

# Quarterly Portfolio Update

*Pioneer Funds – European Research*

*31 December 2009*

Equity

Over the fourth quarter of the year, Pioneer Funds – European Research outperformed its benchmark, the MSCI Europe Index, by 0.6% (Class A, non-distributing, EUR units). In absolute terms, while the Portfolio's benchmark posted gains of 4.7%, our Portfolio recorded a gain of 5.4%, continuing its deliverance of relative outperformance since the beginning of the year. The Portfolio has generated impressive returns in both absolute and relative terms over the year as a whole, outperforming its benchmark by 4.2% and recording a gain of 32.5% in absolute terms.

At macroeconomic level, after falling back in October, European equity markets had a strong start to November until mid-month when the market retracted and finished slightly up. This volatile side-way pattern has continued from the start of October. The decline in share prices mid-month was partly driven by renewed fear on the back of sovereign debt risk in Greece and Dubai World. Economic data was mixed, manufacturing indicators show signs of topping out and unemployment is still rising. Markets have been driven by the good results season and a reduction in risk aversion.

Over the month of December concerns about Greece's economy continued as rating agencies put the country on negative credit watch. Fitch credit rating agency cut Greece's rating to a 10-year low, which saw Greek shares slump as a result. Additionally, the ratings agency Standard & Poor's cut Spain's credit outlook from stable to negative. Although this news shook European markets, they recovered later in the month and ended the year with the biggest annual gain since 1999, as confidence grew that the economy is recovering from recession.

After another extraordinary year for global equity markets, the MSCI Europe Index was up by 27% over 2009, and approximately 59% from the lows on 09 March.

Looking to the structure of Pioneer Funds – European Research, we benefited particularly from investments within Consumer Discretionary, Financials, Healthcare, Industrials and Telecommunication Services. Conversely, we lost some relative performance as a result of unsuccessful stock selection within Energy and Materials.

Within Consumer Discretionary, foodservice company Compass Group contributed over the quarter. We met with the company in November and overall management are very positive on future growth and margin potential. Several acquisitions are also currently being examined. They also added that support services are becoming a key area for growth and in particular multi-service (offering food and support services), which now accounts for 18% of group revenues. They highlighted that in 2009 alone they signed over £200 million of new multi-service contracts in the business and industry segment, with half of this coming from existing clients. We think these types of contracts will make it more difficult for smaller operators to compete, as they do not have the resources to fill multi-service, global contracts and thus remain positive on the stock in the medium term.

We gained considerably from successful stock selection within the Financials sector. We benefited primarily from avoiding laggard stocks held in the benchmark.

Within the Healthcare sector, kidney-dialysis provider Fresenius Medical Care reported ahead-of-expectation results during the period. The upside surprise in numbers came from the dialysis care business, which grew at 8% reported. Additionally, Fresenius Medical Care's debt position improved further and operating cash flow year-to-date has been strong. We still believe that the company has the potential to grow driven by demographic changes and the development of Emerging Markets healthcare systems.

France-based satellite operator, Eutelsat Communications, (Telecommunications Services) was the greatest contributor to relative performance at stock level. The company gained after reporting impressive sales thanks to new capacity deployed and strong pricing.

On the negative side, we lost relative performance from our investments within the Materials sector. Although our holdings such as Xstrata and Rio Tinto benefited, we lost elsewhere on good performing stocks held in the benchmark, which we did not own in the Portfolio. We remain positive on stocks like Rio Tinto as the iron ore price is set to rise in 2010, which should support earnings in producers like Rio Tinto. We also feel that the company offers the best risk/reward of the mining companies.

We acknowledge a recovery in economic data and believe that continued government stimulus packages and monetary policy should sustain economic recovery in the short term. However, we remain cautious and acknowledge growth will remain nominal due to the many external drivers of the recovery, such as stimulus packages. Valuation levels are at broadly fair value so we continue to favour stocks with strong balance sheets and cash generation. Additionally, the low interest rate environment should be beneficial for equities.

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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