

Quarterly Portfolio Update

Pioneer Funds – European Small Companies

31 March 2010

Equity

Review

Over the first quarter of 2010, Pioneer Funds – European Small Companies (Class A, non-distributing, EUR units) underperformed its benchmark, the MSCI Europe Small Caps Index. The Portfolio was up 7.14% over the period, while its benchmark posted gains of 9.07%.

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

Pioneer Funds – European Small Companies suffered as a result of select unsuccessful stock selection decisions over the quarter. Neglecting to own good performing stocks held in the benchmark within the Consumer Services sector held back performance. The best performing sectors in the benchmark were Travel & Leisure, Food & Beverage, and Basic Resources. We had an underweight exposure to all these sectors over the quarter, which negatively impacted performance. The worst performing sectors over the quarter were Construction & Materials (we held an overweight exposure versus benchmark), Utilities (neutral weight versus benchmark) and Banks (underweight versus benchmark). The Portfolio structure at the end of the quarter is now more balanced. We currently have limited sector bets, and are focusing on stock picking within each sector.

At stock level, key disappointments to relative performance over the period included Centrotherm Photovoltaics (Capital Goods) and Heidelberg Cement (Construction & Materials). Heidelberg Cement reported that it expects cement sales volume to decline in the first half of the year, which is negatively impacting the share price at present. However, with its strong market position, we believe that the company is well placed to benefit from a potential

recovery in the market driven by further development in residential construction.

On the positive side, key drivers of performance included Cookson (Industrial Goods and Services) and Technip (Oil and Gas). 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 focused on an improvement in margins, so we are on track to deliver this element of the investment case.

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. The current valuation of small caps versus large caps is now at slight premium on main metrics. 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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