

Monthly Portfolio Update

Pioneer Funds – Global Ecology

26 February 2010

Equity

Review

Pioneer Funds – Global Ecology improved performance over the month of February, ending the period in positive territory in absolute terms but still slightly lagged its broad market benchmark, the MSCI World Index. The Portfolio gained 1.73% (Class A, non-distributing, EUR units) over the month, while the MSCI World Index gained 3.29%.

Markets

Developed equity markets (-3.7% in local currency terms) outperformed emerging markets (-4.5%) during a month when risk aversion remained elevated. Equities bounced from 9 February, following consistent falls since mid-January, but it seemed more of a value trade after the sell-off rather than renewed confidence. Indeed, risk aversion levels increased again in the latter part of the month on weaker-than-expected data that further highlighted a lacklustre consumer.

Macro

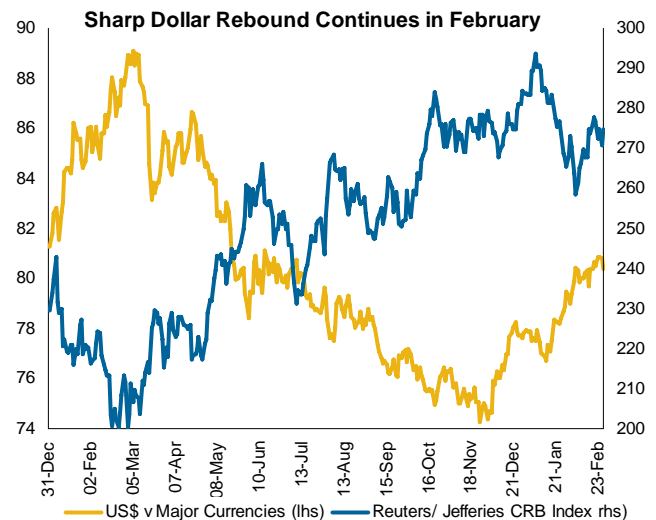
Central banks started easing off the gas and began implementing, or at least signposting, exit strategies despite still mixed data, especially on the consumer front, ongoing sovereign-debt worries and waning growth momentum. Data was a bit weak towards the end of the month, especially US consumer confidence and German business sentiment (Ifo).

Commodity and Currency Volatility

Commodities were strong in February, apart from sugar, which was down 17.5%. This trend was an almost mirror image of last month. The Reuters/Jefferies CRB and S&P GSCI Industrial Metals Indices returned 3.5% and 5.6% respectively; copper (6.6%) and oil (9.3%) were particularly strong.

The US dollar continued to gain against most developed currencies, the notable exception being the Japanese yen, which remains strong, especially year-to-date, despite the new finance minister's desire for a weaker currency. The US dollar rally has now lasted three months, during which time it is up against most currencies outside of Asia except the Australian dollar, Canadian dollar and Mexican peso. During those three months, the biggest gain (10.1%) has been against the euro. Apart from the yen, the strongest

major currencies over the month were the Brazilian real, Canadian dollar, Mexican peso and Russian ruble.



Source: Bloomberg, daily data, 31 December 2008 – 26 February 2010

Government Debt in the Spotlight

Soaring budget deficits, caused by stimulus packages, have led to governments issuing large quantities of bonds. This has pushed up sovereign debt to uncomfortable levels and sparked crises in Dubai and Greece, and could lead to further funding problems for other countries if the appetite for new paper wanes. This issue was starkly highlighted in February when the US announced that foreign holdings of US debt fell by a record US\$53bn in December 2009, largely due to a second month of net reductions from China. If falling foreign demand for sovereign bonds becomes a trend, it could push up borrowing costs for governments at a time when they are trying to reverse record budget deficits.

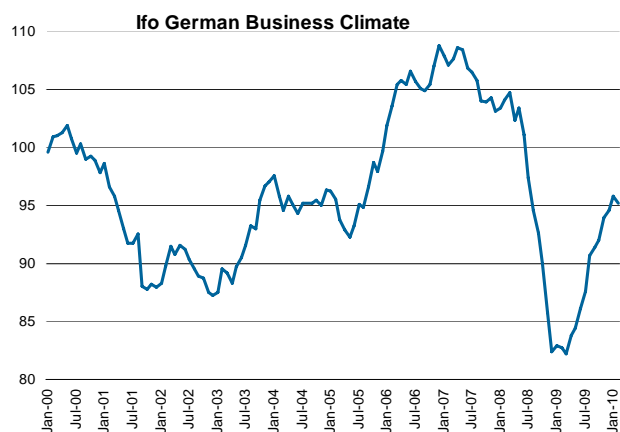
Greece: Europe May Help

Problems in Greece dominated news flow in Europe and especially in relation to the euro. EU leaders announced that they would be willing to help Greece but gave no details. However, the news was badly received and at a subsequent meeting, a harsher tone was evident, putting the pressure back on Greece to implement additional measures to reduce its budget deficit. There were further comments by various leaders and it looks likely that Greece will receive some help, but details are yet to be sorted.

However, any assistance is likely to come with tough conditions.

