

Monthly Portfolio Update

Pioneer Funds – Emerging Markets Bond

26 February 2010

Bond

Review

Emerging market debt performed well during February, with the JPM EMBI Diversified Index (in USD) ending the month up by 1.36%, as emerging markets exhibited continued economic strength in spite of mixed global data and indicators, and generally increased risk aversion in the wake of the continuing difficulties in Greece.

In China, following an increase in banks' capital requirements, the central bank increased reserve ratios by a further 50 bps in February. The tightening measure was applied despite consumer price inflation falling in January and coming in lower than expected. This is a further indication that China is keen to avoid bubbles following record credit growth in January (19% of this year's RMB7,500bn target).

It is a similar story in several other Asian countries, where tightening is firmly on the agenda over the coming months. The strength of the Indian economy was underlined by finance minister Pranab Mukherjee, who predicted that GDP should hit 8.7% in this fiscal year, although inflation needs to be controlled and the budget deficit (6.9% of GDP) reduced. Maintaining growth in Asia and other emerging regions is not a problem, unlike many developed markets, which goes to show that economic decoupling is a reality.

Inflation continues to rise in Korea, making a tightening in monetary policy more likely. CPI advanced to 3.1% (y-o-y) in January, having nearly doubled in the past six months since bottoming out in July, whereas interest rates have been at their lowest for a year. The country avoided recession, with a single, but large, 5.1% (q-o-q) contraction in Q4 2008. Since then, growth has picked up, particularly in the second and third quarters of last year.

After a record contraction of 7.9% last year, the Russian economy is now showing signs of growth. Retail sales rose slightly (0.3%) in January, for the first time in a year, and the trend has been good since bottoming out in September. Consumer price inflation also continued to fall (to 8% in January), as it has every month since hitting 14% in March 2009. With inflation falling, the central bank is especially keen on bolstering the domestic economy, which remains

weak albeit improving, through monetary-policy loosening: the eleventh cut in interest rates since last April and the first this year takes the refinancing rate down to 8.5%. In addition, as the world's biggest energy exporter, Russian energy companies were given a boost last month by a big jump in oil prices. Investment in production capacity and industrial production has also been rapidly improving in recent months.

Following the victory of Yanukovich in the Ukrainian Presidential election, investors' perception of the country's risk improved and spreads tightened over 150 bps year-to-date. We expect that the normalisation of relations with the IMF, EU and Russia will continue, driving spreads lower.

In Turkey we witnessed a significant increase in volatility during February, where both capital markets and currency have been under pressure on the back of heightened political uncertainty following a series of arrests of ex-military commanders who were, allegedly, involved in an attempted coup several years ago. This highlights the fragile balance between the moderate Islamic ruling party and the secular military. Although risks have somewhat subsided after a series of meetings between the two, we still see a significant probability of political disruption in Turkey and confirm our underweight exposure.

In terms of currencies, the US dollar continued to gain against most developed currencies (with the exception of the Japanese yen), as it has for the last three months, but was generally weaker against emerging currencies, particularly the Brazilian real, Mexican peso and Russian ruble.

Portfolio Analysis

The Portfolio slightly outperformed its benchmark* during the month (Class A, non-distributing, EUR units). The Portfolio returned 3.21% relative to a benchmark performance of 3.08% over the period.

Our allocation to corporate emerging market debt contributed to performance during the month of February and the overweight exposure to high-beta countries continued to be an important source of outperformance.

* JPM EMBI Global Diversified Index 95% and JPM Cash 1 Month Euro 5%

In terms of duration and curve positioning, we have further shortened our duration versus benchmark as we expect higher rates on Treasuries. We remain long cash and, at country level, amongst our most significant overweights continue to be Argentina, Russia and Ukraine, while we remain underweight in Brazil, Mexico and Turkey.

Looking ahead, we continue to monitor the markets, taking opportunistic exposure to sovereign and high-quality names in corporate bonds, with particular emphasis on the Indonesian corporate sector. We expect local markets to outperform external debt given the tightness of the sovereign spreads and strong capital market inflows supporting demand for local currencies. Emerging market currencies continue to perform well, thanks to high levels of global liquidity and a shift in attention towards inflationary pressures and policy normalisation.

