INVESTMENTS

Quarterly Portfolio Update

Pioneer Funds – European Quant Equity
31 March 2010

Equity

Review

Over the first quarter of 2010, Pioneer Funds – European Quant Equity gained by 3.52% (Class A, non-distributing, EUR units), while its benchmark, the MSCI Europe Index, was up by 4.12%.

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 pullback 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 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. 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 performance, the Portfolio was rewarded primarily as a result of investments within Consumer Stapes, Financials, and Information Technology. Conversely, stock selection within Consumer Discretionary, Energy and Industrials detracted from relative performance over the period.

At stock level, one of the most rewarding positions over the quarter was Zurich Financial Services (Insurance). 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 profitability of the business higher than the average at the expense of volumes.

On the negative side, our position in retailer Hennes and Mauritz detracted. Management cited youth unemployment as a key factor (H&M is highly exposed to younger customers). The company has managed, however, to re-invest back into their products some of the gross margin gains made from currency, favourable sourcing conditions in Asia and internal efficiencies. Hence, they have been able to adjust their pricing and improve product quality/fashion content, while improving profitability at the same time.

PIONEER Investments®

Overall, with our risk-controlled approach and the fact that our positions over the quarter were held within a very narrow range against benchmark weightings, our quantitative strategy delivered a performance in line with the benchmark, while simultaneously exposing investors to lower levels of risk than the benchmark.

Outlook

With regards to outlook, 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.

PIONEER Investments®