European Recovery Stalls

At the same time that Greece has prompted an uptick in risk aversion, recovery prospects in Europe are also waning. Economic growth in the eurozone was an anaemic and 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. Indeed, Spain is the last major economy still in recession, which has so far lasted seven quarters. Towards the end of the month, the Ifo reading of German business sentiment surprisingly fell for the first time since last March when it bottomed at the same time as equity markets.



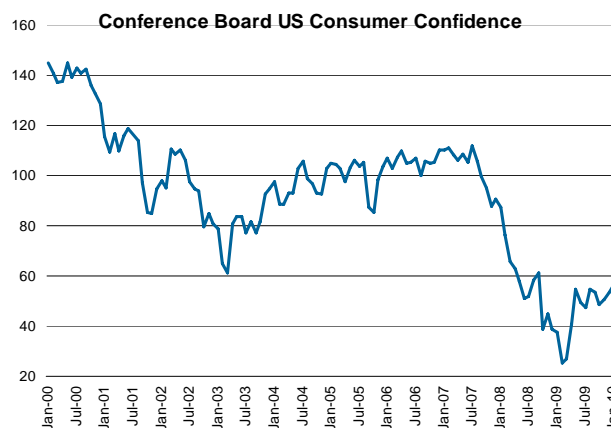
Source: Bloomberg, monthly data, January 2000 – February 2010

US: Fed Raises Discount Rate; Consumer Confidence Down

The US central bank made the first, but largely symbolic, step in normalising monetary policy and exiting the emergency measures implemented in the face of the financial crisis. The increase of 25 bps takes the discount rate to 0.75%, with a reduction in the term from a maximum 28 days to overnight. This is the start of the Federal Reserve’s (Fed) efforts to reduce excess liquidity and encourage banks to seek short-term funding elsewhere. The Fed emphasised that the changes are technical in nature, stating that they “are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy, which remains about as it was at the January meeting”. In other words, it does not expect an increase in the Fed Funds rate in the near term, probably not in the first half of the year.

US Consumer Confidence Disappointingly Weak

Investors reacted negatively to news that the Conference Board’s Consumer Confidence Index was much weaker than expected: the reading of 46 was a 10-month low and significantly down from 56.5 in January. This highlights reduced optimism about recovery prospects and worries over jobs. There was also disappointing news on existing US home sales, which fell for the second successive month. Expectations were for an increase on the December 2009 level, although the extension of the tax credit has made it difficult to rationalise short-term trends.



Source: Bloomberg, monthly data, January 2000 – February 2010

Despite the concerns, the month finished on a high (with markets rising) as Q4 2009 economic growth was revised higher to 5.9% (annualised). However, the higher number was down to increased manufacturing output, and the contribution from consumer spending was actually lower than first thought. This further highlights a recovery that is business rather than consumer-led, which backs up our cautious stance.

Despite the overall improvement in the economy, the recovery is not balanced and interest rates are likely to stay low for longer than previously thought in the hope of reviving consumer confidence and spending. High unemployment remains an obstacle, probably more to do with the psychological impact on the circa 90% employed rather than the contribution of those out of work. In an effort to promote jobs, the Senate approved a fresh US\$15bn package of tax breaks for companies hiring unemployed people.

China: Banks’ Reserve-Ratio Requirements Increased Again

Following up on January’s increase in banks’ capital requirements, the first move since June 2008, the Chinese central bank increased reserve ratios by a further 50 bps in February. The tightening measure was applied despite consumer price inflation falling in January and coming in

lower than expected. This is a further indication that China is keen to avoid bubbles following record credit growth in January (19% of this year's RMB7,500bn target).

UK: Rising Inflation, Weak Consumer

February data in the UK showed rising inflation, stronger-than-expected manufacturing figures but very weak retail sales. Consumer inflation hit 3.5% (annual) in January, its highest level since November 2008 and above the top of the target range, thus forcing the governor of the Bank of England (BoE) to write a letter of explanation to the chancellor; inflation has been rising strongly since hitting a five-year low of 1.1% last September. The figures were buoyed by VAT returning to 17.5% and the BoE governor said that the rise was temporary. It is unlikely that interest rates will be raised in response to higher prices, especially as the BoE called a halt on further quantitative easing after having spent its allocated £200bn.

Worse-than-expected January retail sales (-1.8% m-o-m) further highlighted the weak nature of the recovery and the likelihood that monetary policy will stay loose until there is evidence of a stronger consumer. There was also some positive news: UK manufacturing was up by 0.9% (m-o-m) in December 2009, ahead of expectations, and Q4 GDP was revised higher to 0.3% (q-o-q) from the initial estimate of 0.1%.

Performance Analysis

Although we ended the period lower, stock selection decisions proved rewarding over the month of February, particularly within the Consumer Staples, Materials and Telecommunication Services sectors. Conversely, our investments within Consumer Discretionary, Financials, Industrials and Utilities held back some relative performance over the period.

At stock level, our greatest contributor to performance was Whole Foods Market (Consumer Staples), a company which owns and operates a chain of natural food supermarkets in the United States. The company reported ahead of expected results, which was very positive particularly given weak consumer spending. The company's initiative to lower prices and cross-sell merchandise has worked well to entice people back into the stores as total transactions and items per basket were up over the quarter.

