

# Quarterly Portfolio Update

Pioneer Funds – Global Sustainable Equity

30 June 2010

Equity

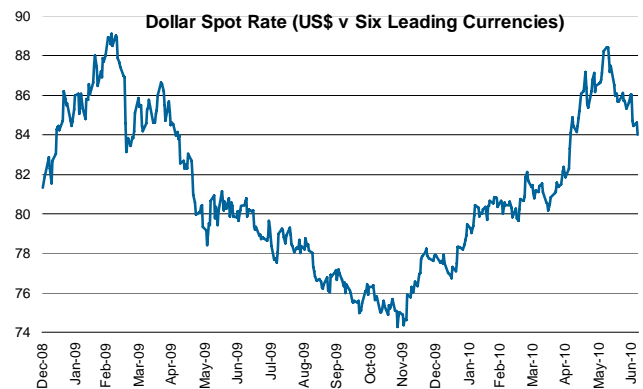
## Review

The Portfolio was down by 3.31% (Class A, non-distributing, EUR units) over the quarter, outperforming its benchmark, the FTSE 4Good Global Index, which returned -5.72%.

Over the second quarter, markets were dominated by fear and risk aversion due to liquidity worries sparked by the sovereign-debt crisis in Europe and potential knock-on effects for growth. There were also worries over inflation in India and lower growth in China, and some mixed data from the US. This led to falling equity markets, rising spreads for emerging debt, lower yields for the safest sovereign assets such as German Bunds and US Treasuries, falling oil and other commodity prices (except gold), and a strong US dollar. Developed equity markets (-11.8% capital return in local-currency terms) underperformed emerging markets (-6.4%) during a volatile quarter. The S&P 500 Index was the same as the MSCI World Index (-11.8%), with the MSCI Europe Index slightly better (-11.2%). Japan underperformed, with the Topix Index losing 14%.

Commodities had a very weak quarter due to severe risk aversion, worries about the debt situation in Europe and Chinese demand for raw materials if fixed-asset investment falls. The S&P GSCI Total Return Index was down 10.4%, although industrial metals were much weaker (-18%). West Texas crude fell 9.7%, down to US\$75.6 per barrel. Unsurprisingly, gold was in demand, up 11.6%, ending the quarter just off its new all-time high of US\$1257 per ounce (18 June). Freight rates (Baltic Dry) were down 19.7%, although the Index lost 41% in June.

The US dollar was very strong against major developed currencies, gaining 6.1% despite falling slightly in June. The best-performing developed currency was the Japanese yen. The Australian dollar was weak due to the proposed new mining tax but the euro was even weaker, with the US dollar rallying over 10% against the single currency. The US dollar strengthened against most emerging currencies except the Peruvian new sol, Columbian peso, Indonesian rupiah and Chinese renminbi, where China introduced a new more flexible exchange-rate policy. The greenback was particularly strong against the Polish zloty (18.6%) and Hungarian forint (18.7%).



Source: Bloomberg, daily data, 31 December 2008 – 6 July 2010

## Performance Analysis

Over the quarter, attribution was positive in seven out of the 10 sectors. The main positives were Energy, Financials and Industrials. Conversely, the biggest detractors, albeit small, were Utilities and Consumer Staples.

Outperformance in Energy was mainly due to not holding BP, which had a dreadful quarter following the oil spill in the Gulf of Mexico. In Financials, our holdings in DBS Group, KeyCorp and T&D Holdings outperformed. 3M and Ryanair both added value in Industrials. Our small position in Clipper Windpower was very weak, falling 40% over the quarter and negatively impacting returns by 16 bps. It was what we did not own that led to underperformance in Consumer Staples, particularly Proctor & Gamble and Coca Cola, although our holding in FamilyMart was strong.

## Portfolio Strategy and Outlook

With regard to Portfolio positioning, our key overweights are Industrials and Health Care. Conversely, Telecoms, Financials, Consumer Discretionary and Materials are the biggest underweights. Although Industrials can be viewed as cyclical, our holdings are much less so, with key names like Ryanair and Tomra, a Norwegian reverse-vending-machine producer (the machines are used in recycling).

Over the quarter, we purchased two new positions, Dell and Potash Corp of Saskatchewan. Conversely, we sold out of Rio Tinto, in order to reduce exposure to Materials and particularly iron ore, and Synthes, on valuation grounds.

Potash Corp is a stock that we have been following for some time, but we wanted to buy it on a price-to-book (PB) rating of below four. As a comparison, it was on a PB of more than six last December but recently fell below our target buy price, giving us the entry point we were looking for. Fertilizer stocks have been punished too severely because of short-term trends, with farmers in no rush to buy as prices have been falling. Inventory levels are low but China is beginning to be a net importer of potash. The risk/reward is very attractive at these prices as a strong summer season in South America and autumn season in North America would boost earnings expectations. Even at US\$4 per bushel, corn farmers should make close to 80 cents/bushel of profit, therefore supporting fertilizer consumption. Any uplift on these levels could considerably boost profitability at Potash Corp.

We remain reasonably cautious on the outlook, although we are less bearish than at the start of the quarter. The sell-off has made valuations more attractive. There are still many headwinds that are going to be present over the medium term such as deleveraging, less government fiscal and monetary stimuli and consumers' incomes being squeezed by tax rises. Conversely, growth has remained strong despite some mixed data signals recently. Emerging markets are growing very strongly, which will help ease the burden on developed nations through the painful deleveraging process. This fact and the rising power of consumers in developing nations should also help alleviate trade imbalances.

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