

Quarterly Portfolio Update

Pioneer Funds – Global Sustainable Equity

31 December 2009

Equity

Review

The Portfolio was up by 6.19% (Class A, non-distributing, EUR units) over the quarter, outperforming its benchmark, the FTSE 4Good Global Index, which returned 5.18%. Over the full year, the Portfolio showed a similar level of outperformance.

Our defensive stance worked well in the first quarter and we performed in line in the second quarter by adding risk in April. However, we took profits in June after a strong rally and moved more defensive as we believed that markets were more likely to consolidate at these levels than keep going up. This call proved to be wrong and was the reason we underperformed through the very strong rally in July and August, leading to underperformance in the third quarter.

Global equity markets continued to rally in the fourth quarter, extending the strong period of performance that started from the low point on 9 March. However, returns were weaker than the exceptional returns seen in Q2 and Q3, with clear signs of nervousness evident on several occasions. Any weaker-than-expected economic data or worries that accommodating fiscal and monetary policy was about to reverse sparked profit taking.

The MSCI World Index advanced 4.1% (local currency terms) in Q4, with emerging markets ahead by 6.9%. Returns were better in euros but slightly worse in US dollars as the greenback rebounded strongly in December. Compared to previous quarters in 2009, and especially the first half, the disparity of returns was reasonably tight in Q4. Of the developed markets, the US was ahead of Europe, Japan, Australia and Canada, although Japan was very-strong in December as equities rallied when the yen fell heavily from a 14-year high against the US dollar (86.4) on the last day of November. Overall, Norway was the strongest market, followed by Russia, Israel, Brazil, South Africa and Mexico. Chinese A shares were also very strong but gains in H shares and the Hang Seng were more muted.

Performance Analysis

Over the quarter, attribution was fairly balanced, with outperformance in five out of the ten sectors. The main positives were Consumer Staples, Healthcare and Materials. Conversely, the biggest detractors were Industrials, IT and Energy.

On a stock level, the best contributors to performance were our holdings in Estee Lauder, Merck, Medtronic, BHP Billiton and Eutelsat Communications. Conversely, the main detractors were Kurita Water Industries, Credit Suisse, Citigroup, Société Générale and Ryanair.

Strategy and Outlook

With regard to Portfolio positioning, our key overweights are Industrials, Materials and IT, with Telecoms, Financials and Consumer Discretionary being 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, Portfolio activity was limited. We purchased three new positions, T&D Holdings, Qualcomm and Mitsubishi UFJ Financial. Conversely, we sold out of Nintendo and Sprint Nextel, and reduced our positions in Electronic Arts, GEA, Tomra and Bristol-Myers Squibb.

T&D (life insurance) and UFJ (bank) are Japanese Financials companies. They are, to some extent, leveraged plays on a cyclical pick-up in Japan driving a normalisation of returns on equity. Both are trading at less than book values and big discounts to western peers. T&D, in particular, is very cheap, especially if you believe that Japanese interest rates will rise. With the country's debt-to-GDP ratio nearing 200% (a psychological barrier), we believe that investors will need higher coupons in order to carry on financing Japan's needs.

Qualcomm is a US-based IT company with a dominant position in the market for 3G chipsets that are used in mobile phones, netbooks and laptops. The one side of its business is the intellectual property behind the CDMA/WCDMA technology, which it licenses to other

manufacturers. Secondly, it builds high-quality integrated (Bluetooth, WiFi etc) chipsets using this technology. One of the key growth areas for its cutting-edge technology is the upcoming broadband revolution in China and India, which want universal coverage in their countries. In order to achieve this aim, mobile broadband will play a big part and Qualcomm has almost 100% of the market for chipsets in mobile-internet dongles.

There have been clear signs recently that the market is finding some resistance levels. The unprecedented rally since March 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. Indeed, deflation might be a more immediate concern. Interest rates have started to rise in some countries but we feel that the US, Europe and probably China will keep monetary policy loose.

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