Trust Property and over the business of the Trust to the same extent as if the Trustees were the sole owners of the Trust Property and business in their own right, but with such powers of delegation as may be permitted by the Declaration. The Trustees shall have power to conduct the business of the Trust and carry on its operations in any and all of its branches and maintain offices both within and without The Commonwealth of Massachusetts, in any and all states of the United States of America, in the District of Columbia, and in any and all commonwealths, territories, dependencies, colonies, possessions, agencies or instrumentalities of the United States of America and of foreign governments, and to do all such other things and execute all such instruments as the Trustees deem necessary, proper or desirable in order to promote the interests of the Trust although such things are not herein specifically mentioned. Any determination as to what is in the interests of the Trust made by the Trustees in good faith shall be conclusive. In construing the provisions of the Declaration, the presumption shall be in favor of a grant of power to the Trustees.

The enumeration of any specific power herein shall not be construed as limiting the aforesaid power. Such powers of the Trustees may be exercised without order of or resort to any court.

Section 3.2 - Investments. (a) The Trustees shall have the power:

(i) to conduct, operate and carry on the business of an investment company;

(ii) to subscribe for, invest in, reinvest in, purchase or otherwise acquire, own, hold, pledge, sell, assign, transfer, exchange, distribute, lend or otherwise deal in or dispose of U.S. and foreign currencies, any form of gold and other precious metals, commodity contracts, contracts for the future acquisition or delivery of fixed income or other securities, and securities of every nature and kind, including, without limitation, all types of bonds, debentures, stocks, negotiable or non-negotiable instruments, obligations, evidences of indebtedness, certificates of deposit or indebtedness, commercial paper, repurchase agreements, bankers' acceptances, and other securities of any kind, issued, created, guaranteed or sponsored by any and all Persons, including, without limitation, states, territories and possessions of the United States and the District of Columbia and any political subdivision, agency or instrumentality of any such Person, or by the U.S. Government, any foreign government, any political subdivision or any agency or instrumentality of the U.S. Government, any foreign government or any political subdivision of the U.S. Government or any foreign government, or any international instrumentality, or by any bank or savings institution, or by any corporation or organization organized under the laws of the United States or of any state, territory or possession thereof, or by any corporation or organization organized under any foreign law, or in "when issued" contracts for any such securities, to retain Trust assets in cash and from time to time change the investments of the assets of the Trust; and to exercise any and all rights, powers and privileges of ownership or interest in respect of any and all such investments of every kind and description, including, without limitation, the right to consent and otherwise act with respect thereto, with power to designate one or more persons, firms, associations or corporations to exercise any of said rights, powers and privileges in respect of any of said instruments; and

(iii) to carry on any other business in connection with or incidental to any of the foregoing powers, to do everything necessary, suitable or proper for the accomplishment of any purpose or the attainment of any object or the furtherance of any power hereinbefore set forth, and to do every other act or thing incidental or appurtenant to or connected with the aforesaid purposes, objects or powers.

(b) The Trustees shall not be limited to investing in obligations maturing before the possible termination of the Trust, nor shall the Trustees be limited by any law limiting the investments which may be made by fiduciaries.

Section 3.3 - Legal Title. Legal title to all the Trust Property shall be vested in the Trustees as joint tenants except that the Trustees shall have power to cause legal title to any Trust Property to be held by or in the name of one or more of the Trustees, or in the name of the Trust, or in the name of any other Person or nominee, on such terms as the Trustees may determine. The right, title and interest of the Trustees in the Trust Property shall vest automatically in each Person who may hereafter become a Trustee. Upon the resignation, removal or death of a Trustee he shall automatically cease to have any right, title or interest in any of the Trust Property, and the right, title and interest of such Trustee in the Trust Property shall vest automatically in the remaining Trustees. Such vesting and cessation of title shall be effective whether or not conveyancing documents have been executed and delivered.

Section 3.4 - Issuance and Repurchase of Securities. The Trustees shall have the power to issue, sell, repurchase, redeem, retire, cancel, acquire, hold, resell, reissue, dispose of, transfer, and otherwise deal in Shares and, subject to the provisions set forth in Articles VII, VIII and IX and Section 6.9 hereof, to apply to any such repurchase, redemption, retirement, cancellation or acquisition of Shares any funds of the Trust or other Trust Property whether capital or surplus or otherwise, to the full extent now or hereafter permitted by the laws of The Commonwealth of Massachusetts governing business corporations.

Section 3.5 - Borrowing Money; Lending Trust Property. The Trustees shall have power to borrow money or otherwise obtain credit and to secure the same by mortgaging, pledging or otherwise subjecting as security the Trust Property, to endorse, guarantee, or undertake the performance of any obligation, contract or engagement of any other Person and to lend Trust Property.

Section 3.6 - Delegation; Committees. The Trustees shall have power to delegate from time to time to such of their number or to officers, employees or agents of the Trust the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Trustees or otherwise as the Trustees may deem expedient.

Section 3.7 - Collection and Payment. Subject to Section 6.9 hereof, the Trustees shall have power to collect all property due to the Trust; to pay all claims, including taxes, against the Trust Property; to prosecute, defend, compromise or abandon any claims relating to the Trust Property; to foreclose any security interest securing any obligations, by virtue of which any property is owed to the Trust; and to enter into releases, agreements and other instruments.

Section 3.8 - Expenses. Subject to Section 6.9 hereof, the Trustees shall have the power to incur and pay any expenses which in the opinion of the Trustees are necessary or incidental to carry out any of the purposes of the Declaration, and to pay reasonable compensation from the funds of the Trust to themselves as Trustees. The Trustees shall fix the compensation of all officers, employees and Trustees.

Section 3.9 - Manner of Acting; By-Laws. Except as otherwise provided herein or in the By-Laws, any action to be taken by the Trustees may be taken by a majority of the Trustees present at a meeting of Trustees (a quorum being present), including any meeting held by means of a conference telephone circuit or similar communications equipment by means of which all persons participating in the meeting can hear each other, or by written consents of all the Trustees. The Trustees may adopt By-Laws not inconsistent with this Declaration to provide for the conduct of the business of the Trust and may amend or repeal such By-Laws to the extent such power is not reserved to the Shareholders.

Section 3.10 - Miscellaneous Powers. The Trustees shall have the power to:

(a) employ or contract with such Persons as the Trustees may deem desirable for the transaction of the business of the Trust;

(b) enter into joint ventures, partnerships and any other combinations or associations;

(c) remove Trustees or fill vacancies in or add to their number, elect and remove such officers and appoint and terminate such agents or employees as they consider appropriate, and appoint from their own number, and terminate, any one or more committees which may exercise some or all of the power and authority of the Trustees as the Trustees may determine;

(d) purchase, and pay for out of Trust Property, insurance policies insuring the Shareholders, Trustees, officers, employees, agents, investment advisers, distributors, selected dealers or independent contractors of the Trust against all claims arising by reason of holding any such position or by reason of any action taken or omitted by any such Person in such capacity, whether or not constituting negligence, or whether or not the Trust would have the power to indemnify such Person against such liability;

(e) establish pension, profit-sharing, Share purchase, and other retirement, incentive and benefit plans for any Trustees, officers, employees or agents of the Trust;

(f) to the extent permitted by law, indemnify any person with whom the Trust has dealings, including the Investment Adviser, Distributor, Transfer Agent and any dealer, to such extent as the Trustees shall determine;

(g) determine and change the fiscal year of the Trust and the method by which its accounts shall be kept; and

(h) adopt a seal for the Trust, provided, that the absence of such seal shall not impair the validity of any instrument executed on behalf of the Trust.

Section 3.11 - Principal Transactions. Except in transactions permitted by the 1940 Act, or any order of exemption issued by the Commission, the Trustees shall not, on behalf of the Trust, buy any securities (other than Shares) from or sell any securities (other than Shares) to, or lend any assets of the Trust to, any Trustee or officer of the Trust or any firm of which any such Trustee or officer is a member acting as principal, or have any such dealings with the Investment Adviser, Distributor or Transfer Agent or with any Interested Person of such Person; but the Trust may employ any such Person, or firm or company in which such Person is an Interested Person, as broker, legal counsel, registrar, transfer agent, dividend disbursing agent or custodian upon customary terms.

Section 3.12 - Trustees and Officers as Shareholders. Except as hereinafter provided, no officer, Trustee or Member of the Advisory Board of the Trust, and no member, partner, officer, director or trustee of the Investment Adviser or of the Distributor, and no Investment Adviser or Distributor of the Trust, shall take long or short positions in the securities issued by the Trust. The foregoing provision shall not prevent:

(a) The Distributor from purchasing Shares from the Trust if such purchases are limited (except for reasonable allowances for clerical errors, delays and errors of transmission and cancellation of orders) to purchases for the purpose of filling orders for Shares received by the Distributor and provided that orders to purchase from the Trust are entered with the Trust or the Custodian promptly upon receipt by the Distributor of purchase orders for Shares, unless the Distributor is otherwise instructed by its customer;

(b) The Distributor from purchasing Shares as agent for the account of the Trust;

(c) The purchase from the Trust or from the Distributor of Shares by any officer, Trustee or member of the Advisory Board of the Trust or by any member, partner, officer, director or trustee of the Investment Adviser or of the Distributor at a price not lower than the net asset value of the Shares at the moment of such purchase, provided that any such sales are only to be made pursuant to a uniform offer described in the Trust's current prospectus; or

(d) The Investment Adviser, the Distributor, or any of their officers, partners, directors or trustees from purchasing Shares prior to the effective date of the Registration Statement relating to the Shares under the Securities

ARTICLE IV
INVESTMENT ADVISER, DISTRIBUTOR AND TRANSFER AGENT

Section 4.1 - Investment Adviser. Subject to a Majority Shareholder Vote of the Shares of each series affected thereby, the Trustees may in their discretion from time to time enter into one or more investment advisory or management contracts whereby a party to such contract shall undertake to furnish the Trust such management, investment advisory, statistical and research facilities and services, promotional activities, and such other facilities and services, if any, with respect to one or more series of Shares, as the Trustees shall from time to time consider desirable and all upon such terms and conditions as the Trustees may in their discretion determine. Notwithstanding any provision of the Declaration, the Trustees may delegate to the Investment Adviser authority (subject to such general or specific instructions as the Trustees may from time to time adopt) to effect purchases, sales, loans or exchanges of assets of the Trust on behalf of the Trustees or may authorize any officer, employee or Trustee to effect such purchases, sales, loans or exchanges pursuant to recommendations of the Investment Adviser (and all without further action by the Trustees). Any such purchases, sales, loans or exchanges shall be deemed to have been authorized by all of the Trustees.

Section 4.2 - Distributor. The Trustees may in their discretion from time to time enter into a contract, providing for the sale of Shares whereby the Trust may either agree to sell the Shares to the other party to the contract or appoint such other party its sales agent for such Shares. In either case, the contract shall be on such terms and conditions as the Trustees may in their discretion determine not inconsistent with the provisions of this Article IV or the By-Laws; and such contract may also provide for the repurchase or sale of Shares by such other party as principal or as agent of the Trust and may provide that such other party may enter into selected dealer agreements with registered securities dealers to further the purpose of the distribution or repurchase of the Shares.

Section 4.3 - Transfer Agent. The Trustees may in their discretion from time to time enter into a transfer agency and shareholder service contract or contracts whereby the other party or parties to such contract or contracts shall undertake to furnish transfer agency and/or shareholder services. The contract or contracts shall have such terms and conditions as the Trustees may in their discretion determine not inconsistent with the Declaration or the By-Laws. Such services may be provided by one or more Persons.

Section 4.4 - Parties to Contract. Any contract of the character described in Section 4.1, 4.2 or 4.3 of this Article IV or any Custodian contract, as described in the By-Laws, may be entered into with any Person, although one or more of the Trustees or officers of the Trust may be an officer, partner, director, trustee, shareholder, or member of such other party to the contract, and no such contract shall be invalidated or rendered voidable by reason of the existence of any such relationship; nor shall any Person holding

such relationship be liable merely by reason of such relationship for any loss or expense to the Trust under or by reason of said contract or accountable for any profit realized directly or indirectly therefrom, provided that the contract when entered into was not inconsistent with the provisions of this Article IV or the By-Laws. The same Person may be the other party to contracts entered into pursuant to Sections 4.1, 4.2 and 4.3 above or Custodian contracts, and any individual may be financially interested or otherwise affiliated with Persons who are parties to any or all of the contracts mentioned in this Section 4.4.

ARTICLE V
LIMITATIONS OF LIABILITY OF SHAREHOLDERS,
TRUSTEES AND OTHERS

Section 5.1 - No Personal Liability of Shareholders, Trustees, etc. No Shareholder shall be subject to any personal liability whatsoever to any Person in connection with Trust Property or the acts, obligations or affairs of the Trust. No Trustee, officer, employee or agent of the Trust shall be subject to any personal liability whatsoever to any Person, other than the Trust or its Shareholders, in connection with Trust Property or the affairs of the Trust, save only that arising from bad faith, willful misfeasance, gross negligence or reckless disregard for his duty to such Person; and all such Persons shall look solely to the Trust Property for satisfaction of claims of any nature arising in connection with the affairs of the Trust. If any Shareholder, Trustee, officer, employee, or agent, as such, of the Trust, is made a party to any suit or proceeding to enforce any such liability, he shall not, on account thereof, be held to any personal liability. The Trust shall indemnify and hold each Shareholder harmless from and against all claims and liabilities to which such Shareholder may become subject by reason of his being or having been a Shareholder, and shall reimburse such Shareholder for all legal and other expenses reasonably incurred by him in connection with any such claim or liability. The rights accruing to a Shareholder under this Section 5.1 shall not exclude any other right to which such Shareholder may be lawfully entitled, nor shall anything herein contained restrict the right of the Trust to indemnify or reimburse a Shareholder in any appropriate situation even though not specifically provided herein. Notwithstanding any other provision of this Declaration to the contrary, no Trust Property shall be used to indemnify or reimburse any Shareholder of any Shares of any series other than Trust Property allocated or belonging to such series.

Section 5.2 - Non-Liability of Trustees, etc. No Trustee, officer, employee or agent of the Trust shall be liable to the Trust, its Shareholders, or to any Shareholder, Trustee, officer, employee, or agent thereof for any action or failure to act (including without limitation the failure to compel in any way any former or acting Trustee to redress any breach of trust) except for his own bad faith, willful misfeasance, gross negligence or reckless disregard of his duties.

Section 5.3 - Mandatory Indemnification.

(a) Subject to the exceptions and limitations contained in paragraph

(b) below:

(i) every person who is or has been a Trustee or officer of the Trust shall be indemnified by the Trust against all liability and against all expenses reasonably incurred or paid by him in connection with any claim, action, suit or proceeding in which he becomes involved as a party or otherwise by virtue of his being or having been a Trustee or officer and against amounts paid or incurred by him in the settlement thereof;

(ii) the words "claim," "action," "suit," or "proceeding" shall apply to all claims, actions, suits or proceedings (civil, criminal, administrative or other, including appeals), actual or threatened; and the words "liability" and "expenses" shall include, without limitation, attorneys' fees, costs, judgments, amounts paid in settlement, fines, penalties and other liabilities.

(b) No indemnification shall be provided hereunder to a Trustee or officer:

(i) against any liability to the Trust or the Shareholders by reason of a final adjudication by the court or other body before which the proceeding was brought that he engaged in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office;

(ii) with respect to any matter as to which he shall have been finally adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interest of the Trust; or

(iii) in the event of a settlement involving a payment by a Trustee or officer or other disposition not involving a final adjudication as provided in paragraph (b) (i) or (b) (ii) above resulting in a payment by a Trustee or officer, unless there has been either a determination that such Trustee or officer did not engage in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office by the court or other body approving the settlement or other disposition or by a reasonable determination, based upon a review of readily available facts (as opposed to a full trial-type inquiry) that he did not engage in such conduct:

(A) by vote of a majority of the Disinterested Trustees acting on the matter (provided that a majority of the Disinterested Trustees then in office act on the matter); or

(B) by written opinion of independent legal counsel.

(c) The rights of indemnification herein provided may be insured

against by policies maintained by the Trust, shall be severable, shall not affect any other rights to which any Trustee or officer may now or hereafter be entitled, shall continue as to a Person who has ceased to be such Trustee or officer and shall inure to the benefit of the heirs, executors and administrators of such Person. Nothing contained herein shall affect any rights to indemnification to which personnel other than Trustees and officers may be entitled by contract or otherwise under law.

(d) Expenses of preparation and presentation of a defense to any claim, action, suit or proceeding of the character described in paragraph (a) of this Section 5.3 shall be advanced by the Trust prior to final disposition thereof upon receipt of an undertaking by or on behalf of the recipient to repay such amount if it is ultimately determined that he is not entitled to indemnification under this Section 5.3, provided that either:

(i) such undertaking is secured by a surety bond or some other appropriate security or the Trust shall be insured against losses arising out of any such advances; or

(ii) a majority of the Disinterested Trustees acting on the matter (provided that a majority of the Disinterested Trustees then in office act on the matter) or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the recipient ultimately will be found entitled to indemnification.

As used in this Section 5.3, a "Disinterested Trustee" is one (i) who is not an "Interested Person" of the Trust (including anyone who has been exempted from being an "Interested Person" by any rule, regulation or order of the Commission), and (ii) against whom none of such actions, suits or other proceedings or another action, suit or other proceeding on the same or similar grounds is then or had been pending.

Section 5.4 - No Bond Required of Trustees. No Trustee shall be obligated to give any bond or other security for the performance of any of his duties hereunder.

Section 5.5 - No Duty of Investigation; Notice in Trust Instruments, etc. No purchaser, lender, Transfer Agent or other Person dealing with the Trustees or any officer, employee or agent of the Trust shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trustees or by said officer, employee or agent or be liable for the application of money or property paid, loaned, or delivered to or on the order of the Trustees or of said officer, employee or agent. Every obligation, contract, instrument, certificate, Share, other security of the Trust or undertaking, and every other act or thing whatsoever executed in connection with the Trust shall be conclusively presumed to have been executed or done by the

executors thereof only in their capacity as Trustees under the Declaration or in their capacity as officers, employees or agents of the Trust. Every written obligation, contract, instrument, certificate, Share, other security of the Trust or undertaking made or issued by the Trustees shall recite that the same is executed or made by them not individually, but as Trustees under the Declaration, and that the obligations of any such instrument are not binding upon any of the Trustees or Shareholders individually, but bind only the trust estate, and may contain any further recital which they or he may deem appropriate, but the omission of such recital shall not operate to bind any of the Trustees or Shareholders individually. The Trustees shall at all times maintain insurance for the protection of the Trust Property, the Trust's Shareholders, Trustees, officers, employees and agents in such amount as the Trustees shall deem adequate to cover possible tort liability, and such other insurance as the Trustees in their sole judgment shall deem advisable.

Section 5.6 - Reliance on Experts, etc. Each Trustee and officer or employee of the Trust shall, in the performance of his duties, be fully and completely justified and protected with regard to any act or any failure to act resulting from reliance in good faith upon the books of account or other records of the Trust, upon an opinion of counsel, or upon reports made to the Trust by any of its officers or employees or by the Investment Adviser, the Distributor, Transfer Agent, selected dealers, accountants, appraisers or other experts or consultants selected with reasonable care by the Trustees, officers or employees of the Trust, regardless of whether such counsel or expert may also be a Trustee.

ARTICLE VI SHARES OF BENEFICIAL INTEREST

Section 6.1 - Beneficial Interest. The interest of the beneficiaries hereunder shall be divided into transferable Shares of Beneficial Interest (without par value) which shall be divided into one or more series as provided in Section 6.9 hereof. The number of Shares authorized hereunder is unlimited. All Shares issued hereunder including, without limitation, Shares issued in connection with a dividend in Shares or a split of Shares, shall be fully paid and non-assessable.

Section 6.2 - Rights of Shareholders. The ownership of the Trust Property of every description and the right to conduct any business hereinbefore described are vested exclusively in the Trustees, and the Shareholders shall have no interest therein other than the beneficial interest conferred by their Shares, and they shall have no right to call for any partition or division of any property, profits, rights or interests of the Trust nor can they be called upon to assume any losses of the Trust or suffer an assessment of any kind by virtue of their ownership of Shares. The Shares shall be personal property giving only the rights specifically set forth in the Declaration. The Shares shall not entitle the holder to preference, preemptive, appraisal, conversion or exchange rights, except as the Trustees may determine with respect to any series or class of Shares.

Section 6.3 - Trust Only. It is the intention of the Trustees to create only the relationship of Trustee and beneficiary between the Trustees and each Shareholder from time to time. It is not the intention of the Trustees to create a general partnership, limited partnership, joint stock association, corporation, bailment or any form or legal relationship other than a trust. Nothing in the Declaration shall be construed to make the Shareholders, either by themselves or with the Trustees, partners or members of a joint stock association.

Section 6.4 - Issuance of Shares. The Trustees, in their discretion may, from time to time without vote of the Shareholders, issue Shares, in addition to the then issued and outstanding Shares and Shares held in the treasury, to such party or parties and for such amount and type of consideration, including cash or property, at such time or times, and on such terms as the Trustees may deem best, and may in such manner acquire other assets (including the acquisition of assets subject to, and in connection with the assumption of liabilities) and businesses. In connection with any issuance of Shares, the Trustees may issue fractional Shares. The Trustees may from time to time divide or combine the Shares of any series into a greater or lesser number without thereby changing their proportionate beneficial interests in the Trust Property allocated or belonging to such series. Contributions to the Trust may be accepted for, and Shares shall be redeemed as, whole Shares and/or 1/1,000ths of a Share or integral multiples thereof.

Section 6.5 - Register of Shares. A register shall be kept at the principal office of the Trust or at an office of the Transfer Agent which shall contain the names and addresses of the Shareholders and the number of Shares held by them respectively and a record of all transfers thereof. Such register shall be conclusive as to who are the holders of the Shares and who shall be entitled to receive dividends or distributions or otherwise to exercise or enjoy the rights of Shareholders. No Shareholder shall be entitled to receive payment of any dividend or distribution, nor to have notice given to him as herein or in the By-Laws provided, until he has given his address to the Transfer Agent or such other officer or agent of the Trustees as shall keep the said register for entry thereon. It is not contemplated that certificates will be issued for the Shares; however, the Trustees, in their discretion, may authorize the issuance of Share certificates and promulgate appropriate rules and regulations as to their use.

Section 6.6 - Transfer of Shares. Shares shall be transferable on the records of the Trust only by the record holder thereof or by his agent thereunto duly authorized in writing, upon delivery to the Trustees or the Transfer Agent of a duly executed instrument of transfer, together with any certificate or certificates (if issued) for such Shares and such evidence of the genuineness of each such execution and authorization and of other matters as may reasonably be required. Upon such delivery the transfer shall be recorded on the register of the Trust. Until such record is made, the Shareholder of record shall be deemed to be the holder of such Shares for all purposes hereunder and neither the Trustees nor any Transfer Agent or registrar nor any officer, employee or agent

of the Trust shall be affected by any notice of the proposed transfer.

Any person becoming entitled to any Shares in consequence of death, bankruptcy, or incompetence of any Shareholder, or otherwise by operation of law, shall be recorded on the register of Shares as the holder of such Shares upon production of the proper evidence thereof to the Trustees or the Transfer Agent; but until such record is made, the Shareholder of record shall be deemed to be the holder of such Shares for all purposes hereunder and neither the Trustees nor any Transfer Agent or registrar nor any officer or agent of the Trust shall be affected by any notice of such death, bankruptcy or incompetence, or other operation of law.

Section 6.7 - Notices. Any and all notices to which any Shareholder may be entitled and any and all communications shall be deemed duly served or given if mailed, postage prepaid, addressed to any Shareholder of record at his last known address as recorded on the register of the Trust.

Section 6.8 - Voting Powers. The Shareholders shall have power to vote only (i) for the removal of Trustees as provided in Section 2.2 hereof, (ii) with respect to any investment advisory or management contract as provided in Section 4.1, (iii) with respect to termination of the Trust as provided in Section 9.2 hereof, (iv) with respect to any amendment of this Declaration to the extent and as provided in Section 9.3 hereof, (v) with respect to any merger, consolidation or sale of assets as provided in Sections 9.4 and 9.6 hereof, (vi) with respect to incorporation of the Trust or any series to the extent and as provided in Sections 9.5 and 9.6 hereof, (vii) to the same extent as the stockholders of a Massachusetts business corporation as to whether or not a court action, proceeding or claim should or should not be brought or maintained derivatively or as a class action on behalf of the Trust or the Shareholders, and (viii) with respect to such additional matters relating to the Trust as may be required by the Declaration, the By-Laws or any registration of the Trust with the Commission (or any successor agency) or any state, or as the Trustees may consider necessary or desirable. Each whole Share shall be entitled to vote as to any matter on which it is entitled to vote and each fractional Share shall be entitled to a proportionate fractional vote, except that Shares held in the treasury of the Trust shall not be voted. There shall be no cumulative voting in the election of Trustees. Until Shares are issued, the Trustees may exercise all rights of Shareholders and may take any action required by law, the Declaration or the By-Laws to be taken by Shareholders. The By-Laws may include further provisions for Shareholder votes and meetings and related matters.

Section 6.9 - Series Designation. Shares of the Trust shall be divided into series, the number and relative rights, privileges and preferences of which shall be established and designated by the Trustees, in their discretion, in accordance with the terms of this Section 6.9. The Trustees may from time to time exercise their power to authorize the division of Shares into one or more

series by establishing and designating one or more series of Shares upon and subject to the following provisions:

(a) All Shares shall be identical except that there may be such variations as shall be fixed and determined by the Trustees between different series as to purchase price, right of redemption and the price, terms and manner of redemption, and special and relative rights as to dividends and on liquidation.

(b) The number of authorized Shares and the number of Shares of each series that may be issued shall be unlimited. The Trustees may classify or reclassify any unissued Shares or any Shares previously issued and reacquired of any series into one or more series that may be established and designated from time to time. The Trustees may hold as treasury shares (of the same or some other series), reissue for such consideration and on such terms as they may determine, or cancel any shares of any series reacquired by the Trust at their discretion from time to time.

(c) All consideration received by the Trust for the issue or sale of Shares of a particular series, together with all assets in which such consideration is invested or reinvested, all income, earnings, profits, and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation of such assets, and any funds or payments derived from any reinvestment of such proceeds in whatever form the same may be, shall irrevocably belong to that series for all purposes, subject only to the rights of creditors of such series, and shall be so recorded upon the books of account of the Trust. In the event that there are any assets, income, earnings, profits, and proceeds thereof, funds, or payments which are not readily identifiable as belonging to any particular series, the Trustees shall allocate them among any one or more of the series established and designated from time to time in such manner and on such basis as they, in their sole discretion, deem fair and equitable. Each such allocation by the Trustees shall be conclusive and binding upon the Shareholders of all series for all purposes. No holder of Shares of any particular series shall have any claim on or right to any assets allocated or belonging to any other series of Shares.

