

# Quarterly Portfolio Update

*Pioneer Funds – Latin American Equity*

*31 December 2009*

Equity

Latin American equities continued to rally through the fourth quarter, albeit it at a slightly slower pace than in the second and third quarters. Argentina (11.8%) and Brazil (11.5%) were the strongest markets in local currency terms, with Mexico not far behind. Peru was the clear laggard with a loss of -6.5%. Apart from the Columbian peso, Latin American currencies appreciated against both the US dollar and euro. The strongest currency was the Chilean peso, against which the euro lost 9.7%. Over 2009, the Brazilian real was the standout performer: the US dollar and euro were down -26.9% and -17.1% respectively against the real. In terms of sectors, all areas advanced over the quarter, the strongest being Consumer Staples, Industrials, Materials and Utilities. The laggards were Financials and Energy.

On the political front, the main development was the presidential election in Chile. Sebastián Piñera (44.1% of the first-round vote) from the opposition coalition and Eduardo Frei (29.6% of the first-round vote) from the government coalition made it to the run-off that will take place on 17 January 2010. On the macroeconomic front, central banks in Latin America kept interest rates unchanged.

The Portfolio was up by 15.27% (Class A, non-distributing, EUR units) over the quarter, outperforming its benchmark, the MSCI Emerging Markets Latin America Index, which returned 13.68%.

Relative performance was helped by our overweight positions in Materials, Financials and Industrials. Conversely, our underweight position in Consumer Staples was a negative. On a country perspective, we benefited from overweights in Brazil and Mexico; our underweight in Chile was a negative.

In terms of Portfolio positioning, we maintained our overweight in Mexico, with a smaller overweight in Brazil, as their economies should benefit from recoveries in the Chinese and US economies. We are underweight Chile due to its defensive nature and neutral in Peru. Our sector positioning is tilted towards higher-beta areas such as Materials, Financials and Industrials.

Looking ahead, we believe that the global economic recovery, led by China, will be beneficial for key

commodities in the region, particularly for mining and steel in terms of volumes and prices. We also expect an average GDP growth around 2%, which should lead to higher earnings in 2010. Having said that, we are more cautious in terms of valuations, especially in Brazil. Our main concerns are twofold: firstly, if the US dollar strengthens further (it was very strong in December), it could have a negative impact on commodities and Latin America is highly dependant on commodity exports; secondly, if the global macro situation deteriorates, foreign investment in the region could decrease. For these reasons, we are considering our options, such as moving underweight in Brazil and reducing beta by buying more defensive stocks.

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