

Quarterly Portfolio Update

Pioneer Funds – Japanese Equity

31 March 2010

Equity

Review

The Portfolio was up by 14.71% (Class A, non-distributing, EUR units) over the quarter, exactly the same return as its benchmark, the MSCI Japan Index. On a sector level, the best relative contributions to performance were stock selection in Diversified Financials, Pharmaceuticals, Transportation and Materials, and an overweight position in Consumer Durables. Conversely, stock selection in Insurance and Software & Services was a negative.

Japanese equities performed very well in a global context, with the Topix Index (7.8% capital return in local currency) outperforming US (S&P 500 4.9%), UK (FTSE All Share 5.4%) and European (MSCI Europe ex UK 2.1%) markets. Investors were buoyed by a better-than-expected earnings recovery: 844 companies revised up full-year guidance in their third-quarter releases compared with 532 companies that lowered guidance. Aggregate recurring-profits' forecasts were raised 16%, indicating that the earnings normalisation from the trough last year is proceeding at a faster-than-anticipated pace.

The new finance minister's show of explicit support for inflation targeting helped to ease worries that Japan might sink into another decade-long deflation spiral, helping to boost investor confidence. Additionally, the government started distributing child benefits that were promised last year, which helped specific retail segments to outperform.

Portfolio Strategy and Analysis

Our strategy is currently biased towards earnings momentum, as the market's attention is focused on stocks that are showing significant earnings recovery driven by top-line growth and restructuring.

We increased our exposure in the Technology Hardware sector to benefit from the growth driven by new products. We also increased our exposure to Diversified Financial companies, as bad loans are bottoming out and top-line growth is resuming. Meanwhile, we reduced our exposure to major Banks, as loan margins show no signs of recovery.

New purchases during the quarter included financial stocks Aeon Credit and Orix, that should see earnings

recover from the bottoming out of credit costs. We are also still building up our positions in companies that are making strategic overseas investments, including Itochu and Kirin.

We have taken profit on some technology stocks like Sony, Nikon, and Seiko Epson that have reached our fair-value targets following a recovery in orders and the market's appreciation of their restructuring plans.

As we move into the new financial year, we believe it is important to seek out companies that can generate sustainable earnings recovery. Should there be any profit taking by investors in the coming quarter, we would continue to build our positions in these companies. There are potential opportunities in the Consumer Durables and Technology Hardware sectors. We would also look for companies in the Consumer, Software & Services, Transportation, and Retailing sectors that could experience earnings growth from top-line recovery.

Outlook

The Japanese stockmarket has a good chance of continuing to outperform other developed markets as the Bank of Japan (BoJ) is more likely to loosen its monetary policy under political pressure while others tighten. Easing by the BoJ would go some way towards providing Japan with a force capable of offsetting the negative effects of global tightening and this would render Japan unique amongst developed markets. This could provide an important catalyst for foreign investors who have been underweighting Japan to consider reversing their positions.

The bulk of earnings improvements from the recovery in utilisation rates due to rising demand and cost-restructuring measures that have been implemented in response to last year's difficult conditions should materialise in the coming few quarters. This should continue to be supportive for Japanese equities. Sustainable strong demand from China remains important for earnings recovery in 2010: China has overtaken the US as Japan's most important trading partner, accounting for 18.7% of total exports compared to 16.5% for the US. As corporate earnings turn up, unemployment peaks out, and the fear of inflation abates, the domestic sector could

play catch up as their earnings bottom out. Japanese companies are global leaders in environmentally friendly technologies and stand to benefit from growing demand.

US dollar weakness could remain a concern for Japanese exporters. Current levels of around 94 yen/US dollar are desirable but any persistent US dollar weakness would worsen concerns about earnings and competitiveness. A reverse situation would be positive.

While we expect the market to consolidate somewhat in the second quarter, after the strong performance in the first quarter, we expect investors' interest in Japan to grow.

With the bulk of dilutive capital raising completed and earnings recovery more evident in the quarterly results, we expect earnings-based multiples to take the spotlight again in the coming quarter as companies start to announce full-year results and forecasts for the next financial year. We expect results' forecasts to enhance investors' confidence of more EPS growth due to demand recovery and cost reductions, and for PE ratios to return to attractive levels.

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