(d) The assets belonging to each particular series shall be charged with the liabilities of the Trust in respect of that series and all expenses, costs, charges and reserves attributable to that series, and any general liabilities, expenses, costs, charges or reserves of the Trust which are not readily identifiable as belonging to any particular series shall be allocated and charged by the Trustees to and among any one or more of the series established and designated from time to time in such manner and on such basis as the Trustees in their sole discretion deem fair and equitable. Each allocation of liabilities, expenses, costs, charges and reserves by the Trustees shall be conclusive and binding upon the holders of all series for all purposes. The Trustees shall have full discretion, to the extent not inconsistent with the

1940 Act, to determine which items shall be treated as income and which items as capital; and each such determination and allocation shall be conclusive and binding upon the Shareholders. Under no circumstances shall the assets allocated or belonging to any particular series be charged with liabilities attributable to any other series. All Persons who have extended credit which has been allocated to a particular series, or who have a claim or contract which has been allocated to any particular series, shall look only to the assets of that particular series for payment of such credit, claim or contract.

(e) The power of the Trustees to invest and reinvest the Trust Property allocated or belonging to any particular series shall be governed by Section 3.2 hereof unless otherwise provided in the instrument of the Trustees establishing such series which is hereinafter described.

(f) Each Share of a series shall represent a beneficial interest in the net assets allocated or belonging to such series only, and such interest shall not extend to the assets of the Trust generally. Dividends and distributions on Shares of a particular series may be paid with such frequency as the Trustees may determine, which may be daily or otherwise, pursuant to a standing resolution or resolutions adopted only once or with such frequency as the Trustees may determine, to the holders of Shares of that series, only from such of the income and capital gains, accrued or realized, from the assets belonging to that series, as the Trustees may determine, after providing for actual and accrued liabilities belonging to that series. All dividends and distributions on Shares of a particular series shall be distributed pro rata to the holders of that series in proportion to the number of Shares of that series held by such holders at the date and time of record established for the payment of such dividends or distributions. Shares of any particular series of the Trust may be redeemed solely out of Trust Property allocated or belonging to that series. Upon liquidation or termination of a series of the Trust, Shareholders of such series shall be entitled to receive a pro rata share of the net assets of such series only.

(g) Notwithstanding any provision hereof to the contrary, on any matter submitted to a vote of the Shareholders of the Trust, all Shares then entitled to vote shall be voted by in the aggregate, except that (i) when required by the 1940 Act to be voted by individual series, Shares shall not be voted in the aggregate, and (ii) when the Trustees have determined that the matter affects only the interests of Shareholders of one or more series, only Shareholders of such series shall be entitled to vote thereon.

(h) The establishment and designation of any series of Shares shall be effective upon the execution by a majority of the then Trustees of an instrument setting forth such establishment and designation and the relative rights and preferences of such series, or as otherwise provided in such instrument. At any time that there are no Shares outstanding of any particular series previously established and designated, the Trustees may by an instrument executed by a

majority of their number abolish that series and the establishment and designation thereof. Each instrument referred to in this paragraph shall have the status of an amendment to this Declaration.

The series of Shares established and designated pursuant to this Section 6.9 and existing as of the date hereof are set forth in Annex A hereto.

Section 6.10 - Class Designation. The Trustees may, in their discretion, authorize the division of Shares of the Trust (or any series of the Trust) into one or more classes. All Shares of a class shall be identical with each other and with the Shares of each other class of the Trust or the same series of the Trust (as applicable), except for such variations between classes as may be approved by the Board of Trustees and permitted by the 1940 Act or pursuant to any exemptive order issued by the Securities and Exchange Commission. The classes of Shares established pursuant to this Section 6.10 and existing as of the date hereof are set forth in Annex B hereto.

ARTICLE VII REDEMPTIONS

Section 7.1 - Redemption of Shares. All Shares of the Trust shall be redeemable, at the redemption price determined in the manner set out in this Declaration. Redeemed Shares may be resold by the Trust.

The Trust shall redeem the Shares at the price determined as hereinafter set forth, upon the appropriately verified written application of the record holder thereof (or upon such other form of request as the Trustees may determine) at such office or agency as may be designated from time to time for that purpose in the Trust's then effective prospectus under the Securities Act of 1933. The Trustees may from time to time specify additional conditions, not inconsistent with the 1940 Act, regarding the redemption of Shares in the Trust's then effective prospectus under the Securities Act of 1933.

Section 7.2 - Price. Shares shall be redeemed at their net asset value determined as set forth in Article VIII hereof as of such time as the Trustees shall have theretofore prescribed by resolution. In the absence of such resolution, the redemption price of Shares deposited shall be the net asset value of such Shares next determined as set forth in Article VIII hereof after receipt of such application.

Section 7.3 - Payment. Payment of the redemption price of Shares of any series shall be made in cash or in property out of the assets of such series to the Shareholder of record at such time and in the manner, not inconsistent with the 1940 Act or other applicable laws, as may be specified from time to time in the Trust's then effective prospectus under the Securities Act of 1933, subject to the provisions of Section 7.4 hereof.

Section 7.4 - Effect of Suspension of Determination of Net Asset Value. If, pursuant to Section 7.6 hereof, the Trustees shall declare a suspension of the determination of net asset value, the rights of Shareholders (including

those who shall have applied for redemption pursuant to Section 7.1 hereof but who shall not yet have received payment) to have Shares redeemed and paid for by the Trust shall be suspended until the termination of such suspension is declared. Any record holder who shall have his redemption right so suspended may, during the period of such suspension, by appropriate written notice of revocation at the office or agency where application was made, revoke any application for redemption not honored and withdraw any certificates on deposits. The redemption price of Shares for which redemption applications have not been revoked shall be the net asset value of such Shares next determined as set forth in Article VIII after the termination of such suspension, and payment shall be made within seven days after the date upon which the application was made plus the period after such applications during which the determination of net asset value was suspended.

Section 7.5 - Redemption of Shares in Order to Qualify as Regulated Investment Company; Disclosure of Holding. If the Trustees shall, at any time and in good faith, be of the opinion that direct or indirect ownership of Shares or other securities of the Trust has or may become concentrated in any Person to an extent which would disqualify the Trust or any series of the Trust as a regulated investment company under the Internal Revenue Code, then the Trustees shall have the power by lot or other means deemed equitable by them (i) to call for redemption by any such Person a number, or principal amount, of Shares or other securities of the Trust sufficient to maintain or bring the direct or indirect ownership of Shares or other securities of the Trust into conformity with the requirements for such qualification and (ii) to refuse to transfer or issue Shares or other securities of the Trust to any Person whose acquisition of the Shares or other securities of the Trust in question would result in such disqualification. The redemption shall be effected at the redemption price and in the manner provided in Section 7.1.

The holders of Shares of other securities of the Trust shall upon demand disclose to the Trustees in writing such information with respect to direct and indirect ownership of Shares or other securities of the Trust as the Trustees deem necessary to comply with the provisions of the Internal Revenue Code, or to comply with the requirements of any other taxing authority.

Section 7.6 - Suspension of Right of Redemption. The Trust may declare a suspension of the right of redemption or postpone the date of payment or redemption for the whole or any part of any period (i) during which the New York Stock Exchange is closed other than customary weekend and holiday closings, (ii) during which trading on the New York Stock Exchange is restricted, (iii) during which an emergency exists as a result of which disposal by the Trust of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Trust fairly to determine the value of its net assets, or (iv) during any other period when the Commission may for the protection of security holders of the Trust by order permit suspension of the right of redemption or postponement of the date of payment or redemption; provided that applicable rules and regulations of the Commission shall govern as to whether the conditions prescribed in (ii), (iii), or (iv) exist. Such suspension shall take effect at such time as the Trust shall specify but not later than the close

of business on the business day next following the declaration of suspension, and thereafter there shall be no right of redemption or payment on redemption until the Trust shall declare the suspension at an end, except that the suspension shall terminate in any event on the first day on which said stock exchange shall have reopened or the period specified in (ii) or (iii) shall have expired (as to which in the absence of an official ruling by the Commission, the determination of the Trust shall be conclusive). In the case of a suspension of the right of redemption a Shareholder may either withdraw his request for redemption or receive payment based on the net asset value existing after the termination of the suspension as provided in Section 7.4 hereof.

ARTICLE VIII
DETERMINATION OF NET ASSET VALUE,
NET INCOME AND DISTRIBUTIONS

Subject to Section 6.9 hereof, the Trustees, in their absolute discretion, may prescribe and shall set forth in the By-Laws or in a duly adopted vote of the Trustees such bases and times for determining the per Share or net asset value of the Shares of any series or net income attributable to the Shares of any series, or the declaration and payment of dividends and distributions on the Shares of any series, as they may deem necessary or desirable.

ARTICLE IX
DURATION; TERMINATION OF TRUST; AMENDMENT; MERGERS, ETC.

Section 9.1 - Duration. The Trust shall continue without limitation of time but subject to the provisions of this Article IX.

Section 9.2 - Termination of Trust.

(a) The Trust may be terminated (i) by a Majority Shareholder Vote of the holders of its Shares, or (ii) by the Trustees by written notice to the Shareholders. Any series of the Trust may be terminated (i) by a Majority Shareholder Vote of the holders of Shares of that series, or (ii) by the Trustees by written notice to the Shareholders of that series. Upon the termination of the Trust or any series of the Trust:

(i) The Trust or series of the Trust shall carry on no business except for the purpose of winding up its affairs;

(ii) The Trustees shall proceed to wind up the affairs of the Trust or series of the Trust and all the powers of the Trustees under this Declaration shall continue until the affairs of the Trust or series of the Trust shall have been wound up, including the power to fulfill or discharge the contracts of the

Trust or series of the Trust, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Trust Property or Trust Property of the series to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and to do all other acts appropriate to liquidate its business; provided, that any sale, conveyance, assignment, exchange, transfer or other disposition of all or substantially all the Trust Property shall require Shareholder approval in accordance with Section 9.4 hereof, and any sale, conveyance, assignment, exchange, transfer or other disposition of all or substantially all of the Trust Property allocated or belonging to any series shall require the approval of the Shareholders of such series as provided in Section 9.6 hereof; and

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees may distribute the remaining Trust Property or Trust Property of the series, in cash or in kind or partly in cash and partly in kind, among the Shareholders of the Trust or the series according to their respective rights.

(b) After termination of the Trust or series and distribution to the Shareholders of the Trust or series as herein provided, a majority of the Trustees shall execute and lodge among the records of the Trust an instrument in writing setting forth the fact of such termination, and the Trustees shall thereupon be discharged from all further liabilities and duties hereunder with respect to the Trust or series, and the rights and interests of all Shareholders of the Trust or series shall thereupon cease.

Section 9.3 - Amendment Procedure.

(a) This Declaration may be amended by a Majority Shareholder Vote of the Shareholders of the Trust or by any instrument in writing, without a meeting, signed by a majority of the Trustees and consented to by the holders of not less than a majority of the Shares of the Trust. The Trustees may also amend this Declaration without the vote or consent of Shareholders to designate series in accordance with Section 6.9 hereof, to change the name of the Trust, to supply any omission, to cure, correct or supplement any ambiguous, defective or inconsistent provision hereof, or if they deem it necessary or advisable to conform this Declaration to the requirements of applicable federal laws or regulations or the requirements of the regulated investment company provisions of the Internal Revenue Code, as amended, but the Trustees shall not be liable for failing so to do.

(b) No amendment which the Trustees shall have determined shall affect the rights, privileges or interests of holders of a particular series of Shares, but not the rights, privileges or interests of holders of Shares of the Trust generally, may be made except with the vote or consent by a Majority Shareholder Vote of such series.

(c) Notwithstanding any other provision hereof, no amendment may be made under this Section 9.3 which would change any rights with respect to the Shares, or any series of Shares, by reducing the amount payable thereon upon liquidation of the Trust or by diminishing or eliminating any voting rights pertaining thereto, except with the Majority Shareholder Vote of Shares or series of Shares. Nothing contained in this Declaration shall permit the amendment of this Declaration to impair the exemption from personal liability of the Shareholders, Trustees, officers, employees and agents of the Trust or to permit assessments upon Shareholders.

(d) A certificate signed by a majority of the Trustees setting forth an amendment and reciting that it was duly adopted by the Shareholders or by the Trustees as aforesaid or a copy of the Declaration, as amended, and executed by a majority of the Trustees, shall be conclusive evidence of such amendment when lodged among the records of the Trust.

(e) Notwithstanding any other provision hereof, until such time as a Registration Statement under the Securities Act of 1933, as amended, covering the first public offering of securities of the Trust shall have become effective, this Declaration may be amended in any respect by the affirmative vote of a majority of the Trustees or by an instrument signed by a majority of the Trustees.

Section 9.4 - Merger, Consolidation and Sale of Assets. The Trust may merge or consolidate with any other corporation, association, trust or other organization or may sell, lease or exchange all or substantially all of the Trust Property (or all or substantially all of the Trust Property allocated or belonging to a particular series of the Trust) including its good will, upon such terms and conditions and for such consideration when and as authorized at any meeting of Shareholders called for such purpose by the vote of the holders of two-thirds of the outstanding Shares of all series of the Trust voting as a single class, or of the affected series of the Trust, as the case may be, or by an instrument or instruments in writing without a meeting consented to by the vote of the holders of two-thirds of the outstanding Shares of all series of the Trust voting as a single class or of the affected series of the Trust, as the case may be; provided, however, that if such merger, consolidation, sale, lease or exchange is recommended by the Trustees, the vote or written consent by Majority Shareholder Vote shall be sufficient authorization; and any such merger, consolidation, sale, lease or exchange shall be deemed for all purposes to have been accomplished under and pursuant to the statutes of The Commonwealth of Massachusetts. Nothing contained herein shall be construed as requiring approval of Shareholders for any sale of assets in the ordinary course of the business of the Trust.

Section 9.5 - Incorporation, Reorganization. With the approval of the holders of a majority of the Shares outstanding and entitled to vote, the Trustees may cause to be organized or assist in organizing a corporation or corporations under the laws of any jurisdiction, or any other trust, unit investment trust, partnership, association or other organization to take over all of the Trust Property or to carry on any business in which the Trust shall directly or indirectly have any interest, and to sell, convey and transfer the Trust Property to any such corporation, trust, partnership, association or organization in exchange for the shares or securities thereof or otherwise, and to lend money to, subscribe for the shares or securities of, and enter into any contracts with any such corporation, trust, partnership, association or organization in which the Trust holds or is about to acquire shares or any other interest. Subject to Section 9.4 hereof, the Trustees may also cause a merger or consolidation between the Trust or any successor thereto and any such corporation, trust, partnership, association or other organization if and to the extent permitted by law. Nothing contained in this Section 9.5 shall be construed as requiring approval of Shareholders for the Trustees to organize or assist in organizing one or more corporations, trusts, partnerships, associations or other organizations and selling, conveying or transferring a portion of the Trust Property to such organization or entities.

Section 9.6 - Incorporation or Reorganization of Series. With the approval of a Majority Shareholder Vote of any series, the Trustees may sell, lease or exchange all of the Trust Property allocated or belonging to that series, or cause to be organized or assist in organizing a corporation or corporations under the laws of any other jurisdiction, or any other trust, unit investment trust, partnership, association or other organization, to take over all of the Trust Property allocated or belonging to that series and to sell, convey and transfer such Trust Property to any such corporation, trust, unit investment trust, partnership, association, or other organization in exchange for the Shares or securities thereof or otherwise.

ARTICLE X REPORTS TO SHAREHOLDERS AND SHAREHOLDER COMMUNICATIONS

The Trustees shall at least semi-annually submit to the Shareholders a written financial report of the transactions of the Trust, including financial statements which shall at least annually be certified by independent public accountants.

Whenever ten or more Shareholders of record who have been such for at least six months preceding the date of application, and who hold in the aggregate either Shares having a net asset value of at least \$25,000 or at least 1% of the Shares outstanding, whichever is less, shall apply to the Trustees in writing, stating that they wish to communicate with other Shareholders with a view to obtaining signatures to a request for a meeting of Shareholders for the purpose of removing one or more Trustees pursuant to Section 2.2 hereof and accompany such application with a form of communication and request which they wish to transmit, the Trustees shall within five business days after receipt of such application either:

(a) afford to such applicants access to a list of the names and addresses of all Shareholders as recorded on the books of the Trust; or

(b) inform such applicants as to the approximate number of Shareholders of record, and the approximate cost of mailing to them the proposed communication and form of request. If the Trustees elect to follow the course specified in (b) above, the Trustees, upon the written request of such applicants, accompanied by a tender of the material to be mailed and of the reasonable expenses of mailing, shall, with reasonable promptness, mail such material to all Shareholders of record, unless within five business days after such tender the Trustees mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement signed by at least a majority of the Trustees to the effect that in their opinion either such material contains untrue statements of fact or omits to state facts necessary to make the statements contained therein not misleading, or would be in violation of applicable law, and specifying the basis of such opinion.

ARTICLE XI MISCELLANEOUS

Section 11.1 - Filing. This Declaration, as amended, and any subsequent amendment hereto shall be filed in the office of the Secretary of The Commonwealth of Massachusetts and in such other place or places as may be required under the laws of The Commonwealth of Massachusetts and may also be filed or recorded in such other places as the Trustees deem appropriate. Each amendment so filed shall be accompanied by a certificate signed and acknowledged by a Trustee stating that such action was duly taken in a manner provided herein, and unless such amendment or such certificate sets forth some later time for the effectiveness of such amendment, such amendment shall be effective upon its filing. A restated Declaration, integrating into a single instrument all of the provisions of the Declaration which are then in effect and operative, may be executed from time to time by a majority of the Trustees and shall, upon filing with the Secretary of The Commonwealth of Massachusetts, be conclusive evidence of all amendments contained therein and may thereafter be referred to in lieu of the original Declaration and the various amendments thereto.

Section 11.2 - Governing Law. This Declaration is executed by the Trustees and delivered in The Commonwealth of Massachusetts and with reference to the laws thereof, and the rights of all parties and the validity and construction of every provision hereof shall be subject to and construed according to the laws of said Commonwealth.

Section 11.3 - Counterparts. This Declaration may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts, together, shall constitute one and the same instrument, which shall be sufficiently evidenced by any such original counterpart.

Section 11.4 - Reliance by Third Parties. Any certificate executed by an individual who, according to the records of the Trust appears to be a Trustee hereunder, certifying to: (i) the number or identity of Trustees or Shareholders, (ii) the due authorization of the execution of any instrument or writing, (iii) the form of any vote passed at a meeting of Trustees or Shareholders, (iv) the fact that the number of Trustees or Shareholders present at any meeting or executing any written instrument satisfies the requirements of this Declaration, (v) the form of any By-Laws adopted by or the identity of any officers elected by the Trustees, or (vi) the existence of any fact or facts which in any manner relate to the affairs of the Trust, shall be conclusive evidence as to the matters so certified in favor of any Person dealing with the Trustees and their successors.

Section 11.5 - Provisions in Conflict with Law or Regulations.

(a) The provisions of the Declaration are severable, and if the Trustees shall determine, with the advice of counsel, that any of such provisions is in conflict with the 1940 Act, the regulated investment company provisions of the Internal Revenue Code, as amended, or with other applicable laws and regulations, the conflicting provision shall be deemed never to have constituted a part of the Declaration; provided however, that such determination shall not affect any of the remaining provisions of the Declaration or render invalid or improper any action taken or omitted prior to such determination.

(b) If any provision of the Declaration shall be held invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall attach only to such provision in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction or any other provision of the Declaration in any jurisdiction.

ANNEX A

Pursuant to Section 6.9 of the Declaration, the Trustees of the Trust have established and designated new series of Shares (as defined in the Declaration), such series to have the following special and relative rights:

1. The series are designated:
 - MFS Alabama Municipal Bond Fund
 - MFS Arkansas Municipal Bond Fund
 - MFS Florida Municipal Bond Fund
 - MFS Georgia Municipal Bond Fund
 - MFS Louisiana Municipal Bond Fund
 - MFS Maryland Municipal Bond Fund
 - MFS Massachusetts Municipal Bond Fund
 - MFS Mississippi Municipal Bond Fund

- MFS New York Municipal Bond Fund
- MFS North Carolina Municipal Bond Fund
- MFS Pennsylvania Municipal Bond Fund
- MFS South Carolina Municipal Bond Fund
- MFS Tennessee Municipal Bond Fund
- MFS Texas Municipal Bond Fund
- MFS Virginia Municipal Bond Fund
- MFS Washington Municipal Bond Fund
- MFS West Virginia Municipal Bond Fund
- MFS California Municipal Bond Fund
- MFS Municipal Income Fund

2. The series shall be authorized to invest in cash, securities, instruments and other property as from time to time described in the Trust's then currently effective registration statement under the Securities Act of 1933 to the extent pertaining to the offering of Shares of such series. Each Share of the series shall be redeemable, shall be entitled to one vote or fraction thereof in respect of a fractional share on matters on which Shares of the series shall be entitled to vote, shall represent a pro rata beneficial interest in the assets allocated or belonging to the series, and shall be entitled to receive its pro rata share of the net assets of the series upon liquidation of the series, all as provided in Section 6.9 of the Declaration.
3. Shareholders of the series shall vote separately as a class on any matter to the extent required by, and any matter shall be deemed to have been effectively acted upon with respect to the series as provided in Rule 18f-2, as from time to time in effect, under the Investment Company Act of 1940, as amended, or any successor rule, and by the Declaration.
4. The assets and liabilities of the Trust shall be allocated among the previously established and existing series of the Trust and this series as set forth in Section 6.9 of the Declaration.
5. Subject to the provisions of Section 6.9 and Article IX of the Declaration, the Trustees (including any successor Trustees) shall have the right at any time and from time to time to reallocate assets and expenses or to change the designation of any series now or hereafter created, or to otherwise change the special and relative rights of any such series.

ANNEX B

Pursuant to Section 6.10 of the Declaration of Trust, a majority of the Trustees, divided the Shares of MFS Alabama Municipal Bond Fund, MFS Arkansas Municipal Bond Fund, MFS Florida Municipal Bond Fund, MFS Georgia Municipal Bond Fund, MFS Louisiana Municipal Bond Fund, MFS Maryland Municipal Bond Fund, MFS Massachusetts Municipal Bond Fund, MFS Mississippi Municipal Bond Fund, MFS New York Municipal Bond Fund, MFS Pennsylvania Municipal Bond Fund, MFS South Carolina Municipal Bond Fund, MFS Tennessee Municipal Bond Fund, MFS Texas Municipal Bond Fund, MFS Washington Municipal Bond Fund and MFS West Virginia Municipal Bond Fund, series of the Trust, to create two classes of Shares, within the meaning of Section 6.10, as follows:

1. The two classes of Shares are designated "Class A Shares" and "Class B Shares";
2. Class A Shares and Class B Shares shall be entitled to all the rights and preferences accorded to Shares under the Declaration;
3. The purchase price of Class A Shares and Class B Shares, the method of determination of the net asset value of Class A Shares and Class B Shares, the price, terms and manner of redemption of Class A Shares and Class B Shares, any conversion feature of the Class B Shares, and the relative dividend rights of holders of Class A Shares and Class B Shares shall be established by the Trustees of the Trust in accordance with the Declaration and shall be set forth in the current prospectus and statement of additional information of the Trust or any series thereof, as amended from time to time, contained in the Trust's registration statement under the Securities Act of 1933, as amended;
4. Class A Shares and Class B Shares shall vote together as a single class except that Shares of a class may vote separately on matters affecting only that class and Shares of a class not affected by a matter will not vote on that matter; and
5. A class of Shares of any series of the Trust may be terminated by the Trustees by written notice to the Shareholders of the class.

Pursuant to Section 6.10 of the Declaration of Trust, the Trustees have divided the Shares of MFS North Carolina Municipal Bond Fund, MFS Virginia Municipal Bond Fund, MFS California Municipal Bond Fund and MFS Municipal Income Fund, series of the Trust, to create three classes of Shares, within the meaning of Section 6.10, as follows:

1. The three classes of Shares are designated "Class A Shares", "Class B Shares" and "Class C Shares";

2. Class A Shares, Class B Shares and Class C Shares shall be entitled to all the rights and preferences accorded to Shares under the Declaration; and
3. The purchase price of Class A Shares, Class B Shares and Class C Shares, the method of determination of the net asset value of Class A Shares, Class B Shares and Class C Shares, the price, terms and manner of redemption of Class A Shares, Class B Shares and Class C Shares, any conversion feature of the Class B Shares, and the relative dividend rights of holders of Class A Shares, Class B Shares and Class C Shares shall be established by the Trustees of the Trust in accordance with the Declaration and shall be set forth in the current prospectus and statement of additional information of the Trust or any series thereof, as amended from time to time, contained in the Trust's registration statement under the Securities Act of 1933, as amended.
4. Class A Shares, Class B Shares and Class C Shares shall vote together as a single class except that Shares of a class may vote separately on matters affecting only that class and Shares of a class not affected by a matter will not vote on that matter.
5. A class of Shares of any series of the Trust may be terminated by the Trustees by written notice to the Shareholders of the class.

IN WITNESS WHEREOF, the undersigned have executed this instrument this 2nd day of February, 1995.

A. KEITH BRODKIN

A. Keith Brodkin
76 Farm Road
Sherborn, MA 01770

WALTER E. ROBB, III

Walter E. Robb, III
35 Farm Road
Sherborn, MA 01770

RICHARD B. BAILEY

Richard B. Bailey
63 Atlantic Avenue

ARNOLD D. SCOTT

Arnold D. Scott
20 Rowes Wharf

Boston, MA 02110

Boston, MA 02110

MARSHALL N. COHAN

- - - - -

Marshall N. Cohan
2524 Bedford Mews Drive
Wellington, FL 33414

JEFFREY L. SHAMES

- - - - -

Jeffrey L. Shames
60 Brookside Road
Needham, MA 02192

LAWRENCE H. COHN

- - - - -

Lawrence H. Cohn
45 Singletree Road
Chestnut Hill, MA 02167

J. DALE SHERRATT

- - - - -

J. Dale Sherratt
86 Farm Road
Sherborn, MA 01770

SIR. J. DAVID GIBBONS

- - - - -

Sir J. David Gibbons
"Leeward"
5 Leaside Drive
"Point Shares"
Pembroke, Bermuda HM 05

WARD SMITH

- - - - -

Ward Smith
36080 Shaker Blvd
Huntington Valley, OH 44022

ABBY M. O'NEILL

- - - - -

Abby M. O'Neill
200 Sunset Road
Oyster Bay, NY 11771

AMENDED AND RESTATED

BY-LAWS

OF

MFS MUNICIPAL SERIES TRUST

DECEMBER 14, 1994

AMENDED AND RESTATED

BY-LAWS

OF

MFS MUNICIPAL SERIES TRUST

ARTICLE I

DEFINITIONS

The terms "Commission", "Declaration", "Distributor", "Investment Adviser", "Majority Shareholder Vote", "1940 Act", "Shareholder", "Shares", "Transfer Agent", "Trust", "Trust Property" and "Trustees" have the respective meanings given them in the Declaration of Trust of MFS Municipal Series Trust, dated August 23, 1984, as amended from time to time.

