Quarterly Portfolio Update

Pioneer Funds – European Equity Value
31 March 2010

Equity

Review

Over the first quarter of 2010, Pioneer Funds – European Equity Value marginally outperformed its benchmark, the MSCI Europe Value Index. The Portfolio was up 2.34% over the period (Class A, non-distributing, EUR units), while its benchmark posted gains of 2.17%, resulting in an outperformance of 0.17%.

At macroeconomic level, European stocks gained over March and reached an 18-month high on 23 March as European leaders backed the International Monetary Fund and agreed to provide €22 billion in aid for debt-laden Greece. The outlook for earnings growth improved on the back of favourable indications from company balance sheets and that boosted global markets to new highs at the end of the quarter. A sign of confidence comes from the outperformance of cycle-sensitive economic sectors: these include the Consumer Discretionary sector, which has benefited from better-than-expected data on the American economy, particularly on the labour market, with positive implications for the demand for consumer goods. However, most European stocks declined and slightly pared earlier gains on the back of mixed economic news at month end. Standard & Poor's cut Iceland's local currency credit ratings, renewing fears that worsening government finances may curb the economic recovery. Additionally, companies fell back after US jobs data was unexpectedly cut in March.

There was no lack of volatility during the first quarter of 2010, with periods of elevated risk aversion. After pushing higher into mid-January, there was a sharp pull back until 8 February on sovereign-debt fears and general concern about the strength of the recovery. Equities rallied through the rest of the period, although it took until mid-March before they regained the highs seen in January. They ended the period at new highs in this cycle, thus potentially moving out of the consolidation phase that had been evident between mid-October 2009 and early March. It is hard to say if this trend will continue or if we will see a pullback into the trading range of the past few months.

Problems in Greece dominated news flow in Europe and especially in relation to the euro. The euro strengthened towards the end of the quarter, however, as EU leaders and the IMF agreed to provide aid to Greece if the country cannot raise the money elsewhere. Yields on Greek government bonds fell slightly, reflecting the fact that investors view them as slightly less risky following the deal.

Central banks started easing off the gas and began implementing, or at least signposting, exit strategies despite still mixed data, especially on the consumer front, ongoing sovereign-debt worries and waning growth momentum in certain areas. The US and eurozone are still more concerned with growth and will likely wait for further evidence of progress before starting to normalise monetary policy. Economic growth in the eurozone was a lower-than-expected 0.1% (q-o-q) in the fourth quarter, 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. However, despite a blip in February, the Ifo reading of German business sentiment maintained the upward trajectory that it has been on since last March.

Performance Analysis

Looking at the performance of Pioneer Funds – European Equity Value over the first quarter of 2010, our investments within the Industrials sector were the main source of outperformance with names such as Philips Electrics, Rolls Royce and Siemens all significantly contributing to relative performance.

With regards to Philips Electrics, 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 TV business. We believe that the company should continue to deliver good momentum and as it is exposed to some good long-term trends.

UK-based manufacturing company, Rolls Royce, rewarded after full year profit was reported ahead of analyst estimates and, additionally, the company said it will increase dividend payments to shareholders.

Siemens proved to be a significant positive contributor to relative performance after announcing that quarterly earnings rose to the highest level in almost two years, meaning full-year targets are easier to reach. There was speculation that the company may raise its full-year profit goals and we believe that the self-help story at Siemens remains intact.

Elsewhere, our exposure to the Consumer Staples sector rewarded. Supermarket operator, Koninklijke Ahold, contributed and we continue to like the company's strong competitive position and robust balance sheet, which it is starting to deploy with small acquisitions.

We lost some performance over the quarter as a result of poor stock selection within the Financials sector, particularly among Banks. However, our position in Credit Suisse within Diversified Financials had a strong quarter and slightly offset this negative impact. Within the Insurance industry, Zurich Financial Services was another 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.

Outlook

With regards to outlook, we will continue to seek out quality franchises with underappreciated prospects at reasonable valuations, which will deliver increasing shareholder returns. 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, as we have highlighted many times, is the fading momentum of leading economic indicators as governments reduce their stimulus measures, which might weigh on the market in the short term. The reporting season has now finished and was mixed with some positive surprises but expectations were high and did not support the market further. We hope to be able to focus more on single company fundamentals 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.

Important Information