Cummins (Industrials) was also a key contributor. Cummins designs, manufactures, distributes and services diesel and natural gas engines. The company also manufactures electric power generation systems and

engine-related component products, including filtration and exhaust after treatment, fuel systems, controls and air handling systems. The company announced a multiyear extension of its current partnership with Chrysler Group at the start of the month.

Within Materials, our position in Agrium, a supplier of nitrogen, potash and phosphate, was another relative outperformer as nitrogen prices are set to be pushed higher. Nitrogen is the most likely nutrient to be tight this spring if application rates normalise according to Agrium. In their opinion (and they are the largest retailer), there is not enough nitrogen in place throughout the distribution system to meet farmer needs.

On the negative side, we lost some relative performance through our investment in Abengoa (Industrials). Abengoa offers solutions for sustainable development in the Infrastructure, Environment and Energy sectors. The company offers its services through units, such as Engineering, Environmental Services, Information Technology, Solar Energy and Biofuels. Abengoa builds and operates assets in power transmission and desalination, and develops new technologies for the Renewable Energy sector. Although the share price slumped over the month, we have a longer-term conviction in the stock as its solar division has improved visibility due to the Spanish government's approval of 2,340 solar thermal panels until 2013. Abengoa is set to be the company, which will benefit most as the company is present in the development and engineering phase of plants currently.

We also lost ground through our position in Electrolux (Consumer Discretionary). The company manufactures home appliances and appliances for professional use including refrigerators, dishwashers, washing machines, vacuum cleaners and cookers. We like the company as it has been very well managed during the downturn thanks to the restructuring programmes initiated before. During 2008, despite very weak industry volumes, Electrolux enjoyed the tailwind of falling raw materials and stable pricing across the industry, translating into upside earnings surprises throughout the year. Additionally, there are still some savings to be had from moving production to low cost countries. The company fell back after reporting results slightly below consensus at the start of the month. It is worth noting, however, that the results were still good in absolute terms, so we do not change our view on the stock for the time being as we believe that the balance sheet of the company remains strong amid cost savings, higher sales prices and lower costs for raw materials.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Industrials	42.7%	10.6%	32.1%
Materials	21.1%	7.2%	13.9%
Utilities	7.7%	4.5%	3.2%
Consumer Discretionary	12.4%	9.5%	2.9%
Telecommunication Services	0.0%	4.2%	-4.2%
Consumer Staples	5.5%	10.5%	-5.0%
Information Technology	5.6%	11.9%	-6.4%
Energy	1.0%	10.7%	-9.6%
Health Care	0.0%	10.3%	-10.3%
Financials	4.1%	20.6%	-16.5%

Portfolio Strategy

Our strategy, as always, remains to source and invest in ecologically sustainable opportunities, particularly those that we believe are underpriced relative to the market at any given time. We are also conscious of changes in the market environment, and the implications of changing risk appetites for our Portfolio construction.

We initiated no new positions in the Portfolio over the month of February, nor did we sell out completely of any existing holdings. We trimmed back somewhat on our exposure to solar companies by slightly reducing our weights in Canadian Solar, Yingli Green Energy and Trina Solar.

Top 5 Overweights	Sector	Weight
TRINA SOLAR	Industrials	3.15%
AGRIUM	Materials	2.63%
WHOLE FOODS MARKET	Consumer Staples	2.47%
YARA INTERNATIONAL	Materials	2.48%
SUEZ ENVIRONNEMENT	Utilities	2.25%
Country Weights		Weight
Norway		6.10%
China		5.11%
Germany		8.23%
Sweden		5.22%
Japan		13.74%

Outlook

A glance at the composition of our Portfolio shows a portfolio with the potential to benefit from future-orientated ecological trends and developments, from government-supported spending, and from an ecological and moral impetus that is gaining a critical mass of support.

There have been clear signs recently that the market is finding some resistance levels. Returns have been relatively flat over the past four or five months and markets are down so far this year. The unprecedented rally since March 2009 has pushed equities from being clearly cheap to being fairly valued or, in some cases, a bit expensive. There are many headwinds facing consumers, governments and companies, which are going to impact on most areas. While we acknowledge that good progress has been made on the economic front, much of this is due to government fiscal and monetary stimuli. Despite some concerns about inflation, we believe that policymakers' key priorities will be to keep momentum behind growth. This may store up problems for the future, but that is clearly a secondary issue now in most countries, with some exceptions in Asia. Interest rates have started to rise in some countries but we feel that the US, Europe and probably China will keep monetary policy relatively loose.

We believe that the most likely and definitely most favourable outcome over the short and possibly medium term is for markets to trade within a range. This would stop bubbles forming and allow governments and consumers to retrench and repair balance sheets, while growth stays positive but sub-par.

We continue to attempt to identify those stocks that are positively contributing to the environment in a sustainable way, which simultaneously exhibit attractive relative valuation characteristics. This process leads us to consider stocks from a wide universe, and occasionally highlights opportunities in some sectors that traditionally may not be considered core areas for ecological investing.

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