ARTICLE II

OFFICES

SECTION 1. PRINCIPAL OFFICE. Until changed by the Trustees, the principal office of the Trust in The Commonwealth of Massachusetts shall be in the City of Boston, County of Suffolk.

SECTION 2. OTHER OFFICES. The Trust may have offices in such other places without as well as within the Commonwealth as the Trustees may from time to time determine.

ARTICLE III

SHAREHOLDERS

SECTION 1. MEETINGS. Meetings of the Shareholders may be called at any time by a majority of the Trustees and shall be called by any Trustee upon written request of Shareholders holding in the aggregate not less than ten percent (10%) of the outstanding Shares of the Trust having voting rights, if shareholders of all series are required under the Declaration to vote in the aggregate and not by individual series at such meeting, or of any series or class if shareholders of such series or class are entitled under the Declaration to vote by individual series or class, such request specifying the purpose or purposes for which such meeting is to be called. Any such meeting shall be held within or without The Commonwealth of Massachusetts on such day and at such time as the Trustees shall designate.

SECTION 2. NOTICE OF MEETINGS. Notice of all meetings of Shareholders,

stating the time, place and purposes of the meeting, shall be given by the Trustees by mail to each Shareholder entitled to vote at such meeting at his address as recorded on the register of the Trust, mailed at least (ten) 10 days and not more than (sixty) 60 days before the meeting. Only the business stated in the notice of the meeting shall be considered at such meeting. Any adjourned meeting may be held as adjourned without further notice. No notice need be given to any Shareholder who shall have failed to inform the Trust of his current address or if a written waiver of notice, executed before or after the meeting by the Shareholder or his attorney thereunto authorized, is filed with the records of the meeting.

SECTION 3. RECORD DATE FOR MEETINGS. For the purpose of determining the Shareholders who are entitled to notice of and to vote at any meeting, or to participate in any distribution, or for the purpose of any other action, the Trustees may from time to time close the transfer books for such period, not exceeding thirty (30) days, as the Trustees may determine; or without closing the transfer books the Trustees may fix a date not more than sixty (60) days prior to the date of any meeting of Shareholders or distribution or other action as a record date for the determination of the persons to be treated as Shareholders of record for such purpose.

SECTION 4. PROXIES. At any meeting of Shareholders, any holder of Shares entitled to vote thereat may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Clerk, or with such other officer or agent of the Trust as the Clerk may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a vote of a majority of the Trustees, proxies may be solicited in the name of one or more Trustees or one or more of the officers of the Trust. When any Share is held jointly by several persons, any one of them may vote at any meeting in person or by proxy in respect of such Share, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Share. A proxy purporting to be executed by or on behalf of a Shareholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. The placing of a Shareholder's name on a proxy pursuant to telephonic or electronically transmitted instructions obtained pursuant to procedures reasonably designed to verify that such instructions have been authorized by such Shareholder shall constitute execution of such proxy by or on behalf of such Shareholder. If the holder of any such Share is a minor or a person of unsound mind, and subject to guardianship or to the legal control of any other person as regards the charge or management of such Share, he may vote by his guardian or such other person appointed or having such control, and such vote may be given in person or by proxy. Any copy, facsimile telecommunication or other reliable reproduction of a proxy may be substituted for or used in lieu of the original proxy for any and all purposes for which the original proxy could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original proxy or the portion thereof to be returned by the Shareholder.

SECTION 5. QUORUM, ADJOURNMENT AND REQUIRED VOTE. A majority of

outstanding Shares entitled to vote shall constitute a quorum at any meeting of Shareholders, except that where any provision of law, the Declaration or these By-laws permits or requires that holders of any series or class shall vote as a series or class, then a majority of the aggregate number of Shares of that series or class entitled to vote shall be necessary to constitute a quorum for the transaction of business by that series or class. In the absence of a quorum, a majority of outstanding Shares entitled to vote present in person or by proxy, or, where any provision of law, the Declaration or these By-laws permits or requires that holders of any series or class shall vote as a series or class, a majority of outstanding Shares of that series or class entitled to vote present in person or by proxy, may adjourn the meeting from time to time until a quorum shall be present. Only Shareholders of record shall be entitled to vote on any matter. Each full Share shall be entitled to one vote and fractional Shares shall be entitled to a vote of such fraction. Except as otherwise provided any provision of law, the Declaration or these By-laws, Shares representing a majority of the votes cast shall decide any matter (i.e., abstentions and broker non-votes shall not be counted) and a plurality shall elect a Trustee, provided that where any provision of law, the Declaration or these By-Laws permits or requires that holders of any series or class shall vote as a series or class, then a majority of the Shares of that series or class cast on the matter shall decide the matter (i.e., abstentions and broker non-votes shall not be counted) insofar as that series or class is concerned.

SECTION 6. INSPECTION OF RECORDS. The records of the Trust shall be open to inspection by Shareholders to the same extent as is permitted shareholders of a Massachusetts business corporation.

SECTION 7. ACTION WITHOUT MEETING. Any action which may be taken by Shareholders may be taken without a meeting if a majority of Shareholders entitled to vote on the matter (or such larger proportion thereof as shall be required by law, the Declaration or these By-Laws for approval of such matter) consent to the action in writing and the written consents are filed with the records of the meetings of Shareholders. Such consent shall be treated for all purposes as a vote taken at a meeting of Shareholders.

ARTICLE IV

TRUSTEES

SECTION 1. MEETINGS OF THE TRUSTEES. The Trustees may in their discretion provide for regular or stated meetings of the Trustees. Notice of regular or stated meetings need not be given. Meetings of the Trustees other than regular or stated meetings shall be held whenever called by the Chairman or by any one of the Trustees at the time being in office. Notice of the time and place of each meeting other than regular or stated meetings shall be given by the Secretary or an Assistant Secretary, or the Clerk or an Assistant Clerk or by the officer or Trustee calling the meeting and shall be mailed to each Trustee at least two days before the meeting, or shall be telegraphed, cabled, or wirelessly or sent by facsimile or other electronic means to each Trustee at his business address, or personally delivered to him at least one day before the

meeting. Such notice may, however, be waived by any Trustee. Notice of a meeting need not be given to any Trustee if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any Trustee who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. A notice or waiver of notice need not specify the purpose of any meeting. Except as provided by law the Trustees may meet by means of a telephone conference circuit or similar communications equipment by means of which all persons participating in the meeting can hear each other, which telephone conference meeting shall be deemed to have been held at a place designated by the Trustees at the meeting. Participation in a telephone conference meeting shall constitute presence in person at such meeting. Any action required or permitted to be taken at any meeting of the Trustees may be taken by the Trustees without a meeting if all the Trustees consent to the action in writing and the written consents are filed with the records of the Trustees' meetings. Such consents shall be treated as a vote for all purposes.

SECTION 2. QUORUM AND MANNER OF ACTING. A majority of the Trustees shall be present at any regular or special meeting of the Trustees in order to constitute a quorum for the transaction of business at such meeting and (except as otherwise required by law, the Declaration or these By-Laws) the act of a majority of the Trustees present at any such meeting, at which a quorum is present, shall be the act of the Trustees. In the absence of a quorum, a majority of the Trustees present may adjourn the meeting from time to time until a quorum shall be present. Notice of an adjourned meeting need not be given.

ARTICLE V

COMMITTEES AND ADVISORY BOARD

SECTION 1. EXECUTIVE AND OTHER COMMITTEES. The Trustees by vote of a majority of all the Trustees may elect from their own number an Executive Committee to consist of not less than three (3) Trustees to hold office at the pleasure of the Trustees which shall have the power to conduct the current and ordinary business of the Trust while the Trustees are not in session, including the purchase and sale of securities and the designation of securities to be delivered upon redemption of Shares of the Trust, and such other powers of the Trustees as the Trustees may, from time to time, delegate to the Executive Committee except those powers which by law, the Declaration or these By-Laws they are prohibited from delegating. The Trustees may also elect from their own number other Committees from time to time, the number composing such Committees, the powers conferred upon the same (subject to the same limitations as with respect to the Executive Committee) and the term of membership on such Committees to be determined by the Trustees. The Trustees may designate a chairman of any such Committee.

In the absence of such designation a Committee may elect its own Chairman.

SECTION 2. MEETING, QUORUM AND MANNER OF ACTING. The Trustees may:

- (i) provide for stated meetings of any Committee,

- (ii) specify the manner of calling and notice required for special meetings of any Committee,
- (iii) specify the number of members of a Committee required to constitute a quorum and the number of members of a Committee required to exercise specified powers delegated to such Committee,
- (iv) authorize the making of decisions to exercise specified powers by written assent of the requisite number of members of a Committee without a meeting, and
- (v) authorize the members of a Committee to meet by means of a telephone conference circuit.

Each Committee shall keep regular minutes of its meetings and records of decisions taken without a meeting and cause them to be recorded in a book designated for that purpose and kept in the office of the Trust.

SECTION 3. ADVISORY BOARD. The Trustees may appoint an Advisory Board to consist in the first instance of not less than three (3) members. Members of such Advisory Board shall not be Trustees or officers and need not be Shareholders. A member of such Advisory Board shall hold office for such period as the Trustees may by resolution provide. Any member of such board may resign therefrom by a written instrument signed by him which shall take effect upon delivery to the Trustees. The Advisory Board shall have no legal powers and shall not perform the functions of Trustees in any manner, such Advisory Board being intended merely to act in an advisory capacity. Such Advisory Board shall meet at such times and upon such notice as the Trustees may by resolution provide.

ARTICLE VI

OFFICERS

SECTION 1. GENERAL PROVISIONS. The officers of the Trust shall be a Chairman, a President, a Treasurer and a Clerk, who shall be elected by the Trustees. The Trustees may elect or appoint such other officers or agents as the business of the Trust may require, including one or more Vice Presidents, a Secretary and one or more Assistant Secretaries, one or more Assistant Treasurers, and one or more Assistant Clerks. The Trustees may delegate to any officer or Committee the power to appoint any subordinate officers or agents.

SECTION 2. TERM OF OFFICE AND QUALIFICATIONS. Except as otherwise provided by law, the Declaration or these By-Laws, the Chairman, the President, the Treasurer and the Clerk shall hold office until his resignation has been accepted by the Trustees or until his respective successor shall have been duly elected and qualified, and all other officers shall hold office at the pleasure

of the Trustees. Any two or more offices may be held by the same person. Any officer may be, but none need be, a Trustee or Shareholder.

SECTION 3. REMOVAL. The Trustees, at any regular or special meeting of the Trustees, may remove any officer with or without cause by a vote of a majority of the Trustees. Any officer or agent appointed by any officer or Committee may be removed with or without cause by such appointing officer or Committee.

SECTION 4. POWERS AND DUTIES OF THE CHAIRMAN. The Chairman may call meetings of the Trustees and of any Committee thereof when he deems it necessary and shall preside at all meetings of the Shareholders. Subject to the control of the Trustees and any Committees of the Trustees, the Chairman shall at all times exercise a general supervision and direction over the affairs of the Trust. The Chairman shall have the power to employ attorneys and counsel for the Trust and to employ such subordinate officers, agents, clerks and employees as he may find necessary to transact the business of the Trust. The Chairman shall also have the power to grant, issue, execute or sign such powers of attorney, proxies or other documents as may be deemed advisable or necessary in furtherance of the interests of the Trust. The Chairman shall have such other powers and duties as, from time to time, may be conferred upon or assigned to him by the Trustees.

SECTION 5. POWERS AND DUTIES OF THE PRESIDENT. In the absence or disability of the Chairman, the President shall perform all the duties and may exercise any of the powers of the Chairman, subject to the control of the Trustees. The President shall perform such other duties as may be assigned to him from time to time by the Trustees or the Chairman.

SECTION 6. POWERS AND DUTIES OF VICE PRESIDENTS. In the absence or disability of the President, the Vice President or, if there be more than one Vice President, any Vice President designated by the Trustees shall perform all the duties and may exercise any of the powers of the President, subject to the control of the Trustees. Each Vice President shall perform such other duties as may be assigned to him from time to time by the Trustees or the President.

SECTION 7. POWERS AND DUTIES OF THE TREASURER. The Treasurer shall be the principal financial and accounting officer of the Trust. The Treasurer shall deliver all funds of the Trust which may come into his hands to such custodian as the Trustees may employ pursuant to Article X hereof. The Treasurer shall render a statement of condition of the finances of the Trust to the Trustees as often as they shall require the same and shall in general perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Trustees. The Treasurer shall give a bond for the faithful discharge of his duties, if required to do so by the Trustees, in such sum and with such surety or sureties as the Trustees shall require.

SECTION 8. POWERS AND DUTIES OF THE CLERK. The Clerk shall keep the minutes of all meetings of the Shareholders in proper books provided for that purpose; he shall have custody of the seal of the Trust; he shall have charge of the Share transfer books, lists and records unless the same are in the charge of the Transfer Agent. He or the Secretary shall attend to the giving and serving

of all notices by the Trust in accordance with the provisions of these By-Laws and as required by law; and subject to these By-Laws, he shall in general perform all duties incident to the office of Clerk and such other duties as from time to time may be assigned to him by the Trustees.

SECTION 9. POWERS AND DUTIES OF THE SECRETARY. The Secretary, if any, shall keep the minutes of all meetings of the Trustees. He shall perform such other duties and have such other powers in addition to those specified in these By-Laws as the Trustees shall from time to time designate. If there be no Secretary or Assistant Secretary, the Clerk shall perform the duties of Secretary.

SECTION 10. POWERS AND DUTIES OF ASSISTANT TREASURERS. In the absence or disability of the Treasurer, any Assistant Treasurer designated by the Trustees shall perform all the duties, and may exercise any of the powers, of the Treasurer. Each Assistant Treasurer shall perform such other duties as from time to time may be assigned to him by the Trustees. Each Assistant Treasurer shall give a bond for the faithful discharge of his duties, if required to do so by the Trustees, in such sum and with such surety or sureties as the Trustees shall require.

SECTION 11. POWERS AND DUTIES OF ASSISTANT CLERKS. In the absence or disability of the Clerk, any Assistant Clerk designated by the Trustees shall perform all the duties, and may exercise any of the powers, of the Clerk. The Assistant Clerks shall perform such other duties as from time to time may be assigned to them by the Trustees.

SECTION 12. POWERS AND DUTIES OF ASSISTANT SECRETARIES. In the absence or disability of the Secretary, any Assistant Secretary designated by the Trustees shall perform all of the duties, and may exercise any of the powers, of the Secretary. The Assistant Secretaries shall perform such other duties as from time to time may be assigned to them by the Trustees.

SECTION 13. COMPENSATION OF OFFICERS AND TRUSTEES AND MEMBERS OF THE ADVISORY BOARD. Subject to any applicable law or provision of the Declaration, the compensation of the officers and Trustees and members of the Advisory Board shall be fixed from time to time by the Trustees or, in the case of officers, by any Committee or officer upon whom such power may be conferred by the Trustees. No officer shall be prevented from receiving such compensation as such officer by reason of the fact that he is also a Trustee.

ARTICLE VII

FISCAL YEAR

The fiscal year of the Trust shall begin on the first day of April in each year and shall end on the last day of March in that year, provided, however, that the Trustees may from time to time change the fiscal year.

ARTICLE VIII

SEAL

The Trustees shall adopt a seal which shall be in such form and shall have such inscription thereon as the Trustees may from time to time prescribe.

ARTICLE IX

WAIVERS OF NOTICE

Whenever any notice is required to be given by law, the Declaration or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent thereto. A notice shall be deemed to have been telegraphed, cabled or wirelessly or sent by facsimile or other electronic means for the purposes of these By-Laws when it has been delivered to a representative of any telegraph, cable or wireless company with instruction that it be telegraphed, cabled or wirelessly or when a confirmation of such facsimile having been sent, or a confirmation that such electronic means has sent the notice being transmitted, is generated. Any notice shall be deemed to be given at the time when the same shall be mailed, telegraphed, cabled or wirelessly or when sent by facsimile or other electronic means.

ARTICLE X

CUSTODIAN

SECTION 1. APPOINTMENT AND DUTIES. The Trustees shall at all times employ a bank or trust company having a capital, surplus and undivided profits of at least five million dollars (\$5,000,000.00) as custodian with authority as its agent, but subject to such restrictions, limitations and other requirements, if any, as may be contained in the Declaration, these By-Laws and the 1940 Act:

- (i) to hold the securities owned by the Trust and deliver the same upon written order;
- (ii) to receive and issue receipts for any monies due to the Trust and deposit the same in its own banking department or elsewhere as the Trustees may direct;
- (iii) to disburse such funds upon orders or vouchers;
- (iv) if authorized by the Trustees, to keep the books and accounts of the Trust and furnish clerical and accounting services; and
- (v) if authorized to do so by the Trustees, to compute the net income of the Trust;

all upon such basis of compensation as may be agreed upon between the Trustees and the custodian. If so directed by a Majority Shareholder Vote, the custodian shall deliver and pay over all Trust Property held by it as specified in such vote.

The Trustees may also authorize the custodian to employ one or more sub-custodians from time to time to perform such of the acts and services of the custodian and upon such terms and conditions as may be agreed upon between the custodian and such sub-custodian and approved by the Trustees, provided that in every case such sub-custodian shall be a bank or trust company organized under the laws of the United States or one of the states thereof and having capital, surplus and undivided profits of at least five million dollars (\$5,000,000.00) or such foreign banks and securities depositories as meet the requirements of applicable provisions of the 1940 Act or the rules and regulations thereunder.

SECTION 2. CENTRAL CERTIFICATE SYSTEM. Subject to such rules, regulations and orders as the Commission may adopt, the Trustees may direct the custodian to deposit all or any part of the securities owned by the Trust in a system for the central handling of securities established by a national securities exchange or a national securities association registered with the Commission under the Securities Exchange Act of 1934, or such other person as may be permitted by the Commission, or otherwise in accordance with the 1940 Act, pursuant to which system all securities of any particular class or series of any issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of such securities, provided that all such deposits shall be subject to withdrawal only upon the order of the Trust or its custodian.

SECTION 3. ACCEPTANCE OF RECEIPTS IN LIEU OF CERTIFICATES. Subject to such rules, regulations and orders as the Commission may adopt, the Trustees may direct the custodian to accept written receipts or other written evidences indicating purchases of securities held in book-entry form in the Federal Reserve System in accordance with regulations promulgated by the Board of Governors of the Federal Reserve System and the local Federal Reserve Banks in lieu of receipt of certificates representing such securities.

SECTION 4. PROVISIONS OF CUSTODIAN CONTRACT. The substance of the following provisions shall apply to the employment of a custodian pursuant to this Article X and to any contract entered into with the custodian so employed:

- (i) The Trustees shall cause to be delivered to the custodian all securities owned by the Trust or to which it may become entitled, and shall order the same to be delivered by the custodian only upon completion of a sale, exchange, transfer, pledge, or other disposition thereof, and upon receipt by the custodian of the consideration therefor or a certificate of deposit or a receipt of an issuer or of its Transfer Agent, all as the Trustees may generally or from time to time require or approve, or

to a successor custodian; and the Trustees shall cause all funds owned by the Trust or to which it may become entitled to be paid to the custodian, and shall order the same disbursed only for investment against delivery of the securities acquired, or in payment of expenses, including management compensation, and liabilities of the Trust, including distributions to Shareholders, or to a successor custodian; provided, however, that nothing herein shall prevent the custodian from paying for securities before such securities are received by the custodian or the custodian from delivering securities prior to receiving payment therefor in accordance with the payment and delivery customs of the market in which such securities are being purchased or sold.

- (ii) In case of the resignation, removal or inability to serve of any such custodian, the Trust shall promptly appoint another bank or trust company meeting the requirements of this Article X as successor custodian. The agreement with the custodian shall provide that the retiring custodian shall, upon receipt of notice of such appointment, deliver the funds and property of the Trust in its possession to and only to such successor, and that pending appointment of a successor custodian, or a vote of the Shareholders to function without a custodian, the custodian shall not deliver funds and property of the Trust to the Trust, but may deliver all or any part of them to a bank or trust company doing business in Boston, Massachusetts, of its own selection, having an aggregate capital, surplus and undivided profits (as shown in its last published report) of at least \$5,000,000, as the property of the Trust to be held under terms similar to those on which they were held by the retiring custodian.

ARTICLE XI

SALE OF SHARES OF THE TRUST

The Trustees may from time to time issue and sell or cause to be issued and sold Shares for cash or other property, which shall in every case be paid or delivered to the Custodian as agent of the Trust before the delivery of any certificate for such shares. The Shares, including additional Shares which may have been repurchased by the Trust (herein sometimes referred to as "treasury

shares"), may not be sold at a price less than the net asset value thereof (as defined in Article XII hereof) determined by or on behalf of the Trustees next after the sale is made or at some later time after such sale.

No Shares need be offered to existing Shareholders before being offered to others. No Shares shall be sold by the Trust (although Shares previously contracted to be sold may be issued upon payment therefor) during any period when the determination of net asset value is suspended by declaration of the Trustees pursuant to the provisions of Article XII hereof. In connection with the acquisition by merger or otherwise of all or substantially all the assets of an investment company (whether a regulated or private investment company or a personal holding company), the Trustees may issue or cause to be issued Shares and accept in payment therefor such assets valued at not more than market value thereof in lieu of cash, notwithstanding that the federal income tax basis to the Trust of any assets so acquired may be less than the market value, provided that such assets are of the character in which the Trustees are permitted to invest the funds of the Trust.

The Trustees, in their sole discretion, may cause the Trust to redeem all of the Shares of the Trust held by any Shareholder if the value of such Shares is less than a minimum amount established from time to time by the Trustees.

ARTICLE XII

NET ASSET VALUE OF SHARES

The term "net asset value" per Share of any class or series of Shares shall mean: (i) the value of all assets of that series or class; (ii) less total liabilities of such series or class; (iii) divided by the number of Shares of such series or class outstanding, in each case at the time of such determination, all as determine by or under the direction of the Trustees. Such value shall be determined on such days and at such time as the Trustees may determine. Such determination shall be made with respect to securities for which market quotations are readily available, at the market value of such securities; and with respect to other securities and assets, at the fair value as determined in good faith by or pursuant to the direction of the Trustees, provided, however, that the Trustees, without shareholder approval, may alter the method of appraising portfolio securities insofar as permitted under the 1940 Act, and the rules, regulations and interpretations thereof promulgated or issued by the Securities and Exchange Commission or insofar as permitted by any order of the Securities and Exchange commission. The Trustees may delegate any powers and duties under this Article XII with respect to appraisal of assets and liabilities. At any time the Trustees may cause the value per share last determined to be determined again in a similar manner and may fix the time when such predetermined value shall become effective.

ARTICLE XIII

DIVIDENDS AND DISTRIBUTIONS

SECTION 1. LIMITATIONS ON DISTRIBUTIONS. The total of distributions to Shareholders of a particular series or class paid in respect of any one fiscal year, subject to the exceptions noted below, shall, when and as declared by the Trustees, be approximately equal to the sum of:

- (i) the net income, exclusive of the profits or losses realized upon the sale of securities or other property, of such series or class for such fiscal year, determined in accordance with generally accepted accounting principles (which, if the Trustees so determine, may be adjusted for net amounts included as such accrued net income in the price of Shares of such series or class issued or repurchased), but if the net income of such series or class exceeds the amount distributed by less than one cent per share outstanding at the record date for the final dividend, the excess shall be treated as distributable income of such series or class for the following fiscal year; and
- (ii) in the discretion of the Trustees, an additional amount which shall not substantially exceed the excess of profits over losses on sales of securities or other property allocated or belonging to such series or class for such fiscal year.

The decision of the Trustees as to what, in accordance with generally accepted accounting principles, is income and what is principal shall be final, and except as specifically provided herein the decision of the Trustees as to what expenses and charges of the Trust shall be charged against principal and what against income shall be final, all subject to any applicable provisions of the 1940 Act and rules, regulations and orders of the Commission promulgated thereunder. For the purposes of the limitation imposed by this Section 1, Shares issued pursuant to Section 2 of this Article XIII shall be valued at the amount of cash which the Shareholders would have received if they had elected to receive cash in lieu of such Shares.

Inasmuch as the computation of net income and gains for federal income tax purposes may vary from the computation thereof on the books, the above provisions shall be interpreted to give to the Trustees the power in their discretion to distribute for any fiscal year as ordinary dividends and as capital gains distributions, respectively, additional amounts sufficient to enable the Trust to avoid or reduce liability for taxes. Any payment made to Shareholders pursuant to clause (ii) of this Section 1 shall be accompanied by a written statement showing the source or sources of such payment, and the basis of computation thereof.

SECTION 2. DISTRIBUTIONS PAYABLE IN CASH OR SHARES. The Trustees shall have power, to the fullest extent permitted by the laws of The Commonwealth of

Massachusetts but subject to the limitation as to cash distributions imposed by Section 1 of this Article XIII, at any time or from time to time to declare and cause to be paid distributions payable at the election of any Shareholder of any series or class (whether exercised before or after the declaration of the distribution) either in cash or in Shares of such series, provided that the sum of:

- (i) the cash distribution actually paid to any Shareholder, and
- (ii) the net asset value of the Shares which that Shareholder elects to receive, in effect at such time at or after the election as the Trustees may specify, shall not exceed the full amount of cash to which that Shareholder would be entitled if he elected to receive only cash.

In the case of a distribution payable in cash or Shares at the election of a Shareholder, the Trustees may prescribe whether a Shareholder, failing to express his election before a given time shall be deemed to have elected to take Shares rather than cash, or to take cash rather than Shares, or to take Shares with cash adjustment of fractions.

The Trustees, in their sole discretion, may cause the Trust to require that all distributions payable to a shareholder in amounts less than such amount or amounts determined from time to time by the Trustees be reinvested in additional shares of the Trust rather than paid in cash, unless a shareholder who, after notification that his distributions will be reinvested in additional shares in accordance with the preceding phrase, elects to receive such distributions in cash. Where a shareholder has elected to receive distributions in cash and the postal or other delivery service is unable to deliver checks to the shareholder's address of record, the Trustees, in their sole discretion, may cause the Trust to require that such Shareholder's distribution option will be converted to having all distributions reinvested in additional shares.

SECTION 3. STOCK DIVIDENDS. Anything in these By-Laws to the contrary notwithstanding, the Trustees may at any time declare and distribute pro rata among the Shareholders of any series or class a "stock dividend" out of either authorized but unissued Shares of such series or class or treasury Shares of such series or class or both.

