

Quarterly Portfolio Update

Pioneer Funds – Euro Bond

30 December 2011

Bond

Macro Review

European Bonds end the year on a High

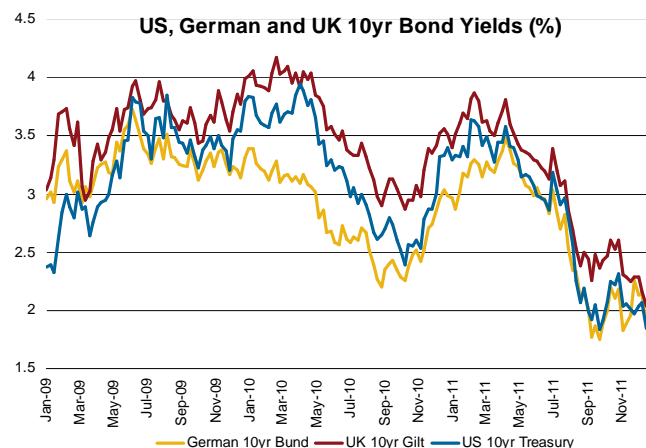
The main developments in the markets occurred early in the month as the EU Summit on 8/9 December led to eurozone nations agreeing to further integration. Around the same time, the ECB announced it was cutting its main interest rate to 1% and extending a 3 year LTRO to banks. European fixed income markets reacted overwhelmingly positive to all these news items and thus created a positive environment for our risk-on position.

Yields Hit Euro-era Records in Italy, Spain and Portugal

Yields on government debt from the GIIPS countries spiked to record levels in the fourth quarter. Italian generic 10-year yields spiked from 5.5% at the start of the quarter to a high of 7.24% on 25 November; they subsequently fell back below 5.9% in early December on ECB buying but ended the year at 7.03%. Portuguese bond yields increased by 243 bps during the quarter (10.93% to 13.36%), hitting a high of 14% at the end of November. Spanish yields actually fell slightly during the period (5.13% to 5.09%) but also hit a record of 6.7% on 25 November, although the government had to pay 6.98% on a new auction of 10-year paper.

US, German and UK Government Bond Yields Fall

Yields on US and German yields fell slightly (4-6 bps) over the period due to their safe-haven status, although UK Gilts rallied more sharply, with yields falling by 45 bps to end the year at 1.98%, only slightly above Germany and the US. However, there was a brief divergence between Bunds and Treasuries in late November, with Bunds moving more in line with riskier paper as a German auction of 10-year paper was short of bids, with the weakest demand since 1998.



Source: Bloomberg, weekly data, 2 January 2009 – 30 December 2011

CDS Insurance Costs Hit Highs

Most countries such as Italy, Spain, Turkey, Russia, France, Germany and the UK saw CDS costs reach new highs in this cycle. Ireland and Portugal are still down from the mid-July peaks. Over the quarter, insurance costs fell in Portugal, Germany, Turkey and, particularly, Russia, which has seen strong macro data in recent months. France saw the biggest increase in CDS costs.

	CDS Prices (bps)		
	End Sep	Q4 Peak	End Dec
Italy	470	570	503
Spain	382	491	393
Portugal	1110	1123	1092
Ireland	700	781	726
Turkey	294	321	287
Russia	309	338	275
Germany	112	119	103
France	187	250	222
UK	94	105	98

Source: Bloomberg, data as at 30 December 2011

Portfolio Analysis

Pioneer Funds – Euro Bond (Class A, non-distributing, EUR units) underperformed its benchmark, the JPM EMU Index, by -0.61% over the month, returning 3.41% in absolute terms. Over the year, the Portfolio outperformed its benchmark by 2.32%, returning 4.10% in absolute terms.

The Portfolio performance has two major drivers; the first part replicates the benchmark and the second part uses relative value strategies managed by specialists within the confines of our risk budgeting framework. The performance contribution can be assessed on the back of these alpha drivers.

So far this year, we sourced a large proportion of our extra performance from our duration position and sovereign exposure. This quarter, our sovereign exposure was the key performance driver.

Sovereign Exposure

In terms of country positioning, we took a long position on Italy and Spain in September through the use of CDS as well as cash bonds. We took this position as part of our overall sovereign spreads strategy, which has been a key performance driver across our funds over the past two years.

As a consequence, our peripheral positioning is now as follows:

- No direct exposure to Greece. We have had no direct exposure to Greece in our Portfolio since the end of 2009. The solution from October's EU summit effectively represents a redistribution of Greek debt to other European sovereigns and bondholders. We remain concerned about Greek debt levels in the long run.
- A relative long position on Italy and Spain. The reason for this is that we feel valuations on Italian and Spanish bonds have now reached a sufficiently attractive level to warrant a long position. Our view on Italy is that it can survive this crisis. The majority of Italy's borrowing is done domestically and they have finally begun implementing some credible austerity measures. The primary risk to Italy's situation is political through the possibility of poor decision-making at the government level. We feel the government in Spain are taking strong pro-active measures to restructure their economy. This position paid off in October.
- We remain neutral on Ireland and Portugal.

The reason we make use of CDS as well as cash bonds is that it enables us to achieve our sovereign exposure in a liquid manner.

Overall, we believe the EU is gradually moving in the right direction. If the situation continues to improve we may consider taking a long position on some other European peripheral nations (not Greece) in the not-to-distant future.

Duration Exposure

We are short duration. We think German rates are too low and they benefited from a safe heaven status. We expect this situation to fade soon and the spread between German rates and those of other eurozone countries to tighten.

Outlook

In the second half of 2011, the eurozone bond market experienced something akin to a slow bank run. In order to bring this to a halt we need either a lender of last resort (the ECB) or a fiscal lender of last resort (Germany) to restore markets' faith in the eurozone.

The recent EU Summit took us another step closer to fiscal federalism and tighter controls on the national budgets of eurozone nations. The ECB is acting as a lender of last resort through its Securities Markets Programme (SMP) and this has helped bring in yields on Italian and Spanish bonds. In the medium run, we feel a treaty that entrenches fiscal federalism and tighter control of national budgets is imperative. Rather than going through the arduous process of amending existing legislation, we think a new treaty to be ratified by the 17 eurozone nations is the neatest solution.

In the present environment however, you are paid well to take a risk-on position. As such, we will maintain our current trading themes of taking exposure to Spain and Italy in our Portfolio.

Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 30 December 2011.

Pioneer Funds – Euro 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 figures are in euro. 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.

The 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), Portland House 8th Floor, Bressenden Place, London, SW1E 5BH, authorised by the Central Bank of Ireland 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 16 January 2012