

# Quarterly Portfolio Update

Pioneer Funds – Italian Equity

30 June 2010

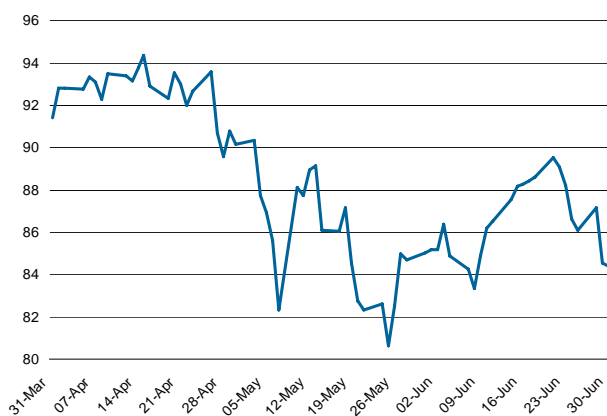
Equity

## Review

Over the second quarter of the year, Pioneer Funds – Italian Equity outperformed its benchmark, the COMIT Global+ R Index by 0.21% in relative terms. In absolute terms, the Portfolio fell by -12.26% (Class A, non-distributing, EUR units) while its benchmark was down -12.47% over the same period. The Portfolio has also outperformed its benchmark on a year-to-date basis, returning 0.46% ahead in relative terms.

The main theme in financial markets during the second quarter of 2010 was the crisis of government debt in the euro area. Originated with fears of insolvency about Greece, it has become a global concern since April and erased the gains made by equity markets early in the year, with other cyclical markets such as corporate bonds also taking a hit. The involvement of other countries in this crisis is the latest reflection of the recession, since many governments had their fiscal position worsened by spending increases and other measures to overcome the crisis.

Evolution of MSCI Europe Index over the second quarter of 2010



Source: Bloomberg, daily data, 31 March 2010 – 30 June 2010

The need to consolidate public finances in several euro countries should prompt tighter fiscal policies, which in turn may slow down further the already fragile economic growth. This situation tends to weaken the euro against most currencies, with the US dollar at the lowest level in four years. The decline of the euro improves export

competitiveness and therefore is considered an instrument to support economic growth offsetting weakness in domestic consumption.

## Performance Analysis

Looking to the performance of Pioneer Funds – Italian Equity over the three-month period, successful sector allocation decisions were the primary contributor to positive performance over the quarter. Our investments within Consumer Staples, Health Care, Information Technology, and Materials all rewarded. Conversely, select holdings within Consumer Discretionary, Industrials, Financials and Energy dragged on relative performance and held back some returns.

Looking to specific stock returns, our holding in Pirelli (Automobiles and Components), a company which manufactures tyres for cars, trucks and commercial vehicles, rewarded amid potential growth from Latin America. Gruppo Coin (Retailing) is Italy's largest clothing distributor and advanced on the back of better-than-expected Q1 results. Prysmian (Capital Goods), a company which develops, produces and installs cables, gained as metal prices advanced on signs of sustained demand in China. Snam Rete Gas (Utilities) fell back at the end of the quarter as Italy's Energy Authority announced an increased of 3.2% in gas prices starting July 1st.

## Outlook

With regards to outlook, we still maintain a cautious stance as uncertainty and risk aversion will dominate in the short-term and we expect equity markets to stay in a wider sideways movement in the near term. Eurozone growth remains uncertain due to stricter fiscal consolidation and austerity measures and we are still seeing high levels of unemployment, although they have stabilised somewhat. Valuations are looking reasonable at the moment and the upcoming Q2 reporting season will deliver solid earnings results for European companies, however, the deteriorating trend of macro indicators will have the more pronounced effect. We continue to favour high-quality companies and are presently looking for companies with reasonable valuations that should benefit from a weak euro currency,

profiting from a lower cost base and generating revenues outside of the home market.

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