ARTICLE XIV

DERIVATIVE CLAIMS

No Shareholder shall have the right to bring or maintain any court action, proceeding or claim on behalf of the Trust or any series or class thereof without first making demand on the Trustees requesting the Trustees to bring or maintain such action, proceeding or claim. Such demand shall be excused only when the plaintiff makes a specific showing that irreparable injury to the

Trust or any series or class thereof would otherwise result. Such demand shall be mailed to the Clerk of the Trust at the Trust's principal office and shall set forth in reasonable detail the nature of the proposed court action, proceeding or claim and the essential facts relied upon by the Shareholder to support the allegations made in the demand. The Trustees shall consider such demand within 45 days of its receipt by the Trust. In their sole discretion, the Trustees may submit the matter to a vote of Shareholders of the Trust or any series or class thereof, as appropriate. Any decision by the Trustees to bring, maintain or settle (or not to bring, maintain or settle) such court action, proceeding or claim, or to submit the matter to a vote of Shareholders, shall be made by the Trustees in their business judgment and shall be binding upon the Shareholders. Any decision by the Trustees to bring or maintain a court action, proceeding or suit on behalf of the Trust or any series or class thereof shall be subject to the right of the Shareholders under Article VI, Section 6.8 of the Declaration to vote on whether or not such court action, proceeding or suit should or should not be brought or maintained.

ARTICLE XV

AMENDMENTS

These By-Laws, or any of them, may be altered, amended or repealed, restated, or new By-Laws may be adopted:

- (i) by Majority Shareholder Vote, or
- (ii) by the Trustees,

provided, however, that no By-Law may be amended, adopted or repealed by the Trustees if such amendment, adoption or repeal requires, pursuant to law, the Declaration or these By-Laws, a vote of the Shareholders.

DISTRIBUTION AGREEMENT

DISTRIBUTION AGREEMENT, made this first day of January, 1995, by and between MFS MUNICIPAL SERIES TRUST, a Massachusetts business trust (the "Trust"), on behalf of each series from time to time of the Trust (referred to individually as a "Fund" and collectively as the "Funds") and MFS FUND DISTRIBUTORS, INC., a Delaware corporation (the "Distributor");

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained, the parties hereto agree as follows:

1. The Trust grants to the Distributor the right, as agent of the Trust, to sell Shares of Beneficial Interest, without par value, of the Funds (the "Shares") upon the terms herein below set forth during the term of this Agreement. While this Agreement is in force, the Distributor agrees to use its best efforts to find purchasers for Shares.

The Distributor shall have the right, as agent of the Trust, to order from the Trust the Shares needed, but not more than the Shares needed (except for clerical errors and errors of transmission) to fill unconditional orders for Shares placed with the Distributor by dealers, banks or other financial institutions or investors as set forth in the current Prospectus and Statement of Additional Information (collectively, the "Prospectus") relating to the Shares. The price which shall be paid to the Trust for the Shares so purchased shall be the net asset value used in determining the public offering price on which such orders were based. The Distributor shall notify the Custodian of the Trust, at the end of each business day, or as soon thereafter as the orders placed with it have been compiled, of the number of Shares and the prices thereof which have been ordered through the Distributor since the end of the previous day.

The right granted to the Distributor to place orders for Shares with the Trust shall be exclusive, except that said exclusive right shall not apply to Shares issued in the event that an investment company (whether a regulated or private investment company or a personal holding company) is merged or consolidated with the Trust (or a Fund) or in the event that the Trust (or a Fund) acquires by purchase or otherwise, all (or substantially all) the assets or the outstanding shares of any such company; nor shall it apply to Shares issued by the Trust (or a Fund) as a stock dividend or a stock split. The exclusive right to place orders for Shares granted to the Distributor may be waived by the Distributor by notice to the Trust in writing, either unconditionally or subject to such conditions and limitations as may be set forth in the notice to the Trust. The Trust hereby acknowledges that the Distributor may render distribution and other services to other parties,

including other investment companies. In connection with its duties hereunder, the Distributor shall also arrange for computation of performance statistics with respect to the Trust and arrange for publication of current price information in newspapers and other publications.

2. The Shares may be sold through the Distributor to dealers, banks and other financial institutions having sales agreements with the Distributor, upon the following terms and conditions:

The public offering price, i.e., the price per Share at which the Distributor or dealers, banks or other financial institutions purchasing Shares through the Distributor may sell Shares to the public, shall be the public offering price as set forth in the current Prospectus relating to the Shares, including a sales charge (where applicable) not to exceed the amount permitted by Article III, Section 26 of the National Association of Securities Dealers, Inc.'s Rule of Fair Practice, as amended from time to time. The Distributor shall retain the sales charge (where applicable) less any applicable dealer or comparable discount. If the resulting public offering price does not come out to an even cent, the public offering price shall be adjusted to the nearer cent. In addition, the Trust agrees that the Distributor may impose certain contingent deferred sales charges (where applicable) in connection with the redemption of Shares, not to exceed 6% of the net asset value of Shares, and the Distributor shall retain (or receive from the Trust, as the case may be) all such contingent deferred sales charges.

The Distributor may place orders for Shares at the net asset value for such Shares (as established pursuant to paragraph 1 above) on behalf of such purchasers and under such circumstances as the Prospectus describes, provided that such sales comply with Rule 22d-1 under the Investment Company Act of 1940 or any exemptive order granted by the Securities and Exchange Commission. The Distributor may also place orders for Shares at net asset value on behalf of persons reinvesting the proceeds of the redemption or resale of Shares or shares of other investment companies for which the Distributor acts as Distributor or as otherwise provided in the current Prospectus.

The net asset value of Shares shall be determined by the Trust or by an agent of the Trust, as of the close of regular trading of the New York Stock Exchange on each business day on which said Exchange is open, in accordance with the method set forth in the governing instruments (as hereinafter defined) of the Trust. The Trust may also cause the net asset value to be determined in substantially the same manner or estimated in such manner and as of such other hour or hours as may from time to time be agreed upon in writing by the Trust and Distributor. The Trust shall have the right to suspend the sale of Shares if, because of some extraordinary condition, the New York Stock Exchange shall be closed, or if conditions obtaining during the hours when the Exchange is open render such action advisable, or for any other reasons deemed adequate by the Trust.

3. The Trust agrees that it will, from time to time, take all necessary action to register the offering and sale of Shares under the Securities Act of 1933, as amended (the "Act"), and applicable state securities laws.

The Distributor shall be an independent contractor and neither the Distributor nor any of its directors, officers or employees as such, is or shall be an employee of the Trust. It is understood that Trustees, officers and shareholders of the Trust are or may become interested in the Distributor, as Directors, officers and employees, or otherwise and that Directors, officers and employees of the Distributor are or may become similarly interested in the Trust and that the Distributor may be or become interested in the Trust as a shareholder or otherwise. The Distributor is responsible for its own conduct and the employment, control and conduct of its agents and employees and for injury to such agents or employees or to others through its agents or employees. The Distributor assumes full responsibility for its agents and employees under applicable statutes and agrees to pay all employer taxes thereunder.

4. The Distributor covenants and agrees that, in selling Shares, it will use its best efforts in all respects duly to conform with the requirements of all state and federal laws and the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (the "NASD") relating to the sale of Shares, and will indemnify and hold harmless the Trust and each of its Trustees and officers and each person, if any, who controls the Trust within the meaning of Section 15 of the Act, against any loss, liability, damages, claim or expense (including the reasonable cost of investigating or defending any alleged loss, liability, damages, claim or expense and reasonable counsel fees incurred in connection therewith), arising by reason of any person's acquiring any Shares, which may be based upon the Act or any other statute or common law, on account of any wrongful act of the Distributor or any of its employees (including any failure to conform with any requirement of any state or federal law or the Rules of Fair Practice of the NASD relating to the sale of Shares) or on the ground that the registration statement or Prospectus as from time to time amended and supplemented, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless any such act, statement or omission was made in reliance upon information furnished to the Distributor by or on behalf of the Trust, provided, however, that in no case (i) is the indemnity of the Distributor in favor of any person indemnified to be deemed to protect the Trust or any such person against any liability to which the Trust or any such person would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of its or his duties or by reason of its or his reckless disregard of its obligations and duties under this Agreement, or (ii) is the Distributor to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Trust or any person indemnified unless the Trust or such person, as the case may be, shall have notified the Distributor in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Trust or upon such person (or after the Trust or such person shall have received notice of such service on any designated agent), but failure to notify the Distributor of any such claim shall not relieve it from any liability which it may have to the Trust or any person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Distributor shall be entitled to participate, at its own expense, in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but, if the Distributor elects to assume

the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Trust, or to its officers or Trustees, or to any controlling person or persons, defendant or defendants in the suit. In the event that the Distributor elects to assume the defense of any such suit and retain such counsel, the Trust or such officers or Trustees or controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses of any additional counsel retained by them, but, in case the Distributor does not elect to assume the defense of any such suit, it shall reimburse the Trust and such officers and Trustees or controlling person or persons, defendant or defendants in such suit, for the reasonable fees and expenses of any counsel retained by them. The Distributor agrees promptly to notify the Trust of the commencement of any litigation or proceedings against it in connection with the issue and sale of any Shares.

Neither the Distributor nor any other person is authorized to give any information or to make any representation on behalf of the Trust, other than those contained in the registration statement or Prospectus filed with the Securities and Exchange Commission under the Act (as said registration statement or Prospectus may be amended or supplemented from time to time), covering the Shares or other than those contained in periodic reports to shareholders of the Trust.

5. The Trust will pay, or cause to be paid -

(i) all costs and expenses of the Trust, including fees and disbursements of its counsel, in connection with the preparation and filing of any required registration statement or Prospectus under the Act covering Shares and all amendments and supplements thereto and any notices regarding the registration of shares, and preparing and mailing to shareholders Prospectuses, statements and confirmations and periodic reports (including the expense of setting up in type any such registration statement, Prospectus or periodic report);

(ii) the expenses (including auditing expenses) of qualification of the Shares for sale, and, if necessary or advisable in connection therewith, of qualifying the Trust as a dealer or broker, in such states as shall be selected by the Distributor and the fees payable to each such state with respect to shares sold and for continuing the qualification therein until the Distributor notifies the Trust that it does not wish such qualification continued;

(iii) the cost of preparing temporary or permanent certificates for Shares;

(iv) all fees and disbursements of the transfer agent of the Trust;

(v) the cost and expenses of delivering to the Distributor at its office in Boston, Massachusetts, all Shares sold through it as Distributor hereunder; and

(vi) all the federal and state issue and/or transfer taxes

payable upon the issue by or (in the case of treasury Shares) transfer from the Trust of any and all Shares purchased through the Distributor hereunder.

The Distributor agrees that, after the Prospectus and periodic reports have been set up in type, it will bear the expense (other than the cost of mailing to shareholders of the Trust of printing and distributing any copies thereof which are to be used in connection with the offering of Shares to dealers, banks or other financial institutions or investors. The Distributor further agrees that it will bear the expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by dealers, banks or other financial institutions in connection with the offering of the Shares for sale to the public and expenses of advertising in connection with such offering. The Distributor will also bear the expense of sending confirmations and statements to dealers, banks and other financial institutions having sales agreements with the Distributor. Nothing in this paragraph 5 shall be deemed to prohibit or conflict with any payment by the Trust or any Fund to the Distributor pursuant to any Distribution Plan adopted as in effect pursuant to Rule 12b-1 under the Investment Company Act of 1940.

6. The Trust hereby authorizes the Distributor to repurchase, upon the terms and conditions set forth in written instructions given by the Trust to the Distributor from time to time, as agent of the Trust and for its account, such Shares as may be offered for sale to the Trust from time to time; provided the Distributor shall have the right, as stated above in paragraph 2 of this Agreement, to retain (or to receive from the Trust, as the case may be) a deferred sales charge not to exceed 6% of the net asset value of the Shares so repurchased.

(a) The Distributor shall notify in writing the Custodian of the Trust, at the end of each business day, or as soon thereafter as the repurchases have been compiled, of the number of Shares repurchased for the account of the Trust since the last previous report, together with the prices at which such repurchases were made, and upon the request of any Officer or Trustee of the Trust shall furnish similar information with respect to all repurchases made up to the time of the request on any day.

(b) The Trust reserves the right to suspend or revoke the foregoing authorization at any time. Unless otherwise stated, any such suspension or revocation shall be effective forthwith upon receipt of notice thereof by an officer of the Distributor, by telegraph or by written notice from the Trust. In the event that the authorization of the Distributor is, by the terms of such notice, suspended for more than twenty-four hours or until further notice, the authorization given by this paragraph 6 shall not be revived except by action of a majority of the members of the Board of Trustees of the Trust.

(c) The Distributor shall have the right to terminate the operation of this paragraph 6 upon giving to the Trust thirty days' written notice thereof.

(d) The Trust agrees to authorize and direct the Custodian to pay, for the account of the Trust, the purchase price of any Shares so

repurchased against delivery of the certificates, if any, in proper form for transfer to the Trust or for cancellation by the Trust.

(e) The Distributor shall receive no commission in respect of any repurchase of Shares under the foregoing authorization and appointment as agent, except in connection with contingent deferred sales charge as provided in the current Prospectus relating to the Shares.

(f) The Trust agrees to reimburse the Distributor, from time to time upon demand, for any reasonable expenses incurred in connection with the repurchase of Shares pursuant to this paragraph 6.

7. If, at any time during the existence of this Agreement, the Trust shall deem it necessary or advisable in the best interests of the Trust that any amendment of this Agreement be made in order to comply with the recommendations or requirements of the Securities and Exchange Commission or other governmental authority or to obtain any advantage under Massachusetts, any state or federal tax laws, it shall notify the Distributor of the form of amendment which it deems necessary or advisable and the reasons therefore. If the Distributor declines to assent to such amendment, the Trust may terminate this Agreement forthwith by written notice to the Distributor without payment of any penalty. If, at any time during the existence of this Agreement, upon request by the Distributor, the Trust fails (after a reasonable time) to make any changes in its governing instruments or in its methods of doing business which are necessary in order to comply with any requirements of federal or state laws or regulations, laws or regulations of the Securities and Exchange Commission or of a national securities association of which the Distributor is or may be a member, relating to the sale of Shares, the Distributor may terminate this Agreement forthwith by written notice to the Trust without payment of any penalty.

8. The Distributor agrees that it will not take any long or short positions in the Shares except as permitted by paragraphs 1 and 6 hereof. Whenever used in this Agreement, the term "governing instruments" shall mean the Declaration of Trust and the By-Laws of the Trust, as from time to time amended.

9. This Agreement shall become effective on January 1, 1995 and shall continue in force until August 1, 1996 on which date it will terminate unless its continuance after August 1, 1996, is specifically approved at least annually (i) by the vote of a majority of the Board of Trustees of the Trust who are not interested persons of the Trust or of the Distributor at a meeting specifically called for the purpose of voting on such approval, and (ii) by the Board of Trustees of the Trust or by vote of a majority of the outstanding voting securities of that Fund. The aforesaid requirement that continuance of this Agreement be "specifically approved at least annually" shall be construed in a manner consistent with the Investment Company Act of 1940 and the Rules and Regulations thereunder.

This Agreement may be terminated as to any Fund at any time by either party without payment of any penalty on not more than sixty days' or less than thirty days' written notice to the other party.

10. This Agreement shall automatically terminate in the event of its assignment.

11. The terms "vote of a majority of the outstanding voting securities", "interested person" and "assignment" shall have the respective meanings specified in the Investment Company Act of 1940 and the Rules and Regulations thereunder, subject, however, to such exemptions as may be granted by the Securities and Exchange Commission under said Act.

12. This Agreement shall be governed by the laws of The Commonwealth of Massachusetts.

13. A copy of the Declaration of Trust of the Trust is on file with the Secretary of State of The Commonwealth of Massachusetts. The Distributor acknowledges that the obligations of or arising out of this instrument are not binding upon any of the Trust's trustees, officers, employees, agents or shareholders individually, but are binding solely upon the assets and property of the Trust. If this instrument is executed by the Trust on behalf of one or more series of the Trust, the Distributor further acknowledges that the assets and liabilities of each series of the Trust are separate and distinct and that the obligations of or arising out of this instrument are binding solely upon the assets or property of the series on whose behalf the Trust has executed this instrument. If the Trust has executed this instrument on behalf of more than one series of the Trust, the Distributor also agrees that the obligations of each series hereunder shall be several and not joint, in accordance with its proportionate interest hereunder, and the Distributor agrees not to proceed against any series for the obligations of another series.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above.

MFS MUNICIPAL SERIES TRUST

On behalf of:

- MFS Alabama Municipal Bond Fund
- MFS Florida Municipal Bond Fund
- MFS Georgia Municipal Bond Fund
- MFS Louisiana Municipal Bond Fund
- MFS Maryland Municipal Bond Fund
- MFS Massachusetts Municipal Bond Fund
- MFS Mississippi Municipal Bond Fund
- MFS New York Municipal bond Fund
- MFS North Carolina Municipal Bond Fund
- MFS Pennsylvania Municipal Bond Fund
- MFS South Carolina Municipal Bond Fund

MFS Tennessee Municipal Bond Fund
MFS Texas Municipal Bond Fund
MFS Virginia Municipal Bond Fund
MFS Washington Municipal Bond Fund
MFS West Virginia Municipal Bond Fund
MFS California Municipal Bond Fund
MFS Municipal Income Fund

By: W. THOMAS LONDON
W. Thomas London as officer
and not individually

MFS FUND DISTRIBUTORS, INC.

By: WILLIAM W. SCOTT
William W. Scott, Jr.
President

MFS FINANCIAL SERVICES, INC.
500 BOYLSTON STREET . BOSTON . MASSACHUSETTS 02116
617-954-5000

December 28, 1994

NOTICE OF AMENDMENT TO DEALER AGREEMENT

Dear Sir or Madam:

Reference is made to the Dealer Agreement, as amended and supplemented, between us (the "Agreement").

In accordance with paragraph 14 of the Agreement, we wish to advise you that the Agreement is hereby amended to reflect the following additions and changes:

1. Paragraph 14 is amended to allow MFS Financial Services, Inc. ("FSI") to assign all of its rights and obligations under the Agreement to an affiliate at any time upon notice to you.
2. The Agreement is amended to reflect the replacement of FSI by MFS Fund Distributors, Inc. ("MFD"), effective as of January 1, 1995, as the distributor of shares of the funds in the MFS Family of Funds (the "MFS Funds"). Both FSI and MFD are wholly-owned subsidiaries of Massachusetts Financial Services Company.
3. The payment provisions with respect to orders for shares of the MFS Funds placed by broker-dealers, banks and insurance companies have been revised to reflect the new shorter settlement periods mandated by Rule 15c6-1 under the Securities Exchange Act of 1934, which will become effective on June 1, 1995.
4. A provision has been added pursuant to which the broker-dealer, bank or insurance company agrees to indemnify MFD against any claims relating to accounts established with "transfer on death" registrations.

In connection with these changes, we hereby amend the Agreement in the form accompanying this Notice. PLEASE NOTE THAT IT IS NOT NECESSARY FOR YOU TO SIGN AND RETURN A DUPLICATE COPY OF THIS AMENDMENT; WE SHALL CONSIDER YOUR FIRST ORDER ON OR AFTER JANUARY 1, 1995 AS ACCEPTANCE OF THE AGREEMENT, AS AMENDED.

Also enclosed for your reference is a copy of MFD's new guidelines with respect to sales of shares of the MFS Funds under multiple class pricing. Your firm is required to comply with such guidelines, as amended from time to time by MFD, in connection with all sales of shares of the MFS Funds.

By:

William W. Scott, Jr., President

MFS FUND DISTRIBUTORS, INC.
500 BOYLSTON STREET * BOSTON * MASSACHUSETTS 02116
617 * 954-5000
DEALER AGREEMENT

Dear Sirs:

We are the distributor of the shares of each of the funds from time to time in the MFS Family of Funds (collectively, the "Funds"). Shares are offered pursuant to the then current prospectus, including any supplements or amendments thereto, of each of the Funds (the "Prospectus"). To the extent that a Prospectus contains provisions that are inconsistent with the terms of this agreement, the terms of the Prospectus shall be controlling. We have the exclusive right to distribute shares of the Funds (the "Shares"). In addition, we are the distributor of the units of participation (the "Units") of the MFS Fixed Fund, a bank collective investment fund (the "MFS Fixed Fund") which invests exclusively in units of the BT Pyramid GIC Fund. The Units are offered pursuant to the then-current Description of the MFS Fixed Fund, including any supplements or amendments thereto (the "Description"). All offers for sale of the Units shall be subject to the terms of the Description and shall be effected in accordance with the terms of the MFS Fixed Fund Product Description (the "Product Description"). To the extent that the Description contains provisions that are inconsistent with the terms of this agreement, the terms of the Description shall be controlling. As agent for the Funds and the MFS Fixed Fund, we hereby offer to sell Shares of the Funds and make available the Units to you, acting as principal (in the case of the Funds) or as agent (in the case of the MFS Fixed Fund) and not as broker or agent for, or employee of, us or any of the Funds or the MFS Fixed Fund, upon the following terms and conditions:

1. In all sales of the Shares to the public, you shall act as dealer for your own account.
2. We will not accept from you any conditional orders for the purchase, sale or redemption of Shares or Units. All orders to purchase Shares received from you will be accepted by us only based on the public offering price applicable to each order, as established by the Prospectus of the Fund for whose Shares the order is placed. All orders to purchase Units received from you will be received by us and accepted by Bankers Trust Company ("BTC"), as trustee of the MFS Fixed Fund, only based on the Unit Value applicable to each order, as established by the Description. The procedure relating to the handling of orders shall be subject to instructions which we shall forward from time to time to you. All orders are subject to acceptance or rejection by us in our sole discretion and, in the case of the Units, by BTC in its sole discretion.
3. On the purchase by you through us to cover a single transaction involving Shares of the Funds, the applicable offering price and dealer discount therefrom or commission, as applicable, which you will receive will be determined in

accordance with the provisions of the Prospectus of the applicable Fund. In addition, certain of the Funds have adopted Distribution Plans pursuant to which we, on behalf of each such Fund, will pay a service fee to dealers in accordance with the provisions of such Funds' Distribution Plans. (The service fee is paid to you as additional consideration for all personal services and/or account maintenance services provided by you to shareholders of the applicable Fund.) The provisions and terms of these Funds' Distribution Plans are described in their respective Prospectuses, and you hereby agree that we have made no representations to you with respect to the Distribution Plans of such Funds in addition to, or conflicting with, the description set forth in their respective Prospectuses. No dealer discount or commission is applicable to Shares representing reinvested dividends and distributions. No interest will accrue on amounts represented by uncashed dealer discount, commission or service fee checks.

You acknowledge and agree that you shall not be entitled to receive any such service fees unless: (i) you are the holder or dealer of record for accounts in the applicable Fund, or all Funds together, having an aggregate net asset value of at least the minimum amount established by us from time to time in accordance with the terms of the Funds' Distribution Plans or (ii) you satisfy each of the following conditions, as determined from time to time by us in our sole discretion: (a) you include all Funds on your product list and, as requested by us from time to time, one or more of the Funds on your "approved", "preferred" or other similar product list; provided, however, that the MFS Fixed Fund shall be included only on such product lists as are specifically directed to eligible qualified retirement plans described in the Product Description; (b) you grant reasonable requests from time to time for visits to your offices (including branch offices) by our sales and marketing representatives; (c) you provide satisfactory product, marketing and sales support, as requested by us from time to time; and (d) you assign one of your registered representatives to each Fund shareholder account on your records and reassign the Fund account should that representative leave your firm; provided, however, that you will not be paid any service fee in any event if the redemption levels of Fund shareholder accounts for which you are the holder or dealer of record are above normal as compared to other dealers, as determined by us from time to time in our sole discretion. In addition, you acknowledge and agree that (y) you shall not be paid any service fee with respect to a specific time period unless and until we are in receipt of the service fee from the Fund for such period and (z) our liability to you for the payment of any such service fee is limited solely to the amount of the applicable Fund's service fee received by us.

4. You agree that all purchases of Shares or Units through us shall be made only to cover orders already received by you.

5. All sales of the Shares to your customers shall be at the public offering price as established by the Prospectus and shall comply with all such multiple class pricing guidelines as we may from time to time furnish to you. All sales of the Units to your customers shall be at the Unit Value and upon the terms established by the Description.

6. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding.

7. If any Shares sold to you by us under the terms of this agreement are repurchased by the issuer or by us as agent for the issuer or are tendered for redemption within seven business days after the date of your original purchase, it is agreed that you shall forfeit your right to any discount or commission received by or allowed to you on such Shares hereunder.

We will notify you of any such repurchase or redemption within ten days from the date on which a stock power or letter of instructions, if no certificate has been issued, or the certificate is delivered to us or to the issuer, and you shall forthwith refund to us the full discount or commission received by or allowed to you.

8. Payment for Shares or Units ordered from us shall be in New York or Boston clearinghouse funds received by us by the later of: (i) the end of the fifth business day following your receipt of the customer's order to purchase such Shares or Units or (ii) the end of one business day following your receipt of the customer's payment for such Shares or Units, but in no event later than the end of the eighth business day following your receipt of the customer's order; provided, however, that commencing as of June 1, 1995 and in accordance with Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, payment for such Shares or Units must be received by us not later than the end of the third business day following your receipt of the customer's order. If such payment is not received by us, we reserve the right, without notice, forthwith to cancel the sale, or, in the case of Shares, at our option, to sell the Shares ordered back to the issuer, in which case we may hold you responsible for any loss, including loss of profit, suffered by us resulting from your failure to make payment as aforesaid.

9. You agree to provide all necessary information to comply properly with all federal, state and local reporting requirements and backup and nonresident alien withholding requirements for your customer accounts including, without limitation, those requirements that apply by treating Shares issued by the Funds as readily tradable instruments. You represent and agree that all Taxpayer Identification Numbers ("TINS") provided are certified, and that no account which requires a certified TIN will be established without such certified TIN. You agree to perform all federal, state and local tax reporting with respect to sales of Shares through the National Securities Clearing Corporation ("NSCC") Fund/Serv program, including without limitation redemptions and exchanges.

10. In connection with purchases by you as principal of Shares of any of the Funds from others, you agree that you will pay to the seller a price which is not less than the net asset value next quoted by us as agent for the Fund. Nothing in this agreement shall prevent you from selling Shares for the account of a record owner to the issuer at the net asset value next quoted by us as agent for the issuer and charging your customer a fair commission for handling the transaction.

11. Shares sold by us to you hereunder shall be available to you for delivery against payment at the office of our agent, MFS Service Center, Inc. ("MFSC"), 500 Boylston Street, Boston, Massachusetts 02116, unless other arrangements are made with us for delivery and payment.

