Quarterly Portfolio Update

Pioneer Funds – European Small Companies
31 December 2009

Equity

Over the fourth quarter of the year, Pioneer Funds – European Small Companies (Class A, non-distributing, EUR units) improved performance and recorded a relative outperformance versus its benchmark, the Dow Jones Stoxx 200 Small Index. In absolute terms, while the Portfolio's benchmark posted gains of 3.1%, our Portfolio recorded a gain of 4.6% over the same time period. Over 2009 as a whole the Portfolio lagged its benchmark but still posted positive returns in absolute terms of 40.5%.

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.

Pioneer Funds – European Small Companies benefited from both rewarding sector allocation and successful stock selection over the fourth quarter of the year. Allocation accounted for more than 60 basis points of relative outperformance and rewarding stock selection decisions added more than 150 basis points.

At sector level, successful stock selection within the Financials sector was the greatest contributor to relative performance over the period. Avoiding the laggard names held in the benchmark, in addition to fractionally underweighting our exposure to the sector as a whole, accounted for more than 100 basis points of outperformance over the quarter.

Stock selection decisions within the Industrials sector was also a positive contributor to relative performance as names such as Bilfinger Berger rewarded significantly. Bilfinger Berger, a Germany-based construction group, reported a solid set of figures largely ahead of expectation on all levels in November.

Looking to single stock names elsewhere, France-based Technip, within the Oil and Gas sector, was also a key contributor as the company reported earnings 10% ahead of expectations.

Within Telecommunications, France-based satellite operator, Eutelsat Communications, gained after reporting impressive sales thanks to new capacity deployed and strong pricing.

Although we recorded a negative contribution from our investments within Healthcare at sector-level, Fresenius Se, a kidney-dialysis provider, had a strong quarter and benefited returns. We still believe that the company has the potential to grow driven by demographic changes and the development of Emerging Markets healthcare systems.

With regards to outlook, 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 that 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.

Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 31 December 2009.

Pioneer Funds – European Small Companies is a sub-fund (the "Sub-Fund") of Pioneer Funds (the "Fund"), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg.
The Sub-Fund is actively managed, and current holdings may be different. References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock.

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