We also intend to take advantage of volatility in the currency markets to add to our Brazilian real exposure, as we believe that the US dollar may start losing ground in the second half of this year. We will also continue to add to our emerging market FX positions, particularly in the Korean won and Egyptian pound.

We believe that our investment strategy gives us a more balanced portfolio in terms of allocation between corporate and sovereign exposure, contributing to the reduction of overall portfolio volatility.

Outlook

We believe that the positive trends in emerging economies are likely to continue into the first half of 2010 as fiscal stimulus plans sustain domestic demand and global trade starts to recover. We also consider long-term prospects to be positive as these countries leave the crisis behind and benefit from an improved position versus western economies thanks to a fiscal situation and banking system which suffered less. Furthermore, undervalued currencies, better demographics, and improved prospects for domestic demand support our positive stance on these markets.

We expect that in 2010 EMEA countries will recover following the improved economic performance of developed countries. However, the recovery is unlikely to be uniform. Russia, the regional heavyweight (about a third of EMEA GDP) is likely to be the key driver of EMEA growth. In contrast, growth is likely to lag behind in the Baltics, Hungary, Romania and Bulgaria, where the “deleveraging” process will have to continue, thus keeping

GDP growth for these countries in negative territory or around zero in 2010.

In our estimation, one of the main risks facing emerging economies, especially in Asia, is a too gradual tightening, which would bring with it the risk of an asset bubbles and a surge in inflation. Firstly, loose monetary conditions entail rising asset prices and a risk of bubbles, especially in property and financial markets. Secondly, inflation may return earlier than expected. In some countries, price indices have turned and are starting to rise again, and firms are reporting increasing output prices.

Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 26 February 2010.

Pioneer Funds – Emerging Markets Bond is a sub-fund (the “Sub-Fund”) of Pioneer Funds (the “Fund”), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg. The Sub-Fund is actively managed, and current holdings may be different. References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock. Performance data provided refers to Class A units only, and is based upon NAV net of fees. For details of other unit Classes available, please refer to the prospectus.

Past performance does not guarantee and is not indicative of future results.

Unless otherwise stated, all views expressed are those of Pioneer Investments. These views are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. More recent returns may be different than those shown. Please contact your local sales representative for more current performance results.

This material is not a prospectus and does not constitute an offer to buy or a solicitation to sell any units of the Fund or any services, by or to anyone in any jurisdiction in which such offer or solicitation would be unlawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. For additional information on the Fund, a free prospectus should be requested from Pioneer Global Investments Limited (“PGIL”), 1 George’s Quay Plaza, George’s Quay, Dublin 2, Ireland. Call +353 1 480 2000 Fax +353 1 449 5000.

This information is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities or services in the United States or in any of its territories or possessions subject to its jurisdiction to or for the benefit of any United States person (being residents and citizens of the United States or partnerships or corporations organized under United States laws). The Fund has not been registered in the United States under the Investment Company Act of 1940 and units of the Fund are not registered in the United States under the Securities Act of 1933. This document is not intended for and no reliance can be placed on this document by retail clients, to whom the document should not be provided.

This content of this document is approved by PGIL. In the UK, it is directed at professional clients and not at retail clients and it is approved for distribution by Pioneer Global Investments Limited (London Branch), 123 Buckingham Palace Road, London SW1W 9SL, authorised by the Financial Regulator in Ireland and regulated by the Financial Services Authority for the conduct of UK business. The Fund is an unregulated collective investment scheme under the UK Financial

Services and Markets Act 2000 and therefore does not carry the protection provided by the UK regulatory system.
Pioneer Funds Distributor, Inc., 60 State Street, Boston, MA 02109 (“PFD”), a U.S.-registered broker-dealer, provides marketing services in connection with the distribution of Pioneer Investments’ products. PFD markets these products to financial intermediaries, both within and outside of the U.S. (in jurisdictions where permitted to do so) for sale to clients who are not United States persons.

For Broker/Dealer Use Only and Not to be Distributed to the Public.

Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.

Date of First Use 11 March 2010.