12. No person is authorized to make any representations concerning Shares

except those contained in the Prospectus and in such printed information and information stored on computer diskettes (illustrating hypothetical investments in the Funds) as issued by us for use as information supplemental to the Prospectus. Supplemental information relating to hypothetical investments may be used only in one-on-one presentations. In purchasing Shares from us, you shall rely solely on the representations contained in the Prospectus and in the above-mentioned supplemental information. Qualification of Shares in the various states, including the filing of any state or further state notices respecting such Shares, and any printed information or information stored on computer diskettes which we furnish you other than the Prospectuses and periodic reports are our sole responsibility and not the responsibility of the respective Funds, and you agree that the Funds shall have no liability or responsibility to you in these respects. No person is authorized to make any representations concerning the Units except those contained in the Description and in such printed information as issued by us for use as information supplemental to the Description. In offering Units for sale, you shall rely solely on the representations contained in the Description and in the above-mentioned supplemental information.

13. Additional copies of any Prospectus or the Description and any printed information or information stored on computer diskettes issued supplementing the Prospectus or the Description will be supplied by us in reasonable quantities upon request; provided, however, that we reserve the right to charge a nominal fee, disclosed in advance, for computer diskettes.

14. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Shares or Units entirely. Except as provided in paragraph 15, each party hereto has the right to cancel this agreement upon ten days' notice to the other party. We reserve the right to amend this agreement, or to assign this agreement to an affiliate, at any time and you agree that an order to purchase Shares of any one of the Funds or of the Units placed by you after notice of any such amendment or assignment has been sent to you shall constitute your agreement to any such amendment or assignment.

15. You represent that you are a member in good standing of the National Association of Securities Dealers, Inc. (the "NASD"). You agree that you will not make available Shares of any Fund or the Units in any state or other jurisdiction in which we inform you that such Shares or Units may not be lawfully offered for sale. You agree (notwithstanding the provisions of paragraph 14 hereof) that this agreement shall automatically terminate without notice upon your: (a) filing of a petition in bankruptcy or a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy, reorganization, insolvency or similar statute, law or regulation; or (b) seeking the appointment of any trustee, conservator, receiver, custodian or liquidator for you or for all or substantially all of your properties. Likewise, you agree (notwithstanding the provisions of paragraph 14 hereof) that: (w) if a proceeding is commenced against you seeking relief or an appointment of a type described in the immediately preceding two sentences; or (x) if a trustee, conservator, receiver, custodian or liquidator is appointed for you or for all or substantially all of your properties; or (y) if an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970 shall have been filed against you; or (z) if you are a registered

broker-dealer and (i) the Securities and Exchange Commission (the "SEC") shall revoke or suspend your registration as a broker-dealer, (ii) any national securities exchange or national securities association shall revoke or suspend your membership, or (iii) under any applicable net capital rule of the SEC or of any national securities exchange, your aggregate indebtedness shall exceed 1,000% of your net capital, this agreement shall automatically terminate. You agree that you will immediately advise us of any such proceeding, appointment, application, revocation, suspension or indebtedness level. You further agree that if you are a foreign dealer (a) you are registered under the Securities Exchange Act of 1934 and you agree that in making sales of Shares to purchasers within the United States you will conform to the Rules of Fair Practice, including the Interpretation with Respect to Free-Riding and Withholding of the NASD, or (b) if you are not so registered, you will make sales of Shares only outside of the jurisdiction of the United States to persons who are not citizens or residents of the United States. You also represent that you have complied, and will continue to comply, with any other state or federal registration requirements (and any other applicable securities, tax and other laws) related to the offer and sale of the Shares of any of the Funds or the offer for sale of the Units.

16. You may send exchange requests to MFSC via facsimile, subject to the following requirements: (a) All exchange transactions must be received, and confirmed by a telephone call from you to MFSC, by 4:00 p.m. Boston time in order to receive the day's closing price. Transactions received after 4:00 p.m. will be processed the following business day. If the impact of processing exchange transactions received from all sources is deemed to be injurious to one of the Funds or the MFS Fixed Fund, we in our sole discretion may elect to delay the purchase side of the transaction for up to seven days. In such a circumstance, the exchange redemption would be made at the price or Unit Value in effect on the first day and the exchange purchase would use the price or Unit Value of a date not more than seven days later. This arrangement will be governed by and superseded by changes in the Prospectuses or the Description without terminating this arrangement. All exchange transactions involving the MFS Fixed Fund are subject to the terms of the Description. (b) All exchange transactions must be sent by facsimile machine to MFSC at (617) 954-6636 or (617) 954-6637 and confirmed by telephone at (617) 954-4628. No other medium of delivery will be acceptable, except as provided by the Prospectuses or the Description. (c) You hereby warrant that each exchange transaction which you initiate will have been authorized by the shareholder or Unitholder prior to initiation. (d) We or MFSC may terminate your participation in the transactions contemplated by this paragraph at any time if either of us believes or has reason to believe that you have failed or may fail to comply with any of the conditions set forth herein, or, in any event, with 10 days' written notice. Such termination will not affect your responsibilities under paragraph 26 with respect to such transactions.

17. We agree to accept orders, including wire orders, placed by you for the purchase of Shares for MFS (Prototype) Individual Retirement Account Plans ("IRA Plan"), subject to the following:

(a) We will provide you with IRA Adoption Agreements and/or Applications ("IRA Agreements") solely for the purpose of allowing you to accept initial and subsequent contributions (other than trustee to trustee transfers) from

any individual who has created an IRA Plan by execution of such IRA Agreement, invested in shares of a Fund and designated by the individual, provided that the IRA Plan investment is permitted under the terms of the Fund Prospectus.

(b) You hereby represent and warrant to us, The First National Bank of Boston (the "Trustee") and each Fund that you are fully informed and knowledgeable as to the requirements imposed under the Internal Revenue Code of 1986, as amended (the "Code"), and the rules, regulations and rulings adopted pursuant thereto, on and in respect to individual retirement accounts ("IRAs"), as defined under the Code. You further represent that for all IRA Plan orders placed hereunder, you: (a) will require receipt of a properly completed and signed IRA Agreement before placing such order; (b) will deliver to the participant the appropriate MFS IRA Trust and Disclosure Statement before placing such order; and (c) will ensure that the contribution from the participant is properly designated as to the year of contribution. Your placement of an order under this paragraph 17 shall serve as a warranty that such order complies with all such rules, regulations, rulings and procedures.

(c) You shall promptly upon the receipt of any IRA Plan contribution from a participant, and only if in possession of an IRA Agreement signed by the participant, place an order with us through MFSC for shares of a Fund in accordance with the instructions of the participant. If the order placed by you represents a new account, you shall furnish us with an executed IRA Agreement promptly after the order is placed.

(d) You understand that we, MFSC, the Trustee and the Funds shall not be responsible for monitoring orders placed by you with regard to compliance with Internal Revenue Service (the "IRS") and other rules and regulations, including, but not limited to, those related to over-contributions, eligibility, income restrictions, timeliness of contribution, or any other matters related to the status of any IRA Plan, nor for your compliance with procedures established by us or our agents with respect to such IRA orders.

(e) We, for ourself and our agents, and the Trustee reserve the right, at each of our sole option, and without liability or obligation so to act, to cancel or re-register any trade or not to settle any trade which does not comply with the terms of this paragraph 17 or the procedures established by us or our agents. We will use reasonable efforts to notify you of such actions.

(f) The remittance of the annual service fee cannot be combined with or made via a wire order purchase. Wire redemption requests will not be accepted. Any purchase hereunder must be made in accordance with the terms of the pertinent Prospectus.

(g) We may terminate your participation in the transactions contemplated by this paragraph at any time if you fail to comply with any of the conditions set forth herein, or, in any event, with 10 days' written notice. Such termination will not affect your responsibilities under paragraph 26 with respect to such transactions.

18. You may enter via a remote terminal, and we will accept, the following clerical changes and corrections relating to any account of your customers: dividend and/or capital gain distribution election as to cash or reinvestment; TINs; account executive's number and/or name; branch office city, state and related dealer branch number; and shareholder address changes, subject to the following: (a) You hereby represent and warrant to us, MFSC and the Fund(s) that each change made pursuant to this paragraph has been authorized by your customer prior to its initiation and that you have internal procedures in place to assure that the changes described herein are authorized only by appropriate persons. (b) This arrangement will be governed by and subject to rules and procedures established by us and MFSC for effecting such changes. (c) We or MFSC may terminate your participation in the transactions contemplated by this paragraph at any time if either of us believes or has reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, with 10 days' prior written notice. Such termination will not affect your responsibilities under paragraph 26 with respect to such transactions.

19. You may settle redemptions of shares of the Funds held in individual accounts of your customers or in accounts registered in your name, via NSCC Fund/Serv and without a guaranteed endorsement on the certificates representing such shares, or, if no certificates for such shares have been issued, without a guaranteed endorsement, and we agree to allow such redemptions subject to the following: (a) The wire order redemption request is placed through NSCC Fund/Serv. (b) In the case of certificated shares, the appropriate certificate(s) are received as settlement and the reverse of such certificate(s) is not completed or signed in a manner deemed inconsistent by MFSC in its sole judgment. (c) You hereby warrant to us, MFSC and the Fund(s) that each redemption has been authorized by your customer prior to initiation and that you have internal procedures in place to assure that the instructions described herein are authorized only by appropriate persons. (d) This arrangement will be governed by and subject to rules and procedures established by us and MFSC for effecting such transactions. (e) We or MFSC may terminate your participation in the transactions described in this paragraph at any time if either of us believes or has reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, with 24 hours' notice. Such termination shall not affect your responsibilities under paragraph 26 with respect to such transactions.

20. Should we agree to participate with you in the NSCC program known as "Networking" in one or more of its "Matrix Levels," which agreement will be evidenced by the execution by us and you of an agreement, we thereby agree to accept from you electronically through MFSC and through Networking channels and Fund/Serv without supporting documentation from shareholders in the Funds for whom you are the dealer of record or with respect to which you are the clearing broker to the dealer of record ("originating firm") which is in turn a party to a Dealer or Mutual Fund Agreement with us (your "client"), the instructions, communication and actions specified in such agreement, subject to and in reliance upon the following requirements and representations.

A. Requirements. 1. You will provide all necessary, requested, updating and reconciling information to ensure the accuracy of records and to enable MFSC to create and maintain an accurate cross-reference file between client records and the Fund account records that shall remain the official records of all Fund

shareholder accounts. You agree that MFSC will not be responsible for changes to the file until a reasonable time after receipt thereof. 2. You will provide in a timely fashion all necessary and relevant information regarding adverse claims, governmental and legal inquiries and correspondence to us, MFSC, the Fund or its adviser, as appropriate, in connection with its handling of and responding to such notices, inquiries, correspondence and claims, which may include its or their placing restrictions on the redemption, transfer or exchange of Shares and disclosing that you control accounts pursuant to this paragraph. 3. You will, on behalf of each Fund, report to your clients, all information which is required to be reported by the Fund on Shareholder confirmations or otherwise under any applicable statute, rule or regulation or under the terms of the Prospectus, or which is provided by us, MFSC, the Fund or the Fund's adviser to you and other shareholders of the Fund and such information shall be complete, accurate and timely. 4. You will ensure that cash distributions are accurately paid to your client at the time specified by the Fund, and, as among the Funds, MFSC, you and us, you shall be solely responsible for any liabilities arising from payments reported by clients as lost, stolen or forged.

B. Representations and Warranties. You represent and warrant to, and agree with us, MFSC and the Funds that: you have and will continue to have the necessary facilities, equipment and personnel to allow you to perform, and that you will so perform, all duties, functions, procedures or responsibilities described herein and in the Networking agreement between you and us, each as from time to time in effect, in a businesslike and competent manner, in conformance with all applicable laws, rules and regulations (including without limitation, all rules and requirements of the IRS and the Code, with respect to tax reporting; with Rule 10b-10 under the Securities Exchange Act of 1934, with respect to confirmation statements; and with all rules applicable to registered transfer agents, with respect to duties generally hereunder), with the Prospectuses and with all applicable rules and procedures of the NSCC and NASD; you or the originating firm has the prior sufficient consent of each client whose account is to be placed in or transferred to a Networking account, having first informed each such client in writing of all material facts relating to such arrangement; all your instructions, communications and actions regarding Networked accounts, including all transfers, will be rightful, will have been duly and sufficiently authorized by your client, will be accurate and complete and will be in the appropriate NSCC/DST Systems, Inc. format; if you are acting as a clearing broker, you have obtained the prior written consent of each originating firm to your entering into, and to all the terms of, this paragraph and the Networking agreement and that all actions taken hereunder will have been approved in advance by the applicable originating firm; the taking of any action as to which MFSC normally requires a signature guarantee shall be deemed to constitute your guarantee in proper order of your client's signature; you will obtain and maintain, and upon request provide to MFSC, for each Networking account all forms, applications, waivers, exemptions, certifications or other documents or information required by applicable laws, rules or regulations including, without limitation, state and federal securities and tax laws, rules and regulations; you do not act as our agent under this paragraph; and you have and will maintain adequate insurance coverage as is appropriate for your duties and obligations hereunder, and will, upon request, provide us or MFSC with a certificate of insurance evidencing your compliance.

Nothing herein shall prohibit us, any Fund, the advisers of the Funds or

MFSC from mailing or otherwise distributing to Shareholders any material concerning the Funds or other funds or services now or hereafter offered by any of us. We may terminate your participation in the transactions contemplated by this paragraph and the Networking agreement at any time if you fail to comply with any of the conditions set forth herein or, with respect to accounts of an originating firm, the termination of our Dealer or Mutual Fund Agreement with such firm, or in any event, or with respect to any accounts, with 30 days' prior written notice. Such termination will not affect your responsibilities under paragraph 26 with respect to such transactions.

21. Units of the MFS Fixed Fund may be offered for sale by you only to retirement plans which have been determined by the IRS to be qualified for tax exemption under sections 401 and 501 of the Code, to governmental plans within the meaning of section 414(d) of the Code or to financial institutions which are acting as trustee, custodian or agent for any such plan, excluding, however, certain retirement plans which cover individuals some or all of whom are self-employed, as further described in the Description (such eligible investors are collectively referred to as "Qualified Investors"). With respect to Units offered for sale by you to Qualified Investors, we will pay to you a periodic distribution fee as described in the Description. No dealer discount or commission is applicable to sales of the Units. All offers and sales of the Units shall be subject to the terms of the Description. You agree that we have made no representation to you with respect to the Units or the MFS Fixed Fund in addition to, or conflicting with, the description set forth in the Description. We may terminate your ability to purchase and sell the Units at any time if we believe or have reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, upon 10 days' prior written notice. Such termination will not affect your responsibilities under paragraph 26 with respect to any transactions affecting the Units.

22. We and you agree that all disputes between us of whatever subject matter, whether existing on the date hereof or arising hereafter, shall be submitted to arbitration in accordance with the Code of Arbitration Procedure of the NASD, or similar rules or code, in effect at the time of the submission of any such dispute.

23. All communications to us should be sent to the above address. Any notice to you shall be duly given if mailed, telegraphed or sent by facsimile machine to you at the address specified by you below. This agreement shall be governed by and construed in accordance with the internal laws of The Commonwealth of Massachusetts.

24. This agreement shall become effective upon receipt by us of your acceptance hereof and supersedes any prior agreement between us with respect to the sale of Shares of any of the Funds or the Units or any other subject covered by this agreement.

25. You appoint MFSC, the transfer agent for each Fund, as your agent to execute the purchase transactions of Shares of such Fund in accordance with the terms and provisions of any account, program, plan or service established or used by your customers and to confirm each purchase to your customers on your behalf, except as modified in writing by the transfer agent, and you represent and guarantee to us, the Fund and the MFS Fixed Fund the legal capacity of your

customers purchasing such Shares or Units (including the satisfaction of the eligibility requirements in the Product Description) and any other person in whose name the Shares or Units are to be registered.

26. You agree that you shall indemnify and hold harmless us, MFSC, the Funds, the MFS Fixed Fund and our and their affiliates, BTC (individually and as trustee of the MFS Fixed Fund, the BT Pyramid GIC Fund and the BT Pyramid Discretionary Account Cash Fund) and BTC's affiliates, and our and their officers, trustees, directors, employees, shareholders and agents against any claims, losses, costs or liabilities, including attorneys' fees, that may be assessed against, or suffered or incurred by any of them, howsoever they arise, and as they are incurred, which relate in any way to: (1) any use of supplemental hypothetical information provided on computer diskettes other than in one-on-one presentations or any misuse of or alteration to any supplemental information; provided, however, that the addition of the name of a customer or other identifying or variable information expressly authorized by us within such supplemental information which calls for the addition of such information is expressly permitted; (2) any transactions or other activity processed through NSCC programs, including: the automated mutual fund order entry, settlement and registration verification system known as Fund/Serv; if an agreement has been signed by you and us so to permit, the program known as Networking; and the redemption of shares pursuant to paragraph 19; (3) any exchange requests initiated by you via facsimile; (4) any contribution accepted or order placed by you pursuant to paragraph 17 hereof, including, but not limited to, any claims, losses or liabilities relating to the loss of favorable tax status of an IRA Plan or contribution, any IRA revocation by an individual in connection with an IRA Plan, and any failed trades for IRA Plans hereunder, or any contribution accepted in violation of the terms of paragraph 17 hereof (the indemnification provided under this subparagraph (4) will extend to the Trustee as well as the parties listed above); (5) any account established by your firm, or for which your firm is broker-dealer of record, with a "transfer on death," "payable on death" or other similar registration; (6) improper compliance with federal, state or local reporting requirements or backup or nonresident alien withholding requirements, including losses resulting from omitted, incorrect or uncertified TINS or the failure to provide an accurate tax residence status; (7) any account changes made pursuant to paragraph 18 thereof; and (8) any breach of your representations or warranties, or failure to comply with your obligations, set forth in this agreement, in any event whether such action, failure, error, omission, misconduct, or breach is committed by you or by your employee, agent or clearing broker, whether or not acting within the scope of his employment, agency or authority (the indemnification provided under this subparagraph (8) will extend to the Trustee as well the parties listed above).

You agree to notify us within a reasonable time of any claim against you or any person who controls you within the meaning of Section 15 of the Securities Act of 1933 with respect to securities offered hereunder.

Nothing in this paragraph 26 shall be deemed to preclude us, a Fund, the MFS Fixed Fund, MFSC, the Trustee (with respect to subparagraph (4) or (8) above), BTC (individually and as trustee of the MFS Fixed Fund, the BT Pyramid GIC Fund and the BT Pyramid Discretionary Account Cash Fund), or our or their affiliates, officers, directors, trustees, employees, shareholders or agents from seeking monetary damages and/or injunctive relief in connection with such claims, losses

and liabilities. This paragraph 26 will survive termination of this agreement or any provision hereof.

MFS FUND DISTRIBUTORS, INC.

Dated:

By /s/ WILLIAM W. SCOTT, JR.
WILLIAM W. SCOTT, JR., President

The undersigned hereby accepts the offer set forth in the above letter

Firm ----- Address -----

By -----
Authorized Representative

12/94 3720

MFS FINANCIAL SERVICES, INC.
500 BOYLSTON STREET o BOSTON o MASSACHUSETTS 02116
617-954-5000

December 28, 1994

NOTICE OF AMENDMENT TO MUTUAL FUND AGREEMENT

Dear Sirs/Madams:

Reference is made to the Mutual Fund Agreement, as amended and supplemented, between us (the "Agreement").

In accordance with paragraph 10 of the Agreement, we wish to advise you that the Agreement is hereby amended to reflect the following additions and changes:

1. Paragraph 10 is amended to allow MFS Financial Services, Inc. ("FSI") to assign all of its rights and obligations under the Agreement to an affiliate at any time upon notice to you.
2. The Agreement is amended to reflect the replacement of FSI by MFS Fund Distributors, Inc. ("MFD"), effective as of January 1, 1995, as the distributor of shares of the funds in the MFS Family of Funds (the "MFS Funds"). Both FSI and MFD are wholly-owned subsidiaries of Massachusetts Financial Services Company.
3. The payment provisions with respect to orders for shares of the MFS Funds placed by broker-dealers, banks and insurance companies have been

revised to reflect the new shorter settlement periods mandated by Rule 15c6-1 under the Securities Exchange Act of 1934, which will become effective on June 1, 1995.

4. A provision has been added pursuant to which the broker-dealer, bank or insurance company agrees to indemnify MFD against any claims relating to accounts established with "transfer on death" registrations.

In connection with these changes, we hereby amend the Agreement in the form accompanying this Notice. PLEASE NOTE THAT IT IS NOT NECESSARY FOR YOU TO SIGN AND RETURN A DUPLICATE COPY OF THIS AMENDMENT; WE SHALL CONSIDER YOUR FIRST ORDER ON OR AFTER JANUARY 1, 1995 AS ACCEPTANCE OF THE AGREEMENT, AS AMENDED.

Also enclosed for your reference is a copy of MFD's new guidelines with respect to sales of shares of the MFS Funds under multiple class pricing. Your firm is required to comply with such guidelines, as amended from time to time by MFD, in connection with all sales of shares of the MFS Funds.

MFS FINANCIAL SERVICES, INC.

By:

William W. Scott, Jr., President

MFS FUND DISTRIBUTORS, INC.

500 BOYLSTON STREET * BOSTON * MASSACHUSETTS 02116
617 * 954-5000

MUTUAL FUND AGREEMENT

(for use by Banks or their affiliated NASD member firms)

1. MFS Fund Distributors, Inc., or its successors or assigns, offers to make available to your customers shares of each of the funds from time to time in the MFS Family of Funds (collectively, the "Funds"), for which MFS Fund Distributors, Inc. is the distributor and from which MFS Fund Distributors, Inc. has the exclusive right to distribute shares (the "Shares"). Shares are offered pursuant to the then current prospectus, including any supplements or amendments thereto, of each of the Funds (the "Prospectus"). To the extent that a Prospectus contains provisions that are inconsistent with the terms of this Agreement, the terms of the Prospectus shall be controlling. In addition, MFS Fund Distributors, Inc. is the distributor of the units of participation (the "Units") of the MFS Fixed Fund, a bank collective investment fund (the "MFS Fixed Fund") which invests exclusively in units of the BT Pyramid GIC Fund. The Units are offered pursuant to the then-current Description of the MFS Fixed Fund, including any supplements or amendments thereto (the "Description"). All offers for sale of the Units shall be subject to the terms of the Description and shall be effected in accordance with the terms of the MFS Fixed Fund Product Description (the "Product Description"). To the extent that the Description contains provisions that are inconsistent with the terms of this Agreement, the

terms of the Description shall be controlling. MFS Fund Distributors, Inc. offers to make the Units available to your customers. In all transactions covered by this Agreement you shall act only as agent for your customers and in no transaction shall you have authority to act as agent for any Fund, the MFS Fixed Fund, MFS Fund Distributors, Inc., or any representative or agent thereof.

2. Orders to purchase Shares received from you will be accepted by us only at the public offering price applicable to each order, as established by the Prospectus. Orders to purchase Units received from you will be received by us and accepted by Bankers Trust Company ("BTC"), as trustee of the MFS Fixed Fund, only at the Unit Value applicable to each order, and upon the terms established by the Description. Upon receipt from you of any order to purchase Shares we will send a written confirmation of such trade (indicating that the trade was on a fully disclosed basis and accompanied by an appropriate Prospectus in the case of any initial purchase of Shares) to your customer. All orders are subject to acceptance or rejection at our Boston office in our sole discretion, and, in the case of the Units, by BTC in its sole discretion, and all orders for Shares which are accepted by us will be deemed to have been consummated in our Boston office. We will not accept from you any conditional orders for Shares or Units. It is agreed and understood that, whether Shares or Units are registered in the purchaser's name, in your name or in the name of your nominee (in the case of Shares), the customer will have full beneficial ownership of the Shares or Units, as applicable.

3. On the purchase by you through us to cover a single transaction involving Shares of the Funds, the applicable offering price and agency commission therefrom which you will receive will be determined in accordance with the terms of the Prospectus of the applicable Fund. In addition, certain of the Funds have adopted Distribution Plans pursuant to which we, on behalf of each such Fund, will pay a service fee to dealers in accordance with the provisions of such Funds' Distribution Plans. (The service fee is paid to you as additional consideration for all personal services and/or account maintenance services provided by you to shareholders of the applicable Fund.) The provisions and terms of these Funds' Distribution Plans are described in their respective Prospectuses, and you hereby agree that we have made no representations to you with respect to the Distribution Plans of such Funds in addition to, or conflicting with, the description set forth in their respective Prospectuses. No dealer discount or commission is applicable to Shares representing reinvested dividends and distributions. No interest will accrue on amounts represented by uncashed agency commission or service fee checks.

You acknowledge and agree that you shall not be entitled to receive any such service fees unless: (i) you are the holder or dealer of record for accounts in the applicable Fund, or all Funds together, having an aggregate net asset value of at least the minimum amount established by us from time to time in accordance with the terms of the Funds' Distribution Plans or (ii) you satisfy each of the following conditions, as determined from time to time by us in our sole discretion: (a) you include all Funds on your product list and, as requested by us from time to time, one or more of the Funds on your "approved", "preferred" or other similar product lists; provided, however, that the MFS Fixed Fund shall be included only on such product lists as are specifically directed to eligible qualified retirement plans described in the Product Description; (b) you grant reasonable requests from time to time for visits to your offices (including

branch offices) by our sales and marketing representatives; (c) you provide satisfactory product, marketing and sales support, as requested by us from time to time; and (d) you assign one of your registered representatives to each Fund shareholder account on your records and reassign the Fund account should that representative leave your firm; provided; however, that you will not be paid any service fee in any event if the redemption levels of Fund shareholder accounts for which you are the holder or dealer of record are above normal as compared to other dealers, as determined by us from time to time in our sole discretion. In addition, you acknowledge and agree that (y) you shall not be paid any service fee with respect to a specific time period unless and until we are in receipt of the service fee from the Fund for such period and (z) our liability to you for the payment of any such service fee is limited solely to the amount of the applicable Fund's service fee received by us.

4. By accepting this Agreement, you agree:

- (a) That you will order Shares of the Funds or Units for your customers only through us.
- (b) That you will order Shares of the Funds or Units for your customers through us only to cover purchase orders already received from your customers.
- (c) That you will not withhold placing orders received from your customers so as to profit yourself as a result of such withholding, and you will place orders for purchases and redemptions promptly upon receipt from your customers.
- (d) That you shall comply with all such multiple class pricing guidelines as we may from time to time furnish to you.

5. Payment for Shares or Units ordered by you shall be in New York or Boston clearing house funds and must be received by us by the later of (i) the end of the fifth business day following your receipt of the customer's order to purchase such Shares or Units or (ii) the end of one business day following receipt of the customer's payment for such Shares or Units, but in no event later than the end of the eighth business day following your receipt of the customer's order; provided, however, that commencing as of June 1, 1995 and in accordance with Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, payment for such Shares or Units must be received by us not later than the end of the third business day following your receipt of the customer's order. If such payment is not received by us, we reserve the right, without notice, forthwith to cancel the sale or, in the case of Shares, at our option, to sell the Shares ordered back to the issuer, in which case we may hold you responsible for any loss, including loss of profit, suffered by us resulting from your failure to make payment as aforesaid.

