

Quarterly Portfolio Update

Pioneer Funds – European Research

31 March 2010

Equity

Review

Over the first quarter of 2010, Pioneer Funds – European Research performed broadly in line with its benchmark, the MSCI Europe Index. The Portfolio was up 3.99% over the period (Class A, non-distributing, EUR units), while its benchmark posted gains of 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 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 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 the structure of Pioneer Funds – European Research, we benefited particularly from investments within Energy, Health Care, Industrials, Materials and Telecommunications Services. Conversely, we lost some relative performance within the Consumer Discretionary, Consumer Staples, Financials, Information Technology and Utilities sectors.

Within Energy, France-based Technip proved positive for relative performance, after the business announced its highest ever recorded margin – an encouraging sign that onshore business has turned a corner in terms of delivery. Our investment case focussed on an improvement in margins so we are on track to deliver this element of the investment case.

Fresenius Medical Care within the Health Care sector released a solid set of Q4 2009 results over the period. The company generated steady organic growth, ahead of market expectations. The investment attractions of Fresenius Medical Care's defensive top-line growth coupled with underappreciated margin opportunity from bundled payments remain intact.

Within Pharmaceuticals, Biotechnology & Life Sciences, our position in Shire also rewarded. The company announced strong results for Q4 2009 during the period, 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 Pharma 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.

Within the Industrials sector France-based Legrand was a key contributor and management has proven one of the most efficient and reactive in this crisis, showing the best pricing management and the best margin resilience. The company specialises in products and systems for electrical installations and information networks for residential, commercial and industrial use. Strong recent data in French housing suggests that demand trends for Legrand could well be positive in the near term.

The single greatest contributor to relative performance at stock level was our position in Eutelsat Communications within the Telecommunications Services sector. The France-based satellite company reported another strong set of numbers in February with sales in line with expectations. We remain positive on the company's outlook with further confirmation of fixed satellite business strength with earnings upgrade cycle continuing.

On the negative side, stock selection within the Financials sector detracted. Within Banks, UK-based HSBC detracted although by and large this does not give us concern over the longer term. The bank released disappointing 2009 results in early March as low interest rates hurt HSBC. However, the investment case remains very much intact in our opinion with HSBC running a resilient universal banking model with an excellent franchise, especially in the corporate markets. The bank is also one of the best capitalised and funded banks in the European universe. It is, therefore, well positioned in the tougher regulatory environment.

Our investments within Diversified Financials slightly offset the negative impact within the Banks industry as Credit Suisse rewarded over the quarter. The investment case for Credit Suisse lies on the belief that the management could successfully restructure and rebuild what essentially was a very good franchise operating in some high-return and high-growth areas of the financial services market. In particular, private banking is a very fragmented market with high growth potential, while there are secular growth trends in the capital markets, such as

disintermediation, and the growth of the Asian markets. We expected management to either follow the UBS 'One Bank' model and fully integrate, or break itself up. Under the single CEO the decision was taken to follow the former path and this has led to significant synergies. The restructured group is highly cash generative, which should enable further investment in the institutional securities division enabling it to narrow the returns gap with the peer group. In addition by concentrating on the core competencies and divesting of non-core businesses, we believe that the cost of equity appropriate to Credit Suisse should narrow to its peer group. In the current financial crisis Credit Suisse has so far performed better than most of its peer group and should therefore be able to take further advantage in any recovery.

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.

Our focus, as always, remains on bottom-up stock selection and research-based portfolio management, while simultaneously monitoring risk within the Portfolio.

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Date of First Use 16 April 2010.