

# Monthly Portfolio Update

Pioneer Funds – Core European Equity

26 February 2010

Equity

## Review

Pioneer Funds – Core European Equity (Class A, non-distributing, EUR units) recorded an outperformance of 0.3% versus its benchmark, the MSCI Europe Index over the month of February. The Portfolio returned 0.17% over the month, while its benchmark returned -0.18%.

At macroeconomic level, European stocks were volatile during February as sovereign risk fears weighted on the market.

Problems in Greece dominated news flow in Europe and especially in relation to the euro. EU leaders announced that they would be willing to help Greece but gave no details. However, the news was badly received and at a subsequent meeting, a harsher tone was evident, putting the pressure back on Greece to implement additional measures to reduce its budget deficit. There were further comments by various leaders and it looks likely that Greece will receive some help, but details are yet to be sorted. However, any assistance is likely to come with tough conditions on Greece doing more to cut its budget deficit.

At the same time that Greece has prompted an uptick in risk aversion, recovery prospects in Europe are also waning. Economic growth in the eurozone was a lower-than-expected 0.1% (q-o-q) in the fourth quarter of 2009, down from 0.4% in Q3. The figure for the full year was -4%. The French economy remained strong (0.6%), with Germany flat and Italy (-0.2%) and Spain (-0.1%) contracting. Indeed, Spain is the last major economy still in recession, which has so far lasted seven quarters. Towards the end of the month, the Ifo reading of German business sentiment also surprisingly fell for the first time since last March when it bottomed out when markets were at their lows. So far the reporting season for FY09 and Q4 results showed no big surprises on the upside as most of the profitability improvements were driven by cost cutting rather than top-line.

## Performance Analysis

Over the month, the Portfolio benefited from successful stock selection, particularly within the Financials, Healthcare, Industrials and Materials sectors.

Conversely, performance was negatively impacted by our investments within Consumer Discretionary, Consumer Staples and Energy.

The greatest contribution to relative performance over the period came from our stock selection within the Healthcare sector. Fresenius Se within the Healthcare Equipment & Services sub-sector was a key contributor. The company announced a good final result for 2009 with sales up 13% in constant currency, EBIT in line with expectations and adjusted net income just ahead of forecasts. We continue to favour the company due to its growth profile and one of the more attractive valuation opportunities in the European Healthcare Equipment & Services sub-sector.

Within Pharmaceuticals, Biotechnology & Life Sciences, our position in Shire also rewarded. The company announced strong results for Q4 2009 during the month, ahead of market expectations. The company expects further growth in 2010 and has reiterated an upbeat longer-term outlook. The positive investment case is based on Shire offering one of the strongest revenue growth outlooks in the European Pharmaceuticals sector as well as the scope for margin expansion. It is also one of the more obvious M&A targets in the sector – to date we see these factors as justifying the valuation premium to the sector.

Elsewhere, within the Industrials sector, UK-based manufacturing company Rolls Royce climbed after the full-year profit was reported ahead of analyst estimates and additionally, the company said it will increase dividend payments to shareholders. Within the same sector Schneider Electric also rewarded. We continue to like the secular story of energy efficiency in Schneider together with its core franchises in electrical distribution and critical power.

Zurich Financial Services within the Insurance industry of Financials was a significant positive contributor. The company reported a fivefold increase in Q4 net profit as a result of higher premiums and fewer write-downs. We believe that the company should benefit from the fact that they have been among the first movers raising rates and keeping the profitability of the business higher than the average at the expense of volumes. Within Diversified

Financials, Deutsche Boerse released FY09 numbers that were ahead of expectations. Management have committed to keeping the cost base this year at least flat YoY, if not lower.

At single stock level, our positions within Eutelsat Communications and Compass Group were relative outperformers but the positive contribution was not sufficient to offset performance lost elsewhere in the Consumer Discretionary sector through our investments in Retailing and in Automobiles and Components, where both Renault and Peugeot fell back over the month.

Compass Group, a foodservice company, was a key contributor after issuing a positive interim management statement with organic growth declines less than expected. The company is seeing strong growth in new business in both foodservice and support services (pipeline remains strong) and retention rates remain high.

Eutelsat Communications, a France-based satellite operator, delivered another strong set of numbers during the month with sales in line with expectations. We remain positive on the company's outlook with further confirmation of Eutelsat and fixed satellite business strength with the earnings upgrade cycle continuing.

Finally, our investments within the Materials sector proved rewarding as mining companies such as Rio Tinto rallied towards the end of the month.

## Portfolio Strategy

In terms of changes to the Portfolio over February, we initiated a position in Philips Electrics (Capital Goods, Industrials) following a confident company meeting with the management. We like the interesting combination of the ongoing cost-cutting story; model of outsourced manufacturing; EMG market exposure; recovery in Healthcare budgets; structural growth in lighting and de-emphasis of the TV business.

We sold out of our position in BBVA in order to reduce exposure to Spanish domestic banking.

## Outlook

With regards to outlook, we will continue to seek out quality franchises with under-appreciated prospects at reasonable valuations. In the short term, the market will be driven by macro events – sovereign risks and debt concerns – which will provide buying opportunities of

high-quality companies. The biggest concern is the fading momentum of leading economic indicators as governments reduce their stimulus measures, which might weigh on the market in the short term. Some leading indicators have already peaked. The reporting season so far was mixed with some positive surprises but the expectations have been high and did not support the market further. We hope to be able to focus more on single company fundamentals rather than on the larger macro/market as in 2008-2009. A return to “stock picking” should favour our equity-selection approach, which emphasises researching and meeting with companies, and determining their “intrinsic value” over a medium-term horizon using fundamental analysis. In a lower, potentially weaker, GDP environment we expect those companies that can deliver genuine top-line growth to be afforded a market premium. We also see enhanced attraction in stocks that can offer secure and/or growing dividend streams in this environment.

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