6. You agree to provide all necessary information to comply properly with all federal, state and local reporting requirements and backup and nonresident alien withholding requirements for your customer accounts including, without limitation, those requirements that apply by treating Shares issued by the Funds as readily tradable instruments. You represent and agree that all Taxpayer Identification Numbers ("TINS") provided are certified, and that no account

which requires a certified TIN will be established without such certified TIN. You agree to perform all federal, state and local tax reporting with respect to sales of Shares through the National Securities Clearing Corporation ("NSCC") Fund/Serv program, including without limitation redemptions and exchanges.

7. Shares sold through you hereunder shall be available to you for delivery against payment at the office of our agent, MFS Service Center, Inc. ("MFSC"), 500 Boylston Street, Boston, Massachusetts 02116, unless other arrangements are made with us for delivery and payment.

8. If any Shares confirmed to you and your customer under the terms of this Agreement are repurchased by the issuing Fund, or are tendered to a Fund for redemption or repurchase, within seven (7) business days after the date of your original purchase, you shall forthwith refund to us the full agency commission paid or allowed to you on such Shares. We will notify you of any such repurchase or redemption within ten days from the date on which a stock power or letter of instruction, if no certificate has been issued, or the certificate is delivered to us or to the issuer, and you shall forthwith refund to us the full agency commission received by or allowed to you.

9. No person is authorized to make any representations concerning Shares of any Fund except those contained in the Prospectus of such Fund and in printed information and information stored on computer diskettes (illustrating hypothetical investments in the Funds) as issued by us for use as information supplemental to the Prospectus. Supplemental information relating to hypothetical investments may be used only in one-on-one presentations. In purchasing Shares from us, you shall rely solely on the representations contained in the Prospectus and in the above-mentioned supplemental information. We will furnish additional copies of each Fund's Prospectus and sales literature and other information issued by it, in reasonable quantities upon request; provided, however, that we reserve the right to charge a nominal fee, disclosed in advance, for computer diskettes. If you are exempt from registration under the Securities Exchange Act of 1934 and you wish to use your own advertising with respect to the Funds, all such advertising must be submitted to us for review and approval prior to use; we shall file Fund advertising material with the National Association of Securities Dealers, Inc. (the "NASD") and the Securities and Exchange Commission (the "SEC") as required; you will, however, be responsible for any required filing of such material with other regulatory authorities. Qualifications of Shares in the various states, including the filing of any state or further state notices respecting such Shares, and any printed information or information stored on computer diskettes which we furnish you other than the Prospectuses and periodic reports are our sole responsibility and not the responsibility of the respective Funds, and you agree that the Funds shall have no liability or responsibility to you in these respects. No person is authorized to make any representations concerning the Units except those contained in the Description and in such printed information as issued by us for use as information supplemental to the Description. In offering Units for sale, you shall rely solely on the representations contained in the Description and in the above-mentioned supplemental information. We will furnish additional copies of the Description and sales literature, in reasonable quantities upon request.

10. We reserve the right, in our discretion, without notice, to suspend sales or withdraw the offering of Shares or Units entirely. Except as provided

in paragraph 11, each party hereto has the right to cancel this Agreement upon ten days' notice to the other party. We reserve the right to amend this Agreement, or to assign this Agreement to an affiliate, at any time and you agree that an order to purchase Shares of any one of the Funds or of the Units placed by you after notice of any such amendment or assignment has been sent to you shall constitute your agreement to any such amendment or assignment. This Agreement shall supersede any prior Agreement between us regarding the Shares, the Units or any other subject covered by this Agreement.

11. Your acceptance of this Agreement constitutes a representation (i) that you are a securities broker/dealer registered with the SEC and a member in good standing of the NASD, and you agree to comply with the Rules of Fair Practice of the NASD, including specifically Sections 2 and 26 of Article III thereof, or that you are exempt from registration under the Securities Exchange Act of 1934; (ii) that you will maintain adequate records with respect to your customers; (iii) that such transactions are without recourse against you by your customers; and (iv) that you have been duly authorized to enter into this Agreement and perform your obligations hereunder. You likewise agree that you will not make available Shares of any Fund or the Units in any state or other jurisdiction in which we inform you such Shares or Units may not lawfully be offered for sale. You also represent that you have complied, and will continue to comply, with any other state or federal registration requirements (and any other applicable securities, tax and other laws) related to the offer and sale of the Shares of any of the Funds or the offer for sale of the Units. You agree (notwithstanding the provisions of paragraph 10 hereof) that this Agreement shall automatically terminate without notice upon your: (a) filing of a petition in bankruptcy or a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy, reorganization, insolvency or similar statute, law or regulation; or (b) seeking the appointment of any trustee, conservator, receiver, custodian or liquidator for you or for all or substantially all of your properties. Likewise, you agree (notwithstanding the provisions of paragraph 10 hereof) that: (w) if a proceeding is commenced against you seeking relief or an appointment of a type described in the immediately preceding two sentences; or (x) if a trustee, conservator, receiver, custodian or liquidator is appointed for you or for all or substantially all of your properties; or (y) if an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970 shall have been filed against you; or (z) if you are a registered broker-dealer and (i) the SEC shall revoke or suspend your registration as a broker-dealer, (ii) any national securities exchange or national securities association shall revoke or suspend your membership, or (iii) under any applicable net capital rule of the SEC or of any national securities exchange, your aggregate indebtedness shall exceed 1,000% of your net capital, this Agreement shall automatically terminate. You further agree that you will immediately advise us of any such proceeding, appointment, application, revocation, suspension or indebtedness level.

12. You may send exchange requests to MFSC via facsimile, subject to the following requirements: (a) All exchange transactions must be received, and confirmed by a telephone call from you to MFSC, by 4:00 p.m. Boston time in order to receive the day's closing price. Transactions received after 4:00 p.m. will be processed the following business day. If the impact of processing exchange transactions received from all sources is deemed to be injurious to one

of the Funds or the MFS Fixed Fund, we in our sole discretion may elect to delay the purchase side of the transaction for up to seven days. In such a circumstance, the exchange redemption would be made at the price or Unit Value in effect on the first day and the exchange purchase would use the price or Unit Value of a date not more than seven days later. This arrangement will be governed by and superseded by changes in the Prospectuses or the Description without terminating this arrangement. All exchange transactions involving the MFS Fixed Fund are subject to the terms of the Description. (b) All exchange transactions must be sent by facsimile machine to MFSC at (617) 954-6636 or (617) 954-6637 and confirmed by telephone at (617) 954-4628. No other medium of delivery will be acceptable, except as provided by the Prospectuses or the Description. (c) You hereby warrant that each exchange transaction which you initiate will have been authorized by the shareholder or Unitholder prior to initiation. (d) We may terminate your participation in the transactions contemplated by this paragraph at any time if you fail to comply with any of the conditions set forth herein, or, in any event, with 10 days' written notice. Such termination will not affect your responsibilities under paragraph 23 with respect to such transactions.

13. We agree to accept orders including wire orders placed by you for the purchase of Shares for MFS (Prototype) Individual Retirement Account Plans ("IRA Plan"), subject to the following:

(a) We will provide you with IRA Adoption Agreements and Applications ("IRA Agreements") solely for the purpose of allowing you to accept initial and subsequent contributions (other than trustee to trustee transfers) from any individual who has created an IRA Plan by execution of such IRA Agreement, invested in shares of a Fund and designated by the individual, provided that the IRA Plan investment is permitted under the terms of the Fund Prospectus.

(b) You hereby represent and warrant to us, The First National Bank of Boston (the "Trustee") and each Fund that you are fully informed and knowledgeable as to the requirements imposed under the Internal Revenue Code of 1986, as amended (the "Code") and the rules, regulations and rulings adopted pursuant thereto, on and in respect to individual retirement accounts, as defined under the Code. You further represent that for all IRA Plan orders placed hereunder, you will require: (a) receipt of a properly completed and signed IRA Agreement before placing such order; (b) that the participant has received the appropriate MFS IRA Trust and Disclosure Statement; and (c) that the contribution from the participant is properly designated as to the year of contribution. Your placement of an order under this paragraph 13 shall serve as a warranty that such order complies with all such rules, regulations, rulings and procedures.

(c) You shall promptly upon the receipt of any IRA Plan contribution from a participant, and only if in possession of an IRA Agreement signed by the participant, place an order with us through MFSC for shares of a Fund in accordance with the instructions of the participant. If the order placed by you represents a new account, you shall furnish us with an executed IRA Agreement promptly after the order is placed.

(d) You understand that we, MFSC, the Trustee and the Funds shall not be

responsible for monitoring orders placed by you with regard to compliance with Internal Revenue Service (the "IRS") and other rules and regulations, including, but not limited to, those related to over-contributions, eligibility, income restrictions, timeliness of contribution, or any other matters related to the status of any IRA Plan, nor for your compliance with procedures established by us or our agents with respect to such IRA orders.

(e) We, for ourself and our agents, and the Trustee reserve the right, at each of our sole option, and without liability or obligation so to act, to cancel or re-register any trade or not to settle any trade which does not comply with the terms of this paragraph 13 or the procedures established by us or our agents. We will use reasonable efforts to notify you of such actions.

(f) The remittance of the annual service fee cannot be combined with or made via a wire order purchase. Wire redemption requests will not be accepted. Any purchase hereunder must be made in accordance with the terms of the pertinent Prospectus.

(g) We may terminate your participation in the transactions contemplated by this paragraph at any time if you fail to comply with any of the conditions set forth herein, or, in any event, with 10 days' written notice. Such termination will not affect your responsibilities under paragraph 23 with respect to such transactions.

14. You may enter via a remote terminal, and we will accept, the following clerical changes and corrections relating to any account of your customers: dividend and/or capital gain distribution election as to cash or reinvestment; TINs; account executive's number and/or name; branch office city, state and related dealer branch number; and shareholder address changes, subject to the following: (a) You hereby represent and warrant to us, MFSC and the Fund(s) that each change made pursuant to this paragraph has been authorized by your customer prior to its initiation and that you have internal procedures in place to assure that the changes described herein are authorized only by appropriate persons. (b) This arrangement will be governed by and subject to rules and procedures established by us and MFSC for effecting such changes. (c) We or MFSC may terminate your participation in the transactions contemplated by this paragraph at any time if either of us believes or has reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, with 10 days' prior written notice. Such termination will not affect your responsibilities under paragraph 23 with respect to such transactions.

15. You may settle redemptions of shares of the Funds held in individual accounts of your customers or in accounts registered in your name, via NSCC Fund/Serv and without a guaranteed endorsement on the certificates representing such shares, or, if no certificates for such shares have been issued, without a guaranteed endorsement, and we agree to allow such redemptions subject to the following: (a) The wire order redemption request is placed through NSCC Fund/Serv. (b) In the case of certificated shares, the appropriate certificate(s) are received as settlement and the reverse of such certificate(s) is not completed or signed in a manner deemed inconsistent by MFSC in its sole judgment. (c) You hereby warrant to us, MFSC and the Fund(s) that each redemption has been authorized by your customer prior to initiation and that you

have internal procedures in place to assure that the instructions described herein are authorized only by appropriate persons. (d) This arrangement will be governed by and subject to rules and procedures established by us and MFSC for effecting such transactions. (e) We or MFSC may terminate your participation in the transactions described in this paragraph at any time if either of us believes or has reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, with 24 hours' notice. Such termination shall not affect your responsibilities under paragraph 23 with respect to such transactions.

16. Should we agree to participate with you in the NSCC program known as "Networking" in one or more of its "Matrix Levels," which agreement will be evidenced by the execution by us and you of an agreement, we thereby agree to accept from you electronically through MFSC and through Networking channels and Fund/Serv without supporting documentation from shareholders in the Funds for whom you are the dealer of record or with respect to which you are the clearing broker to the dealer of record ("originating firm") which is in turn a party to a Dealer or Mutual Fund Agreement with us (your "client"), the instructions, communication and actions specified in such agreement, subject to and in reliance upon the following requirements and representations.

A. Requirements. 1. You will provide all necessary, requested, updating and reconciling information to ensure the accuracy of records and to enable MFSC to create and maintain an accurate cross-reference file between client records and the Fund account records that shall remain the official records of all Fund shareholder accounts. You agree that MFSC will not be responsible for changes to the file until a reasonable time after receipt thereof. 2. You will provide in a timely fashion all necessary and relevant information regarding adverse claims, governmental and legal inquiries and correspondence to us, MFSC, the Fund or its adviser, as appropriate, in connection with its handling of and responding to such notices, inquiries, correspondence and claims, which may include its or their placing restrictions on the redemption, transfer or exchange of Shares and disclosing that you control accounts pursuant to this paragraph. 3. You will, on behalf of each Fund, report to your clients all information which is required to be reported by the Fund on Shareholder confirmations or otherwise under any applicable statute, rule or regulation or under the terms of the Prospectus, or which is provided by us, MFSC, the Fund or the Fund's adviser to you and other shareholders of the Fund and such information shall be complete, accurate and timely. 4. You will ensure that cash distributions are accurately paid to your client at the time specified by the Fund, and, as among the Funds, MFSC, you and us, you shall be solely responsible for any liabilities arising from payments reported by clients as lost, stolen or forged.

B. Representations and Warranties. You represent and warrant to, and agree with us, MFSC and the Funds that: you have and will continue to have the necessary facilities, equipment and personnel to allow you to perform, and that you will so perform, all duties, functions, procedures or responsibilities described herein and in the Networking agreement between you and us, each as from time to time in effect, in a businesslike and competent manner, in conformance with all applicable laws, rules and regulations (including without limitation, all rules and requirements of the IRS and the Code, with respect to tax reporting; with Rule 10b-10 under the Securities Exchange Act of 1934, with respect to confirmation statements; and with all rules applicable to registered

transfer agents, with respect to duties generally hereunder), with the Prospectuses and with all applicable rules and procedures of the NSCC and NASD; you or the originating firm has the prior sufficient consent of each client whose account is to be placed in or transferred to a Networking account, having first informed each such client in writing of all material facts relating to such arrangement; all your instructions, communications and actions regarding Networked accounts, including all transfers, will be rightful, will have been duly and sufficiently authorized by your client, will be accurate and complete and will be in the appropriate NSCC/DST Systems, Inc. format; if you are acting as a clearing broker, you have obtained the prior written consent of each originating firm to your entering into, and to all the terms of, this paragraph and the Networking agreement and that all actions taken hereunder will have been approved in advance by the applicable originating firm; the taking of any action as to which MFSC normally requires a signature guarantee shall be deemed to constitute your guarantee in proper order of your client's signature; you will obtain and maintain, and upon request provide to MFSC, for each Networking account all forms, applications, waivers, exemptions, certifications or other documents or information required by applicable laws, rules or regulations including, without limitation, state and federal securities and tax laws, rules and regulations; you do not act as our agent under this paragraph; and you have and will maintain adequate insurance coverage as is appropriate for your duties and obligations hereunder, and will, upon request, provide us or MFSC with a certificate of insurance evidencing your compliance.

Nothing herein shall prohibit us, any Fund, the advisers of the Funds or MFSC from mailing or otherwise distributing to Shareholders any material concerning the Funds or other funds or services now or hereafter offered by any of us. We may terminate your participation in the transactions contemplated by this paragraph and the Networking agreement at any time if you fail to comply with any of the conditions set forth herein or, with respect to accounts of an originating firm, the termination of our Dealer or Mutual Fund Agreement with such firm, or in any event, or with respect to any accounts, with 30 days' prior written notice. Such termination will not affect your responsibilities under paragraph 23 with respect to such transactions.

17. Units of the MFS Fixed Fund may be offered for sale by you only to retirement plans which have been determined by the IRS to be qualified for tax exemption under sections 401 and 501 of the Code, to governmental plans within the meaning of section 414(d) of the Code or to financial institutions which are acting as trustee, custodian or agent for any such plan; excluding, however, certain retirement plans which cover individuals some or all of whom are self-employed, as further described in the Description (such eligible investors are collectively referred to as "Qualified Investors"). With respect to Units offered for sale by you to Qualified Investors, we will pay to you a periodic distribution fee as described in the Description. No dealer discount or commission is applicable to sales of the Units. All offers for sale of the Units shall be subject to the terms of the Description. You agree that we have made no representation to you with respect to the Units or the MFS Fixed Fund in addition to, or conflicting with, the Description. We may terminate your ability to offer the Units at any time if we believe or have reason to believe that you have failed or may fail to comply with any of the conditions set forth herein or, in any event, upon 10 days' prior written notice. Such termination will not affect your responsibilities under paragraph 23 with respect to any transactions

affecting the Units.

18. We and you agree that all disputes between us of whatever subject matter, whether existing on the date hereof or arising hereafter, shall be submitted to arbitration in accordance with the Code of Arbitration Procedure of the NASD, or similar rules or code, in effect at the time of the submission of any such dispute.

19. You shall make available for your customers such administrative services as are necessary or appropriate for providing information and services to your customers. Such services and assistance may include, but not be limited to, establishment and maintenance of accounts and records, processing purchase and redemption transactions, answering routine inquiries, and such other services as may be agreed upon from time to time and as may be permitted by applicable statute, rule or regulation. You shall promptly answer all written complaints received by you relating to Fund accounts or forward such complaints to us.

20. The customers in question are your customers and MFS Fund Distributors, Inc. will not engage in any activity which would interfere with such relationship. The names of your customers shall remain your sole property and shall not be used by MFS Fund Distributors, Inc. for any purpose except for servicing and informational mailings in the normal course of business. This confidentiality of customer information shall survive the termination of this Agreement.

21. All communications to us shall be sent to MFS Service Center, Inc., 500 Boylston Street, Boston, MA 02116. Any notice to you shall be duly given if mailed, telegraphed or sent by facsimile machine to you at the address specified by you below. This Agreement shall be governed by and construed in accordance with the internal laws of The Commonwealth of Massachusetts.

22. You appoint MFSC, the transfer agent for each Fund, as your agent to execute the purchase transactions of Shares of such Fund in accordance with the terms and provisions of any account, program, plan or service established or used by your customers and to confirm each purchase to your customers on your behalf, except as modified in writing by the transfer agent, and you represent and guarantee to us, the Fund and the MFS Fixed Fund the legal capacity of your customers purchasing such Shares or Units (including the satisfaction of the eligibility requirements in the Product Description) and any other person in whose name the Shares or Units are to be registered.

23. You agree that you shall indemnify and hold harmless us, MFSC, the Funds, the MFS Fixed Fund and their affiliates, BTC (individually and as trustee of the MFS Fixed Fund, the BT Pyramid GIC Fund and the BT Pyramid Discretionary Account Cash Fund) and BTCs affiliates, and our and their officers, trustees, directors, employees, shareholders and agents against any claims, losses, costs or liabilities, including attorneys' fees, that may be assessed against, or suffered or incurred by any of them, howsoever they arise, and as they are incurred, which relate in any way to (1) any use of supplemental hypothetical information provided on computer diskettes other than in one-on-one presentations or any misuse of or alteration to any supplemental information; provided, however, that the addition of the name of a customer or other identifying or variable information expressly authorized by us within such

supplemental information which calls for the addition of such information is expressly permitted; (2) any transactions or other activity processed through NSCC programs, including the automated mutual fund order entry, settlement and registration verification system known as Fund/Serv; if an agreement has been signed by you and us so to permit, the program known as Networking; and the redemption of shares pursuant to paragraph 15; (3) any exchange requests initiated by you via facsimile; (4) any contribution accepted or order placed by you pursuant to paragraph 13 hereof, including, but not limited to, any claims, losses or liabilities relating to the loss of favorable tax status of an IRA Plan or contribution, any IRA revocation by an individual in connection with an IRA Plan, and any failed trades for IRA Plans hereunder, or any contribution accepted in violation of the terms of paragraph 13 hereof (the indemnification provided under this subparagraph (4) will extend to the Trustee as well as the parties listed above); (5) any account established by your firm, or for which your firm is financial intermediary of record, with a "transfer on death," "payable on death" or other similar registration; (6) improper compliance with federal, state or local reporting requirements or backup or nonresident alien withholding requirements, including losses resulting from omitted, incorrect or uncertified TINS; or the failure to provide an accurate tax residence status; (7) any account changes made pursuant to paragraph 14 thereof; and (8) any breach of your representations or warranties, or failure to comply with your obligations, set forth in this Agreement, in any event whether such action, failure, error, omission, misconduct, or breach is committed by you or by your employee, agent or clearing broker, whether or not acting within the scope of his employment, agency or authority (the indemnification provided under this subparagraph (8) will extend to the Trustee as well the parties listed above).

You agree to notify us within a reasonable time of any claim against you or any person who controls you within the meaning of Section 15 of the Securities Act of 1933 with respect to securities offered hereunder.

Nothing in this paragraph 23 shall be deemed to preclude us, a Fund, the MFS Fixed Fund, MFSC, the Trustee (with respect to subparagraph (4) or (8) above), BTC (individually and as trustee of the MFS Fixed Fund, the BT Pyramid GIC Fund and the BT Pyramid Discretionary Account Cash Fund), or our or their affiliates, officers, directors, trustees, employees, shareholders or agents from seeking monetary damages and/or injunctive relief in connection with such claims, losses and liabilities. This paragraph 23 will survive termination of this Agreement or any provision hereof.

MFS FUND DISTRIBUTORS, INC.
By: /s/ WILLIAM W. SCOTT, JR.
WILLIAM W. SCOTT, JR., President

We have read the foregoing Agreement and accept and agree to the terms and conditions thereof.

FIRM: -----

By: -----
(Authorized Representative)

Title: -----

Address: -----

The above Agreement should be executed in duplicate and one copy returned to us:

MFS Fund Distributors, Inc.
Banking Industry Marketing
500 Boylston Street
Boston, Massachusetts 02116

12/94 370

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Post-Effective Amendment No. 26 to Registration No. 2-92915 of MFS Municipal Series Trust of our report relating to MFS Municipal Income Fund dated May 5, 1994 appearing in the annual report to shareholders for the year ended March 31, 1994 and of our report dated November 4, 1994 appearing in the semiannual report to shareholders for the six-months ended September 30, 1994, and to the references to us under the headings "Condensed Financial Information" in the Prospectus and "Independent Accountants and Financial Statements" in the Statement of Additional Information, both of which are part of such Registration Statement.

DELOITTE & TOUCHE

Boston, Massachusetts
February 21, 1995

MFS MUNICIPAL SERIES TRUST

MFS MUNICIPAL INCOME FUND

DISTRIBUTION PLAN

DISTRIBUTION PLAN with respect to the shares of beneficial interest to be designated "CLASS A" of the MFS MUNICIPAL INCOME FUND (the "Fund"), a series of MFS Municipal Series Trust (the "Trust"), a business trust organized and existing under the laws of The Commonwealth of Massachusetts, dated the 1st day of September, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940 (the "Act"); and

WHEREAS, the Trust intends to distribute the Shares of Beneficial Interest (without par value) of the Fund designated Class A Shares (the "Shares") in part in accordance with Rule 12b-1 under the Act, ("Rule 12b-1"), and desires to adopt this Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") in a form approved by the Board of Trustees of the Trust (the "Board of Trustees") in the manner specified in Rule 12b-1, with MFS Fund Distributors, Inc., a Delaware corporation, as distributor (the "Distributor"), whereby the Distributor provides facilities and personnel and renders services to the Fund in connection with the offering and distribution of the Shares; and

WHEREAS, the Trust recognizes and agrees that the Distributor will enter into agreements ("Dealer Agreements") with various securities dealers and other financial intermediaries ("Dealers") pursuant to which the Dealers will act as dealers of the Shares in connection with the offering of Shares; and

WHEREAS, the Distribution Agreement provides that a sales charge may be paid by investors who purchase Shares and that the Distributor and Dealers will receive such sales charge as partial compensation for their services in connection with sale of Shares; and

WHEREAS, the Board of Trustees, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has

determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class A shareholders;

NOW, THEREFORE, the Board of Trustees hereby adopts this Plan for the Fund as a plan of distribution relating to the Shares in accordance with Rule 12b-1 under the Act, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses described in Section 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. As partial consideration for the services performed and expenses to the extent specified in the Distribution Agreement in providing the services incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.10% per annum of the average daily net assets of the Fund attributable to the Shares. Such payments shall commence following shareholder approval of the Plan but only upon notification by the Distributor to the Fund of the commencement of the Plan (the "Commencement Date").

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its Dealer Agreement, the Fund shall on or after the Commencement Date pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. The Distributor may from time to time reduce the amount of the service fee paid to a Dealer for Shares sold prior to certain date.

5. In addition to fees payable pursuant to Sections 3 and 4 hereof, the expenses permitted to be paid by the Fund pursuant to this Plan on or after the Commencement Date shall include other distribution related expenses. These other distribution related expenses may include, but are not limited to, a dealer commission and a payment to wholesalers employed by the Distributor on net asset value purchases at or above a certain dollar level.

The aggregate amount of fees and expenses paid pursuant to Sections 3 and 4 hereof and this Section 5 shall not exceed 0.35% per annum of the average daily net assets of the Fund attributable to the Shares. No fees shall be paid pursuant to Section 4 hereof or this Section 5 to any insurance company which has entered into an agreement with the Trust on behalf of the Fund and the

Distributor that permits such insurance company to purchase Shares from the Fund at their net asset value in connection with annuity agreements issued in connection with the insurance company's separate accounts. That portion of the Fund's average daily net assets on which fees payable under Section 4 hereof and this Section 5 are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer or wholesaler qualification standards that may be established, from time to time by the Distributor. The Distributor shall be entitled to be paid any fees payable under Section 4 hereof or this Section 5 with respect to accounts for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The fees and expenses payable pursuant to Section 4 and this Section 5 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these expenses on behalf of the Fund.

6. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

7. This Plan shall become effective upon (a) approval by a vote of at least a "majority of the outstanding voting securities" of the Shares, and (b) approval by a vote of the Board of Trustees and vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any of the agreements related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

8. This Plan shall continue in effect indefinitely; provided, however, that such continuance is subject to annual approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on continuance of this Plan. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

9. This Plan may be amended at any time by the Board of Trustees; provided that (a) any amendment to increase materially the amount to be spent for the services described herein shall be effective only upon approval by a vote of a "majority of the outstanding voting securities" of the Shares and (b) any material amendment of this Plan shall be effective only upon approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on such amendment. This Plan may be terminated at any time by vote of a majority of the Qualified Trustees or by a vote of a "majority of the outstanding voting securities" of the Shares.

10. The Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under the Plan and the purposes for which such expenditures were made.

11. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

12. For the purposes of this Plan, the terms "interested person" and "majority of the outstanding voting securities" are used as defined in the Act. In addition, for purposes of determining the fees payable to Dealers and wholesalers, the value of the Share's net assets shall be computed in the manner specified in the Fund's then current prospectus for computation of the net asset value of the Shares.

13. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in Section 10 hereof (collectively the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such Record shall be kept in an easily accessible place for the first two years of said record keeping.

14. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the Act.

15. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL SERIES TRUST

MFS MUNICIPAL INCOME FUND

PLAN OF DISTRIBUTION

PLAN OF DISTRIBUTION with respect to the shares of beneficial interest to be designated "CLASS B" of MFS MUNICIPAL INCOME FUND (the "Fund"), a series of MFS Municipal Series Trust (the "Trust") a Massachusetts business trust, dated September 1, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940, as amended (collectively with the rules and regulations promulgated thereunder, the "1940 Act"); and

WHEREAS, the Trust intends to distribute the shares of beneficial interest (without par value) of the Fund designated Class B Shares (the

"Shares") in accordance with Rule 12b-1 under the 1940 Act ("Rule 12b-1"), and desires to adopt this Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust desires for MFS Fund Distributors, Inc., a Delaware corporation ("MFD"), to provide certain distribution services for the Fund (the "Distributor"); and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") (in a form approved by the Board of Trustees of the Trust in a manner specified in such Rule 12b-1) with the Distributor, whereby the Distributor will provide facilities and personnel and render services to the Fund in connection with the offering and distribution of the Shares (the "Distribution Agreement"); and

WHEREAS, the Trust recognizes and agrees that (a) the Distributor may retain the services of firms or individuals to act as dealers (the "Dealers") of the Shares in connection with the offering of Shares, and (b) the Distributor may make payments for such services to the Dealers out of the fee paid to the Distributor hereunder, any deferred sales charges imposed by the Distributor in connection with the repurchase of Shares, its profits or any other source available to it; and

WHEREAS, the Trust recognizes and agrees that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund, and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges; and

WHEREAS, the Board of Trustees of the Trust, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class B shareholders;

NOW, THEREFORE, the Board of Trustees of the Trust hereby adopts this Plan for the Fund as a plan for distribution relating to the Shares in accordance with Rule 12b-1, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for commissions payable to Dealers, all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the services described in paragraph 1, including without limitation, the compensation of

personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. It is understood that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges. As additional consideration for all services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.75% per annum of the Fund's average daily net assets attributable to the Shares.

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its dealer agreement with the Distributor, the Fund shall pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. That portion of the Fund's average daily net assets on which the fees payable under this paragraph 4 hereof are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer qualification standards that may be established from time to time, by the Distributor. The Distributor shall be entitled to be paid any fees payable under this paragraph 4 hereof with respect to Shares for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The service fee payable pursuant to this paragraph 4 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these fees on behalf of the Fund.

5. The Fund understands that agreements between the Distributor and the Dealers may provide for payment of commissions to Dealers in connection with the sales of Shares and may provide for a portion (which may be all or substantially all) of the fees payable by the Fund to the Distributor under the Distribution Agreement to be paid by the Distributor to the Dealers in consideration of the Dealer's services as a dealer of the Shares. Except as described in paragraph 4, nothing in this Plan shall be construed as requiring the Fund to make any payment to any Dealer or to have any obligations to any Dealer in connection with services as a dealer of the Shares. The Distributor shall agree and undertake that any agreement entered into between the Distributor and any Dealer shall provide that, except as provided in paragraph 4, such Dealer shall look solely to the Distributor for compensation for its services thereunder and that in no event shall such Dealer seek any payment from the Fund.

6. The Fund shall pay all fees and expenses of any independent auditor, legal counsel, investment adviser, administrator, transfer agent, custodian, shareholder servicing agent, registrar or dividend disbursing agent of the Fund; expenses of distributing and redeeming Shares and servicing shareholder accounts; expenses of preparing, printing and mailing prospectuses, shareholder reports, notices, proxy statements and reports to governmental officers and

commissions and to shareholders of the Fund, except that the Distributor shall be responsible for the distribution-related expenses as provided in paragraphs 1 and 2 hereof.

7. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

8. This Plan shall become effective upon (a) approval by a vote of at least a "majority of the outstanding voting securities" of the Shares, and (b) approval by a vote of the Board of Trustees and a vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any agreement related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

9. This Plan shall continue in effect indefinitely; provided that such continuance is "specifically approved at least annually" by a vote of both a majority of the Trustees of the Trust and a majority of the Qualified Trustees. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

10. This Plan may be amended at any time by the Board of Trustees; provided that this Plan may not be amended to increase materially the amount of permitted expenses hereunder without the approval of holders of a "majority of the outstanding voting securities" of the Shares and may not be materially amended in any case without a vote of a majority of both the Trustees and the Qualified Trustees. This Plan may be terminated at any time by a vote of a majority of the Qualified Trustees or by a vote of the holders of a "majority of the outstanding voting securities" of the Shares.

11. The Fund and the Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under this Plan and the purposes for which such expenditures were made.

12. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

13. For the purposes of this Plan, the terms "interested persons", "majority of the outstanding voting securities" and "specifically approved at least annually" are used as defined in the Act. In addition, for purposes of determining the fees payable to the Distributor hereunder, the value of the Fund's net assets shall be computed in the manner specified in the Fund's then-current prospectus and statement of additional information for computation of the net asset value of the Shares of the Fund.

14. The Trust shall preserve copies of this Plan, and each agreement

related hereto and each report referred to in paragraph 11 hereof (collectively, the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such record shall be kept in an easily accessible place for the first two years of said record-keeping.

15. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the 1940 Act.

16. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL BOND FUND

MFS MUNICIPAL INCOME FUND

PLAN OF DISTRIBUTION

PLAN OF DISTRIBUTION with respect to the shares of beneficial interest to be designated "Class C" of MFS Municipal Income Fund (the "Fund"), a series of MFS Municipal Bond Fund (the "Trust") a Massachusetts business trust, dated December 28, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940, as amended (collectively with the rules and regulations promulgated thereunder, the "1940 Act"); and

WHEREAS, the Trust intends to distribute the shares of beneficial interest (without par value) of the Fund designated Class C Shares (the "Shares") in accordance with Rule 12b-1 under the 1940 Act ("Rule 12b-1"), and desires to adopt this Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust desires for MFS Fund Distributors, Inc., a Delaware corporation ("MFD"), to provide certain distribution services for the Fund (the "Distributor"); and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") (in a form approved by the Board of Trustees of the Trust in a manner specified in Rule 12b-1) with the Distributor, whereby the

Distributor will provide facilities and personnel and render services to the Fund in connection with the offering and distribution of the Shares (the "Distribution Agreement"); and

WHEREAS, the Trust recognizes and agrees that (a) the Distributor may retain the services of firms or individuals to act as dealers (the "Dealers") of the Shares in connection with the offering of Shares, and (b) the Distributor may make payments for such services to the Dealers out of the fee paid to the Distributor hereunder, any deferred sales charges imposed by the Distributor in connection with the repurchase of Shares, its profits or any other source available to it; and

WHEREAS, the Trust recognizes and agrees that the Distributor may (but is not required to) impose certain deferred sales charges in connection with the repurchase of Shares by the Fund, and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges; and

WHEREAS, the Board of Trustees of the Trust, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class C shareholders;

NOW, THEREFORE, the Board of Trustees of the Trust hereby adopts this Plan for the Fund as a plan for distribution relating to the Shares in accordance with Rule 12b-1, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for any commissions payable to Dealers (including any ongoing maintenance commissions), all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the services described in paragraph 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. It is understood that the Distributor may (but is not required to) impose certain deferred sales charges in connection with the repurchase of Shares by the Fund and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges. As additional consideration for all services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor

a distribution fee periodically at a rate not to exceed 0.75% per annum of the Fund's average daily net assets attributable to the Shares.

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its dealer agreement with the Distributor, the Fund shall pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. That portion of the Fund's average daily net assets on which the fees payable under this paragraph 4 hereof are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer qualification standards that may be established, from time to time by the Distributor. The Distributor shall be entitled to be paid any fees payable under this paragraph 4 hereof with respect to Shares for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The service fee payable pursuant to this paragraph 4 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these fees to Dealers on behalf of the Fund or retain them in accordance with this paragraph.

5. The Fund understands that agreements between the Distributor and the Dealers may provide for payment of commissions to Dealers in connection with the sales of Shares and may provide for a portion (which may be all or substantially all) of the fees payable by the Fund to the Distributor under the Distribution Agreement to be paid by the Distributor to the Dealers in consideration of the Dealer's services as a dealer of the Shares. Except as described in paragraph 4, nothing in this Plan shall be construed as requiring the Fund to make any payment to any Dealer or to have any obligations to any Dealer in connection with services as a dealer of the Shares. The Distributor shall agree and undertake that any agreement entered into between the Distributor and any Dealer shall provide that, except as provided in paragraph 4, such Dealer shall look solely to the Distributor for compensation for its services thereunder and that in no event shall such Dealer seek any payment from the Fund.

6. The Fund shall pay all fees and expenses of any independent auditor, legal counsel, investment adviser, administrator, transfer agent, custodian, shareholder servicing agent, registrar or dividend disbursing agent of the Fund; expenses of distributing and redeeming Shares and servicing shareholder accounts; expenses of preparing, printing and mailing prospectuses, shareholder reports, notices, proxy statements and reports to governmental officers and commissions and to shareholders of the Fund, except that the Distributor shall be responsible for the distribution-related expenses as provided in paragraphs 1 and 2 hereof.

7. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

8. This Plan shall become effective upon (a) approval by a vote of at least a "majority of the outstanding voting securities" of Class C, and (b) approval by a vote of the Board of Trustees and a vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any agreement related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the Purpose of voting on this Plan.

9. This Plan shall continue in effect indefinitely; provided that such continuance is "specifically approved at least annually" by a vote of both a majority of the Trustees of the Trust and a majority of the Qualified Trustees. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

10. This Plan may be amended at any time by the Board of Trustees; provided that this Plan may not be amended to increase materially the amount of permitted expenses hereunder without the approval of holders of a "majority of the outstanding voting securities" of Class C and may not be materially amended in any case without a vote of a majority of both the Trustees and the Qualified Trustees. This Plan may be terminated at any time by a vote of a majority of the Qualified Trustees or by a vote of the holders of a "majority of the outstanding voting securities" of Class C.

11. The Fund and the Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under this Plan and the purposes for which such expenditures were made.

12. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

13. For the purposes of this Plan, the terms "interested persons", "majority of the outstanding voting securities" and "specifically approved at least annually" are used as defined in the 1940 Act. In addition, for purposes of determining the fees payable to the Distributor hereunder, the value of the Fund's net assets shall be computed in the manner specified in the Fund's then-current prospectus and statement of additional information for computation of the net asset value of the Shares of the Fund.

14. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in paragraph 11 hereof (collectively, the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such record shall be kept in an easily accessible place for the first two years of said record-keeping.

15. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the 1940 Act.

16. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL SERIES TRUST

MFS NEW YORK MUNICIPAL BOND FUND

AMENDED AND RESTATED DISTRIBUTION PLAN

AMENDED AND RESTATED DISTRIBUTION PLAN with respect to the shares of beneficial interest to be designated "CLASS A" of the MFS NEW YORK MUNICIPAL BOND FUND (the "Fund"), a series of MFS Municipal Series Trust (the "Trust"), a business trust organized and existing under the laws of The Commonwealth of Massachusetts, dated the 24th day of August, 1984, amended and restated the 10th day of April, 1991, amended and restated the 27th day of August, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940 (the "Act"); and

WHEREAS, a plan of distribution pursuant to Rule 12b-1 of the Act was previously adopted and approved by the Trustees of the Trust, including the Qualifying Trustees (as defined below), and by the shareholders of the Fund; and

WHEREAS, the Trust intends to continue to distribute the Shares of Beneficial Interest (without par value) of the Fund designated Class A Shares (the "Shares") in part in accordance with Rule 12b-1 under the Act ("Rule 12b-1"), and desires to adopt this amended and restated Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") in a form approved by the Board of Trustees of the Trust (the "Board of Trustees") in the manner specified in Rule 12b-1, with MFS Fund Distributors, Inc., a Delaware corporation, as distributor (the "Distributor"), whereby the Distributor provides facilities and personnel and renders services to the Fund in connection with the offering and distribution of the Shares; and

WHEREAS, the Trust recognizes and agrees that the Distributor will enter into agreements ("Dealer Agreements") with various securities dealers and other financial intermediaries ("Dealers") pursuant to which the Dealers will act as dealers of the Shares in connection with the offering of Shares; and

WHEREAS, the Distribution Agreement provides that a sales charge may be paid by investors who purchase Shares and that the Distributor and Dealers will receive such sales charge as partial compensation for their services in connection with sale of Shares; and

WHEREAS, the Board of Trustees, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class A shareholders;

NOW, THEREFORE, the Board of Trustees hereby adopts this Plan for the Fund as a plan of distribution relating to the Shares in accordance with Rule 12b-1 under the Act, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the Services described in Section 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. As partial consideration for the services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.10% per annum of the average daily net assets of the Fund attributable to the Shares.

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its Dealer Agreement, the Fund shall pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. The Distributor may from time to time reduce the amount of the service fee paid to a Dealer for Shares sold prior to certain date.

5. In addition to fees payable pursuant to Sections 3 and 4 hereof, the expenses permitted to be paid by the Fund pursuant to this Plan shall include other distribution related expenses. These other distribution related expenses may include, but are not limited to, a dealer commission and a payment to

wholesalers employed by the Distributor on net asset value purchases at or above a certain dollar level.

The aggregate amount of fees and expenses paid pursuant to Sections 3 and 4 hereof and this Section 5 shall not exceed 0.35% per annum of the average daily net assets of the Fund attributable to the Shares. No fees shall be paid pursuant to Section 4 hereof or this Section 5 to any insurance company which has entered into an agreement with the Trust on behalf of the Fund and the Distributor that permits such insurance company to purchase Shares from the Fund at their net asset value in connection with annuity agreements issued in connection with the insurance company's separate accounts. That portion of the Fund's average daily net assets on which fees payable under Section 4 hereof and this Section 5 are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer or wholesaler qualification standards that may be established, from time to time by the Distributor. The Distributor shall be entitled to be paid any fees payable under Section 4 hereof or this Section 5 with respect to accounts for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The fees and expenses payable pursuant to Section 4 and this Section 5 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these expenses on behalf of the Fund.

6. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

7. This Plan shall become effective upon approval by a vote of the Board of Trustees and vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any of the agreements related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

8. This Plan shall continue in effect indefinitely; provided, however, that such continuance is subject to annual approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on continuance of this Plan. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

9. This Plan may be amended at any time by the Board of Trustees; provided that (a) any amendment to increase materially the amount to be spent for the

services described herein shall be effective only upon approval by a vote of a "majority of the outstanding voting securities" of the Shares and (b) any material amendment of this Plan shall be effective only upon approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on such amendment. This Plan may be terminated at any time by vote of a majority of the Qualified Trustees or by a vote of a "majority of the outstanding voting securities" of the Shares.

10. The Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under the Plan and the purposes for which such expenditures were made.

11. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

12. For the purposes of this Plan, the terms "interested person" and "majority of the outstanding voting securities" are used as defined in the Act. In addition, for purposes of determining the fees payable to Dealers and wholesalers, the value of the Share's net assets shall be computed in the manner specified in the Fund's then current prospectus for computation of the net asset value of the Shares.

13. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in Section 10 hereof (collectively the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such Record shall be kept in an easily accessible place for the first two years of said record keeping.

14. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the Act.

15. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL SERIES TRUST

MFS NEW YORK MUNICIPAL BOND FUND

PLAN OF DISTRIBUTION

PLAN OF DISTRIBUTION with respect to the shares of beneficial interest to be designated "CLASS B" of MFS NEW YORK MUNICIPAL BOND FUND (the "Fund"), a series of MFS Municipal Series Trust (the "Trust") a Massachusetts business trust, dated September 1, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940, as amended (collectively with the rules and regulations promulgated thereunder, the "1940 Act"); and

WHEREAS, the Trust intends to distribute the shares of beneficial interest (without par value) of the Fund designated Class B Shares (the "Shares") in accordance with Rule 12b-1 under the 1940 Act ("Rule 12b-1"), and desires to adopt this Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust desires for MFS Fund Distributors, Inc., a Delaware corporation ("MFD"), to provide certain distribution services for the Fund (the "Distributor"); and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") (in a form approved by the Board of Trustees of the Trust in a manner specified in such Rule 12b-1) with the Distributor, whereby the Distributor will provide facilities and personnel and render services to the Fund in connection with the offering and distribution of the Shares (the "Distribution Agreement"); and

WHEREAS, the Trust recognizes and agrees that (a) the Distributor may retain the services of firms or individuals to act as dealers (the "Dealers") of the Shares in connection with the offering of Shares, and (b) the Distributor may make payments for such services to the Dealers out of the fee paid to the Distributor hereunder, any deferred sales charges imposed by the Distributor in connection with the repurchase of Shares, its profits or any other source available to it; and

WHEREAS, the Trust recognizes and agrees that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund, and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges; and

WHEREAS, the Board of Trustees of the Trust, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class B

shareholders;

NOW, THEREFORE, the Board of Trustees of the Trust hereby adopts this Plan for the Fund as a plan for distribution relating to the Shares in accordance with Rule 12b-1, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for commissions payable to Dealers, all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the services described in paragraph 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. It is understood that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges. As additional consideration for all services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.75% per annum of the Fund's average daily net assets attributable to the Shares.

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its dealer agreement with the Distributor, the Fund shall pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. That portion of the Fund's average daily net assets on which the fees payable under this paragraph 4 hereof are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer qualification standards that may be established from time to time, by the Distributor. The Distributor shall be entitled to be paid any fees payable under this paragraph 4 hereof with respect to Shares for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The service fee payable pursuant to this paragraph 4 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these fees on behalf of the Fund.

5. The Fund understands that agreements between the Distributor and the Dealers may provide for payment of commissions to Dealers in connection with the sales of Shares and may provide for a portion (which may be all or substantially

all) of the fees payable by the Fund to the Distributor under the Distribution Agreement to be paid by the Distributor to the Dealers in consideration of the Dealer's services as a dealer of the Shares. Except as described in paragraph 4, nothing in this Plan shall be construed as requiring the Fund to make any payment to any Dealer or to have any obligations to any Dealer in connection with services as a dealer of the Shares. The Distributor shall agree and undertake that any agreement entered into between the Distributor and any Dealer shall provide that, except as provided in paragraph 4, such Dealer shall look solely to the Distributor for compensation for its services thereunder and that in no event shall such Dealer seek any payment from the Fund.

6. The Fund shall pay all fees and expenses of any independent auditor, legal counsel, investment adviser, administrator, transfer agent, custodian, shareholder servicing agent, registrar or dividend disbursing agent of the Fund; expenses of distributing and redeeming Shares and servicing shareholder accounts; expenses of preparing, printing and mailing prospectuses, shareholder reports, notices, proxy statements and reports to governmental officers and commissions and to shareholders of the Fund, except that the Distributor shall be responsible for the distribution-related expenses as provided in paragraphs 1 and 2 hereof.

7. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

8. This Plan shall become effective upon (a) approval by a vote of at least a "majority of the outstanding voting securities" of the Shares, and (b) approval by a vote of the Board of Trustees and a vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any agreement related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

9. This Plan shall continue in effect indefinitely; provided that such continuance is "specifically approved at least annually" by a vote of both a majority of the Trustees of the Trust and a majority of the Qualified Trustees. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

10. This Plan may be amended at any time by the Board of Trustees; provided that this Plan may not be amended to increase materially the amount of permitted expenses hereunder without the approval of holders of a "majority of the outstanding voting securities" of the Shares and may not be materially amended in any case without a vote of a majority of both the Trustees and the Qualified Trustees. This Plan may be terminated at any time by a vote of a majority of the Qualified Trustees or by a vote of the holders of a "majority of the outstanding voting securities" of the Shares.

11. The Fund and the Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under this Plan and the purposes for which such expenditures were made.

12. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

13. For the purposes of this Plan, the terms "interested persons", "majority of the outstanding voting securities" and "specifically approved at least annually" are used as defined in the Act. In addition, for purposes of determining the fees payable to the Distributor hereunder, the value of the Fund's net assets shall be computed in the manner specified in the Fund's then-current prospectus and statement of additional information for computation of the net asset value of the Shares of the Fund.

14. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in paragraph 11 hereof (collectively, the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such record shall be kept in an easily accessible place for the first two years of said record-keeping.

15. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the 1940 Act.

16. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL SERIES TRUST

MFS PENNSYLVANIA MUNICIPAL BOND FUND

AMENDED AND RESTATED DISTRIBUTION PLAN

AMENDED AND RESTATED DISTRIBUTION PLAN with respect to the shares of beneficial interest to be designated "CLASS A" of the MFS PENNSYLVANIA MUNICIPAL BOND FUND (the "Fund"), a series of MFS Municipal Series Trust (the "Trust"), a business trust organized and existing under the laws of The Commonwealth of Massachusetts, dated the 1st day of February, 1992, amended and restated the 27th day of August, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940 (the "Act"); and

WHEREAS, a plan of distribution pursuant to Rule 12b-1 of the Act was previously adopted and approved by the Trustees of the Trust, including the Qualifying Trustees (as defined below), and by the shareholders of the Fund; and

WHEREAS, the Trust intends to continue to distribute the Shares of Beneficial Interest (without par value) of the Fund designated Class A Shares (the "Shares") in part in accordance with Rule 12b-1 under the Act ("Rule 12b-1"), and desires to adopt this amended and restated Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") in a form approved by the Board of Trustees of the Trust (the "Board of Trustees") in the manner specified in Rule 12b-1, with MFS Fund Distributors, Inc., a Delaware corporation, as distributor (the "Distributor"), whereby the Distributor provides facilities and personnel and renders services to the Fund in connection with the offering and distribution of the Shares; and

WHEREAS, the Trust recognizes and agrees that the Distributor will enter into agreements ("Dealer Agreements") with various securities dealers and other financial intermediaries ("Dealers") pursuant to which the Dealers will act as dealers of the Shares in connection with the offering of Shares; and

WHEREAS, the Distribution Agreement provides that a sales charge may be paid by investors who purchase Shares and that the Distributor and Dealers will receive such sales charge as partial compensation for their services in connection with sale of Shares; and

WHEREAS, the Board of Trustees, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class A shareholders;

NOW, THEREFORE, the Board of Trustees hereby adopts this Plan for the Fund as a plan of distribution relating to the Shares in accordance with Rule 12b-1 under the Act, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the Services described in Section 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. As partial consideration for the services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.10% per annum of the average daily net assets of the Fund attributable to the Shares. Such payments shall commence when the value of the Fund's net assets attributable to the Shares first equals or exceeds \$50 million (the "Commencement Date").

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its Dealer Agreement, the Fund shall on or after the Commencement Date pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. The Distributor may from time to time reduce the amount of the service fee paid to a Dealer for Shares sold prior to certain date.

5. In addition to fees payable pursuant to Sections 3 and 4 hereof, the expenses permitted to be paid by the Fund pursuant to this Plan on or after the Commencement Date shall include other distribution related expenses. These other distribution related expenses may include, but are not limited to, a dealer commission and a payment to wholesalers employed by the Distributor on net asset

value purchases at or above a certain dollar level.

The aggregate amount of fees and expenses paid pursuant to Sections 3 and 4 hereof and this Section 5 shall not exceed 0.35% per annum of the average daily net assets of the Fund attributable to the Shares. No fees shall be paid pursuant to Section 4 hereof or this Section 5 to any insurance company which has entered into an agreement with the Trust on behalf of the Fund and the Distributor that permits such insurance company to purchase Shares from the Fund at their net asset value in connection with annuity agreements issued in connection with the insurance company's separate accounts. That portion of the Fund's average daily net assets on which fees payable under Section 4 hereof and this Section 5 are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer or wholesaler qualification standards that may be established, from time to time by the Distributor. The Distributor shall be entitled to be paid any fees payable under Section 4 hereof or this Section 5 with respect to accounts for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The fees and expenses payable pursuant to Section 4 and this Section 5 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these expenses on behalf of the Fund.

6. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

7. This Plan shall become effective upon approval by a vote of the Board of Trustees and vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any of the agreements related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

8. This Plan shall continue in effect indefinitely; provided, however, that such continuance is subject to annual approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on continuance of this Plan. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

9. This Plan may be amended at any time by the Board of Trustees; provided that (a) any amendment to increase materially the amount to be spent for the services described herein shall be effective only upon approval by a vote of a "majority of the outstanding voting securities" of the Shares and (b) any

material amendment of this Plan shall be effective only upon approval by a vote of the Board of Trustees and a majority of the Qualified Trustees, such votes to be cast in person at a meeting called for the purpose of voting on such amendment. This Plan may be terminated at any time by vote of a majority of the Qualified Trustees or by a vote of a "majority of the outstanding voting securities" of the Shares.

10. The Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under the Plan and the purposes for which such expenditures were made.

11. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

12. For the purposes of this Plan, the terms "interested person" and "majority of the outstanding voting securities" are used as defined in the Act. In addition, for purposes of determining the fees payable to Dealers and wholesalers, the value of the Share's net assets shall be computed in the manner specified in the Fund's then current prospectus for computation of the net asset value of the Shares.

13. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in Section 10 hereof (collectively the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such Record shall be kept in an easily accessible place for the first two years of said record keeping.

14. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the Act.

15. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

MFS MUNICIPAL SERIES TRUST

MFS PENNSYLVANIA MUNICIPAL BOND FUND

PLAN OF DISTRIBUTION

PLAN OF DISTRIBUTION with respect to the shares of beneficial interest to be designated "CLASS B" of MFS PENNSYLVANIA BOND FUND (the "Fund"), a series of MFS

Municipal Series Trust (the "Trust") a Massachusetts business trust, dated September 1, 1993 and amended this 14th day of December, 1994.

WITNESSETH:

WHEREAS, the Trust is engaged in business as an open-end management investment company and is registered under the Investment Company Act of 1940, as amended (collectively with the rules and regulations promulgated thereunder, the "1940 Act"); and

WHEREAS, the Trust intends to distribute the shares of beneficial interest (without par value) of the Fund designated Class B Shares (the "Shares") in accordance with Rule 12b-1 under the 1940 Act ("Rule 12b-1"), and desires to adopt this Distribution Plan (the "Plan") as a plan of distribution pursuant to such Rule; and

WHEREAS, the Trust desires for MFS Fund Distributors, Inc., a Delaware corporation ("MFD"), to provide certain distribution services for the Fund (the "Distributor"); and

WHEREAS, the Trust has entered into a distribution agreement (the "Distribution Agreement") (in a form approved by the Board of Trustees of the Trust in a manner specified in such Rule 12b-1) with the Distributor, whereby the Distributor will provide facilities and personnel and render services to the Fund in connection with the offering and distribution of the Shares (the "Distribution Agreement"); and

WHEREAS, the Trust recognizes and agrees that (a) the Distributor may retain the services of firms or individuals to act as dealers (the "Dealers") of the Shares in connection with the offering of Shares, and (b) the Distributor may make payments for such services to the Dealers out of the fee paid to the Distributor hereunder, any deferred sales charges imposed by the Distributor in connection with the repurchase of Shares, its profits or any other source available to it; and

WHEREAS, the Trust recognizes and agrees that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund, and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges; and

WHEREAS, the Board of Trustees of the Trust, in considering whether the Fund should adopt and implement this Plan, has evaluated such information as it deemed necessary to an informed determination as to whether this Plan should be adopted and implemented and has considered such pertinent factors as it deemed necessary to form the basis for a decision to use assets of the Fund for such purposes, and has determined that there is a reasonable likelihood that the adoption and implementation of this Plan will benefit the Fund and its Class B shareholders;

NOW, THEREFORE, the Board of Trustees of the Trust hereby adopts this Plan for the Fund as a plan for distribution relating to the Shares in accordance with Rule 12b-1, on the following terms and conditions:

1. As specified in the Distribution Agreement, the Distributor shall provide facilities, personnel and a program with respect to the offering and sale of Shares. Among other things, the Distributor shall be responsible for commissions payable to Dealers, all expenses of printing (excluding typesetting) and distributing prospectuses to prospective shareholders and providing such other related services as are reasonably necessary in connection therewith.

2. The Distributor shall bear all distribution-related expenses to the extent specified in the Distribution Agreement in providing the services described in paragraph 1, including without limitation, the compensation of personnel necessary to provide such services and all costs of travel, office expenses (including rent and overhead), equipment, printing, delivery and mailing costs.

3. It is understood that the Distributor may impose certain deferred sales charges in connection with the repurchase of Shares by the Fund and the Distributor may retain (or receive from the Fund, as the case may be) all such deferred sales charges. As additional consideration for all services performed and expenses incurred in the performance of its obligations under the Distribution Agreement, the Fund shall pay the Distributor a distribution fee periodically at a rate of 0.75% per annum of the Fund's average daily net assets attributable to the Shares.

4. As partial consideration for the personal services and/or account maintenance services performed by each Dealer in the performance of its obligations under its dealer agreement with the Distributor, the Fund shall pay each Dealer a service fee periodically at a rate not to exceed 0.25% per annum of the portion of the average daily net assets of the Fund that is represented by Shares that are owned by investors for whom such Dealer is the holder or dealer of record. That portion of the Fund's average daily net assets on which the fees payable under this paragraph 4 hereof are calculated may be subject to certain minimum amount requirements as may be determined, and additional or different dealer qualification standards that may be established from time to time, by the Distributor. The Distributor shall be entitled to be paid any fees payable under this paragraph 4 hereof with respect to Shares for which no Dealer of record exists or qualification standards have not been met as partial consideration for personal services and/or account maintenance services provided by the Distributor to the Shares. The service fee payable pursuant to this paragraph 4 may from time to time be paid by the Fund to the Distributor and the Distributor will then pay these fees on behalf of the Fund.

5. The Fund understands that agreements between the Distributor and the Dealers may provide for payment of commissions to Dealers in connection with the sales of Shares and may provide for a portion (which may be all or substantially all) of the fees payable by the Fund to the Distributor under the Distribution Agreement to be paid by the Distributor to the Dealers in consideration of the Dealer's services as a dealer of the Shares. Except as described in paragraph 4,

nothing in this Plan shall be construed as requiring the Fund to make any payment to any Dealer or to have any obligations to any Dealer in connection with services as a dealer of the Shares. The Distributor shall agree and undertake that any agreement entered into between the Distributor and any Dealer shall provide that, except as provided in paragraph 4, such Dealer shall look solely to the Distributor for compensation for its services thereunder and that in no event shall such Dealer seek any payment from the Fund.

6. The Fund shall pay all fees and expenses of any independent auditor, legal counsel, investment adviser, administrator, transfer agent, custodian, shareholder servicing agent, registrar or dividend disbursing agent of the Fund; expenses of distributing and redeeming Shares and servicing shareholder accounts; expenses of preparing, printing and mailing prospectuses, shareholder reports, notices, proxy statements and reports to governmental officers and commissions and to shareholders of the Fund, except that the Distributor shall be responsible for the distribution-related expenses as provided in paragraphs 1 and 2 hereof.

7. Nothing herein contained shall be deemed to require the Trust to take any action contrary to its Declaration of Trust or By-Laws or any applicable statutory or regulatory requirement to which it is subject or by which it is bound, or to relieve or deprive the Board of Trustees of the responsibility for and control of the conduct of the affairs of the Fund.

8. This Plan shall become effective upon (a) approval by a vote of at least a "majority of the outstanding voting securities" of the Shares, and (b) approval by a vote of the Board of Trustees and a vote of a majority of the Trustees who are not "interested persons" of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any agreement related to the Plan (the "Qualified Trustees"), such votes to be cast in person at a meeting called for the purpose of voting on this Plan.

9. This Plan shall continue in effect indefinitely; provided that such continuance is "specifically approved at least annually" by a vote of both a majority of the Trustees of the Trust and a majority of the Qualified Trustees. If such annual approval is not obtained, this Plan shall expire 12 months after the effective date of the last approval.

10. This Plan may be amended at any time by the Board of Trustees; provided that this Plan may not be amended to increase materially the amount of permitted expenses hereunder without the approval of holders of a "majority of the outstanding voting securities" of the Shares and may not be materially amended in any case without a vote of a majority of both the Trustees and the Qualified Trustees. This Plan may be terminated at any time by a vote of a majority of the Qualified Trustees or by a vote of the holders of a "majority of the outstanding voting securities" of the Shares.

11. The Fund and the Distributor shall provide the Board of Trustees, and the Board of Trustees shall review, at least quarterly, a written report of the amounts expended under this Plan and the purposes for which such

expenditures were made.

12. While this Plan is in effect, the selection and nomination of Qualified Trustees shall be committed to the discretion of the Trustees who are not "interested persons" of the Trust.

13. For the purposes of this Plan, the terms "interested persons", "majority of the outstanding voting securities" and "specifically approved at least annually" are used as defined in the Act. In addition, for purposes of determining the fees payable to the Distributor hereunder, the value of the Fund's net assets shall be computed in the manner specified in the Fund's then-current prospectus and statement of additional information for computation of the net asset value of the Shares of the Fund.

14. The Trust shall preserve copies of this Plan, and each agreement related hereto and each report referred to in paragraph 11 hereof (collectively, the "Records") for a period of six years from the end of the fiscal year in which such Record was made and each such record shall be kept in an easily accessible place for the first two years of said record-keeping.

15. This Plan shall be construed in accordance with the laws of The Commonwealth of Massachusetts and the applicable provisions of the 1940 Act.

16. If any provision of this Plan shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of the Plan shall not be affected thereby.

STANDARDIZED 30-DAY YIELD

$$\text{YIELD} = 2 \times \left[\frac{a - b}{c \times d} + 1 \right]^{1/6} - 1$$

Where:

- a = Total income for period
- b = Fund expenses for period
- c = Average shares outstanding
- d = Last price during period

TAX EQUIVALENT YIELD

FORMULA: $Y / (1 - r)$

Where:

- Y = Yield
- r = Tax bracket

DISTRIBUTION RATE

FORMULA: a/d or bc/d

Where:

- a = Total last 12 months' dividends
- b = Current dividend per share
- c = Frequency of dividend payments
- d = Maximum offering price per share on last day of period

AVERAGE ANNUAL TOTAL RATE OF RETURN

FORMULA: $P(1 + T)^n = ERV$

Where:

P = A hypothetical initial payment of \$1,000

T = Average annual total return

n = Number of years

ERV = Ending Redeemable Value

AGGREGATE TOTAL RATE OF RETURN

FORMULA:

$$1000(1 + T) = ERV$$

Where:

T = aggregate total return

ERV = ending redeemable value

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

<ARTICLE> 6

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<SERIES>

<NUMBER> 23

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| <EXPENSE-RATIO> | 1.07 |
| <AVG-DEBT-OUTSTANDING> | 0 |
| <AVG-DEBT-PER-SHARE> | 0 |

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WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

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<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<SERIES>

<NUMBER> 23

<NAME> MFS MUNICIPAL INCOME FUND CLASS B

| <S> | <C> |
|---------------------------|--------------|
| <PERIOD-TYPE> | 4-MOS |
| <FISCAL-YEAR-END> | MAR-31-1994 |
| <PERIOD-END> | MAR-31-1994 |
| <INVESTMENTS-AT-COST> | 467,831,454 |
| <INVESTMENTS-AT-VALUE> | 486,824,937 |
| <RECEIVABLES> | 21,131,219 |
| <ASSETS-OTHER> | 19,426 |
| <OTHER-ITEMS-ASSETS> | 1,039,653 |
| <TOTAL-ASSETS> | 509,015,235 |
| <PAYABLE-FOR-SECURITIES> | 14,906,186 |
| <SENIOR-LONG-TERM-DEBT> | 0 |
| <OTHER-ITEMS-LIABILITIES> | 2,642,928 |
| <TOTAL-LIABILITIES> | 17,549,114 |
| <SENIOR-EQUITY> | 0 |
| <PAID-IN-CAPITAL-COMMON> | 475,041,627 |
| <SHARES-COMMON-STOCK> | 56,008,099 |
| <SHARES-COMMON-PRIOR> | 57,620,531 |
| <ACCUMULATED-NII-CURRENT> | 0 |
| <OVERDISTRIBUTION-NII> | (1,489,567) |
| <ACCUMULATED-NET-GAINS> | 0 |
| <OVERDISTRIBUTION-GAINS> | (1,230,985) |
| <ACCUM-APPREC-OR-DEPREC> | 19,145,046 |
| <NET-ASSETS> | 491,466,121 |
| <DIVIDEND-INCOME> | 0 |
| <INTEREST-INCOME> | 11,966,182 |
| <OTHER-INCOME> | 0 |
| <EXPENSES-NET> | 3,831,068 |
| <NET-INVESTMENT-INCOME> | 8,135,114 |
| <REALIZED-GAINS-CURRENT> | (1,579,438) |
| <APPREC-INCREASE-CURRENT> | (21,759,776) |
| <NET-CHANGE-FROM-OPS> | (15,204,100) |
| <EQUALIZATION> | 0 |
| <DISTRIBUTIONS-OF-INCOME> | (6,513,043) |
| <DISTRIBUTIONS-OF-GAINS> | (319,911) |

| | |
|-----------------------------|--------------|
| <DISTRIBUTIONS-OTHER> | (2,717,807) |
| <NUMBER-OF-SHARES-SOLD> | 1,771,398 |
| <NUMBER-OF-SHARES-REDEEMED> | (3,964,973) |
| <SHARES-REINVESTED> | 581,143 |
| <NET-CHANGE-IN-ASSETS> | (27,174,156) |
| <ACCUMULATED-NII-PRIOR> | 0 |
| <ACCUMULATED-GAINS-PRIOR> | 1,899,681 |
| <OVERDISTRIB-NII-PRIOR> | (1,560,730) |
| <OVERDIST-NET-GAINS-PRIOR> | 0 |
| <GROSS-ADVISORY-FEES> | 1,301,038 |
| <INTEREST-EXPENSE> | 0 |
| <GROSS-EXPENSE> | 3,831,068 |
| <AVERAGE-NET-ASSETS> | 528,478,909 |
| <PER-SHARE-NAV-BEGIN> | 8.99 |
| <PER-SHARE-NII> | 0.14 |
| <PER-SHARE-GAIN-APPREC> | (0.51) |
| <PER-SHARE-DIVIDEND> | (0.01) |
| <PER-SHARE-DISTRIBUTIONS> | (0.01) |
| <RETURNS-OF-CAPITAL> | (0.04) |
| <PER-SHARE-NAV-END> | 8.56 |
| <EXPENSE-RATIO> | 2.24 |
| <AVG-DEBT-OUTSTANDING> | 0 |
| <AVG-DEBT-PER-SHARE> | 0 |

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<ARTICLE> 6

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 23

<NAME> MFS MUNICIPAL INCOME FUND CLASS C

| <S> | <C> |
|---------------------------|--------------|
| <PERIOD-TYPE> | 4-MOS |
| <FISCAL-YEAR-END> | MAR-31-1994 |
| <PERIOD-END> | MAR-31-1994 |
| <INVESTMENTS-AT-COST> | 467,831,454 |
| <INVESTMENTS-AT-VALUE> | 486,824,937 |
| <RECEIVABLES> | 21,131,219 |
| <ASSETS-OTHER> | 19,426 |
| <OTHER-ITEMS-ASSETS> | 1,039,653 |
| <TOTAL-ASSETS> | 509,015,235 |
| <PAYABLE-FOR-SECURITIES> | 14,906,186 |
| <SENIOR-LONG-TERM-DEBT> | 0 |
| <OTHER-ITEMS-LIABILITIES> | 2,642,928 |
| <TOTAL-LIABILITIES> | 17,549,114 |
| <SENIOR-EQUITY> | 0 |
| <PAID-IN-CAPITAL-COMMON> | 475,041,627 |
| <SHARES-COMMON-STOCK> | 746,497 |
| <SHARES-COMMON-PRIOR> | 0 |
| <ACCUMULATED-NII-CURRENT> | 0 |
| <OVERDISTRIBUTION-NII> | (1,489,567) |
| <ACCUMULATED-NET-GAINS> | 0 |
| <OVERDISTRIBUTION-GAINS> | (1,230,985) |
| <ACCUM-APPREC-OR-DEPREC> | 19,145,046 |
| <NET-ASSETS> | 491,466,121 |
| <DIVIDEND-INCOME> | 0 |
| <INTEREST-INCOME> | 11,966,182 |
| <OTHER-INCOME> | 0 |
| <EXPENSES-NET> | 3,831,068 |
| <NET-INVESTMENT-INCOME> | 8,135,114 |
| <REALIZED-GAINS-CURRENT> | (1,579,438) |
| <APPREC-INCREASE-CURRENT> | (21,759,776) |
| <NET-CHANGE-FROM-OPS> | (15,204,100) |
| <EQUALIZATION> | 0 |
| <DISTRIBUTIONS-OF-INCOME> | (36,953) |
| <DISTRIBUTIONS-OF-GAINS> | 0 |
| <DISTRIBUTIONS-OTHER> | (1,021) |
| <NUMBER-OF-SHARES-SOLD> | 940,881 |

| | |
|-----------------------------|--------------|
| <NUMBER-OF-SHARES-REDEEMED> | (196,948) |
| <SHARES-REINVESTED> | 2,564 |
| <NET-CHANGE-IN-ASSETS> | (27,174,156) |
| <ACCUMULATED-NII-PRIOR> | 0 |
| <ACCUMULATED-GAINS-PRIOR> | 1,899,681 |
| <OVERDISTRIB-NII-PRIOR> | (1,560,730) |
| <OVERDIST-NET-GAINS-PRIOR> | 0 |
| <GROSS-ADVISORY-FEES> | 1,301,038 |
| <INTEREST-EXPENSE> | 0 |
| <GROSS-EXPENSE> | 3,831,068 |
| <AVERAGE-NET-ASSETS> | 528,478,909 |
| <PER-SHARE-NAV-BEGIN> | 9.07 |
| <PER-SHARE-NII> | 0.09 |
| <PER-SHARE-GAIN-APPREC> | (0.59) |
| <PER-SHARE-DIVIDEND> | (0.01) |
| <PER-SHARE-DISTRIBUTIONS> | 0.00 |
| <RETURNS-OF-CAPITAL> | 0.00 |
| <PER-SHARE-NAV-END> | 8.56 |
| <EXPENSE-RATIO> | 2.18 |
| <AVG-DEBT-OUTSTANDING> | 0 |
| <AVG-DEBT-PER-SHARE> | 0 |

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WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 23

<NAME> MFS MUNICIPAL INCOME FUND CLASS A

| <S> | <C> |
|---------------------------|-------------|
| <PERIOD-TYPE> | 6-MOS |
| <FISCAL-YEAR-END> | MAR-31-1994 |
| <PERIOD-END> | SEP-30-1994 |
| <INVESTMENTS-AT-COST> | 441,271,756 |
| <INVESTMENTS-AT-VALUE> | 459,564,573 |
| <RECEIVABLES> | 20,782,152 |
| <ASSETS-OTHER> | 7,096 |
| <OTHER-ITEMS-ASSETS> | 34,849 |
| <TOTAL-ASSETS> | 480,388,670 |
| <PAYABLE-FOR-SECURITIES> | 13,480,953 |
| <SENIOR-LONG-TERM-DEBT> | 0 |
| <OTHER-ITEMS-LIABILITIES> | 1,733,131 |
| <TOTAL-LIABILITIES> | 15,214,084 |
| <SENIOR-EQUITY> | 0 |
| <PAID-IN-CAPITAL-COMMON> | 454,180,336 |
| <SHARES-COMMON-STOCK> | 869,078 |
| <SHARES-COMMON-PRIOR> | 653,752 |
| <ACCUMULATED-NII-CURRENT> | 0 |
| <OVERDISTRIBUTION-NII> | (1,147,286) |
| <ACCUMULATED-NET-GAINS> | (6,448,156) |
| <OVERDISTRIBUTION-GAINS> | 0 |
| <ACCUM-APPREC-OR-DEPREC> | 18,589,692 |
| <NET-ASSETS> | 465,174,586 |
| <DIVIDEND-INCOME> | 0 |
| <INTEREST-INCOME> | 17,362,684 |
| <OTHER-INCOME> | 0 |
| <EXPENSES-NET> | 5,067,274 |
| <NET-INVESTMENT-INCOME> | 12,295,410 |
| <REALIZED-GAINS-CURRENT> | (5,217,171) |
| <APPREC-INCREASE-CURRENT> | (555,354) |
| <NET-CHANGE-FROM-OPS> | 6,522,885 |
| <EQUALIZATION> | 0 |
| <DISTRIBUTIONS-OF-INCOME> | (196,787) |
| <DISTRIBUTIONS-OF-GAINS> | 0 |

| | |
|-----------------------------|--------------|
| <DISTRIBUTIONS-OTHER> | 0 |
| <NUMBER-OF-SHARES-SOLD> | 411,312 |
| <NUMBER-OF-SHARES-REDEEMED> | (200,291) |
| <SHARES-REINVESTED> | 4,305 |
| <NET-CHANGE-IN-ASSETS> | (26,291,535) |
| <ACCUMULATED-NII-PRIOR> | 0 |
| <ACCUMULATED-GAINS-PRIOR> | 0 |
| <OVERDISTRIB-NII-PRIOR> | (1,489,567) |
| <OVERDIST-NET-GAINS-PRIOR> | (1,230,985) |
| <GROSS-ADVISORY-FEES> | 1,805,022 |
| <INTEREST-EXPENSE> | 0 |
| <GROSS-EXPENSE> | 5,067,274 |
| <AVERAGE-NET-ASSETS> | 480,488,181 |
| <PER-SHARE-NAV-BEGIN> | 8.56 |
| <PER-SHARE-NII> | 0.26 |
| <PER-SHARE-GAIN-APPREC> | (0.10) |
| <PER-SHARE-DIVIDEND> | (0.26) |
| <PER-SHARE-DISTRIBUTIONS> | 0.00 |
| <RETURNS-OF-CAPITAL> | 0.00 |
| <PER-SHARE-NAV-END> | 8.46 |
| <EXPENSE-RATIO> | 1.05 |
| <AVG-DEBT-OUTSTANDING> | 0 |
| <AVG-DEBT-PER-SHARE> | 0 |

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WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

<ARTICLE> 6

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<SERIES>

<NUMBER> 23

<NAME> MFS MUNICIPAL INCOME FUND CLASS B

| <S> | <C> |
|---------------------------|--------------|
| <PERIOD-TYPE> | 6-MOS |
| <FISCAL-YEAR-END> | MAR-31-1994 |
| <PERIOD-END> | SEP-30-1994 |
| <INVESTMENTS-AT-COST> | 441,271,756 |
| <INVESTMENTS-AT-VALUE> | 459,564,573 |
| <RECEIVABLES> | 20,782,152 |
| <ASSETS-OTHER> | 7,096 |
| <OTHER-ITEMS-ASSETS> | 34,849 |
| <TOTAL-ASSETS> | 480,388,670 |
| <PAYABLE-FOR-SECURITIES> | 13,480,953 |
| <SENIOR-LONG-TERM-DEBT> | 0 |
| <OTHER-ITEMS-LIABILITIES> | 1,733,131 |
| <TOTAL-LIABILITIES> | 15,214,084 |
| <SENIOR-EQUITY> | 0 |
| <PAID-IN-CAPITAL-COMMON> | 454,180,336 |
| <SHARES-COMMON-STOCK> | 52,891,853 |
| <SHARES-COMMON-PRIOR> | 56,008,099 |
| <ACCUMULATED-NII-CURRENT> | 0 |
| <OVERDISTRIBUTION-NII> | (1,147,286) |
| <ACCUMULATED-NET-GAINS> | (6,448,156) |
| <OVERDISTRIBUTION-GAINS> | 0 |
| <ACCUM-APPREC-OR-DEPREC> | 18,589,692 |
| <NET-ASSETS> | 465,174,586 |
| <DIVIDEND-INCOME> | 0 |
| <INTEREST-INCOME> | 17,362,684 |
| <OTHER-INCOME> | 0 |
| <EXPENSES-NET> | 5,067,274 |
| <NET-INVESTMENT-INCOME> | 12,295,410 |
| <REALIZED-GAINS-CURRENT> | (5,217,171) |
| <APPREC-INCREASE-CURRENT> | (555,354) |
| <NET-CHANGE-FROM-OPS> | 6,522,885 |
| <EQUALIZATION> | 0 |
| <DISTRIBUTIONS-OF-INCOME> | (10,374,004) |
| <DISTRIBUTIONS-OF-GAINS> | 0 |

| | |
|-----------------------------|--------------|
| <DISTRIBUTIONS-OTHER> | (1,156,201) |
| <NUMBER-OF-SHARES-SOLD> | 1,631,728 |
| <NUMBER-OF-SHARES-REDEEMED> | (5,483,849) |
| <SHARES-REINVESTED> | 735,875 |
| <NET-CHANGE-IN-ASSETS> | (26,291,535) |
| <ACCUMULATED-NII-PRIOR> | 0 |
| <ACCUMULATED-GAINS-PRIOR> | 0 |
| <OVERDISTRIB-NII-PRIOR> | (1,489,567) |
| <OVERDIST-NET-GAINS-PRIOR> | (1,230,985) |
| <GROSS-ADVISORY-FEES> | 1,805,022 |
| <INTEREST-EXPENSE> | 0 |
| <GROSS-EXPENSE> | 5,067,274 |
| <AVERAGE-NET-ASSETS> | 480,488,181 |
| <PER-SHARE-NAV-BEGIN> | 8.56 |
| <PER-SHARE-NII> | 0.22 |
| <PER-SHARE-GAIN-APPREC> | (0.11) |
| <PER-SHARE-DIVIDEND> | (0.21) |
| <PER-SHARE-DISTRIBUTIONS> | 0.00 |
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| <PER-SHARE-NAV-END> | 8.46 |
| <EXPENSE-RATIO> | 2.12 |
| <AVG-DEBT-OUTSTANDING> | 0 |
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<ARTICLE> 6

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF MFS MUNICIPAL INCOME FUND AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 23

<NAME> MFS MUNICIPAL INCOME FUND CLASS C

| <S> | <C> |
|---------------------------|-------------|
| <PERIOD-TYPE> | 6-MOS |
| <FISCAL-YEAR-END> | MAR-31-1994 |
| <PERIOD-END> | SEP-30-1994 |
| <INVESTMENTS-AT-COST> | 441,271,756 |
| <INVESTMENTS-AT-VALUE> | 459,564,573 |
| <RECEIVABLES> | 20,782,152 |
| <ASSETS-OTHER> | 7,096 |
| <OTHER-ITEMS-ASSETS> | 34,849 |
| <TOTAL-ASSETS> | 480,388,670 |
| <PAYABLE-FOR-SECURITIES> | 13,480,953 |
| <SENIOR-LONG-TERM-DEBT> | 0 |
| <OTHER-ITEMS-LIABILITIES> | 1,733,131 |
| <TOTAL-LIABILITIES> | 15,214,084 |
| <SENIOR-EQUITY> | 0 |
| <PAID-IN-CAPITAL-COMMON> | 454,180,336 |
| <SHARES-COMMON-STOCK> | 1,207,253 |
| <SHARES-COMMON-PRIOR> | 746,497 |
| <ACCUMULATED-NII-CURRENT> | 0 |
| <OVERDISTRIBUTION-NII> | (1,147,286) |
| <ACCUMULATED-NET-GAINS> | (6,448,156) |
| <OVERDISTRIBUTION-GAINS> | 0 |
| <ACCUM-APPREC-OR-DEPREC> | 18,589,692 |
| <NET-ASSETS> | 465,174,586 |
| <DIVIDEND-INCOME> | 0 |
| <INTEREST-INCOME> | 17,362,684 |
| <OTHER-INCOME> | 0 |
| <EXPENSES-NET> | 5,067,274 |
| <NET-INVESTMENT-INCOME> | 12,295,410 |
| <REALIZED-GAINS-CURRENT> | (5,217,171) |
| <APPREC-INCREASE-CURRENT> | (555,354) |
| <NET-CHANGE-FROM-OPS> | 6,522,885 |
| <EQUALIZATION> | 0 |
| <DISTRIBUTIONS-OF-INCOME> | (226,137) |
| <DISTRIBUTIONS-OF-GAINS> | 0 |
| <DISTRIBUTIONS-OTHER> | 0 |
| <NUMBER-OF-SHARES-SOLD> | 814,164 |

| | |
|-----------------------------|--------------|
| <NUMBER-OF-SHARES-REDEEMED> | (372,146) |
| <SHARES-REINVESTED> | 18,738 |
| <NET-CHANGE-IN-ASSETS> | (26,291,535) |
| <ACCUMULATED-NII-PRIOR> | 0 |
| <ACCUMULATED-GAINS-PRIOR> | 0 |
| <OVERDISTRIB-NII-PRIOR> | (1,489,567) |
| <OVERDIST-NET-GAINS-PRIOR> | (1,230,985) |
| <GROSS-ADVISORY-FEES> | 1,805,022 |
| <INTEREST-EXPENSE> | 0 |
| <GROSS-EXPENSE> | 5,067,274 |
| <AVERAGE-NET-ASSETS> | 480,488,181 |
| <PER-SHARE-NAV-BEGIN> | 8.56 |
| <PER-SHARE-NII> | 0.22 |
| <PER-SHARE-GAIN-APPREC> | (0.09) |
| <PER-SHARE-DIVIDEND> | (0.22) |
| <PER-SHARE-DISTRIBUTIONS> | 0.00 |
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| <PER-SHARE-NAV-END> | 8.47 |
| <EXPENSE-RATIO> | 2.05 |
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