Quarterly Portfolio Update

Pioneer Funds – North American Basic Value
30 December 2011

Equity

Review

During the fourth quarter, Europe's ongoing financial troubles took centre stage in the headlines and investors' minds. Market forces pushed the troubles into a full-blown crisis. In European sovereign-debt markets, spreads widened on bonds from Italy and other weaker countries, threatening their ability to bear the interest burden. Relatedly, short-term lending to banks, from US money markets in particular, dried up. With Europe's most basic financial plumbing on the brink of failure in November (similar to the US in September 2008), central banks took steps to provide liquidity, and European political leaders became more earnest in the constitutional debate facing the eurozone - whether to advance greater fiscal integration to match monetary union or to dissolve the monetary union. So far, the dialogue and proposals have pushed in the direction of greater fiscal integration, entailing fundamental structural reforms - enforcement of deficit/debt limits, greater austerity and labour reform in the weaker states, and more aid (effectively, transfer payments) in the form of a larger, more powerful European Financial Stability Fund. While this debate runs its course and central banks do what they can to buy time, volatility is the norm as investors react to chronic risks and the latest developments.

In the US, no accord came out of the Congressional Super-Committee on a 10-year debt reduction package, but as we noted last quarter, this would have been a positive surprise. What mattered to markets was clear improvement in economic metrics throughout the quarter, as the US has hit one of its "strong patches" in the grinding, oscillating economic recovery it's been on since 2009. Companies once again reported strong Q3 results and solid outlooks. Against this backdrop, and given the great pessimism and attractive valuations that prevailed as we exited September, US stockmarkets performed well in Q4: Dow Jones Industrials 12.7%, S&P 500 11.7%, Nasdaq 8.5% and Russell 2000 15.5%. (Source: S&P Corp, Thomson, Russell)

Taking a step back and looking at the whole of 2011, it was a tough year: a dominant, relentless European financial crisis; mid-East popular uprisings; an earthquake, tsunami and nuclear disaster in Japan; concerns in China about inflation, the health of its real estate and banking sectors, and slowing manufacturing indicators; and in the US, a volatile economic series and grid-locked politics. Understandably, investors huddled into safe havens, no better illustrated by a 34% return on 30-year US Treasury bonds, as the yield dropped from 4.42% to 2.89%. In stockmarkets, investors likewise fled risk, as seen in this sampling of returns from around the globe: Shanghai A Shares (China) -21.6%, Bovespa (Brazil) -18.1%, Nikkei 225 (Japan) -17.3%, DAX (Germany) -14.7%, FTSE 100 (UK) -5.6%, S&P 500 (US) 2.2%. The U.S. indices likewise showed a safety preference: Dow Jones Industrials 8.3%, S&P 500 2.2%, Nasdaq -0.5%, Russell 2000 -4.2% (Source: S&P Corp, Thomson, Russell). With the market recognising the merits of dividend paying stocks, they did particularly well.

Performance Analysis

Pioneer Funds – North American Basic Value (Class A, Non-Distributing, USD units in USD) returned 10.04% for the quarter versus 11.82% for its benchmark, the S&P 500 Index.* Stock selection led to the lag in performance relative to the benchmark. Our allocation and stock selection in Information Technology, stock selection in Consumer Discretionary, and a continued zero weight in Utilities helped returns keep pace with the market. Conversely, an overweight in Telecommunication Services, as well as stock selection in Energy, Industrials and Consumer Staples offset much of these positives. Despite the global economies and markets facing challenges in the near term, we feel the Portfolio is positioned in global, high quality, well-diversified companies, with visible earnings and dividend growth prospects.

Allocation and equally, stock selection in Information Technology, was the top contributor to benchmark-relative returns. Arrow Electronics, a technology distributor had strong performance, returning over 34.7% during the quarter. The company distributes electronic components and computer products to industrial and commercial customers, and has one of the lowest P/E multiples in the industry at 6.9x. We were underweight the sector at 10% versus benchmark 19.5% and our stock selection was +11.8%, besting the sector 8.7% return.

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Stock selection in the Consumer Discretionary sector benefited overall relative returns. The Portfolio's position in movie and entertainment giant, Walt Disney, drove the sector performance up 26.5%, finishing a strong fourth quarter. Following record sales and profits for the September fiscal year, Disney increased its annual dividend by 50%, the largest increase in 20 years.

Though stock selection in Telecommunications was positive, our overweight allocation in this sector offset much of the positive total effect in an underperforming sector. Avoiding Utilities further enhanced relative performance, as the sector lagged significantly, the return of the benchmark.

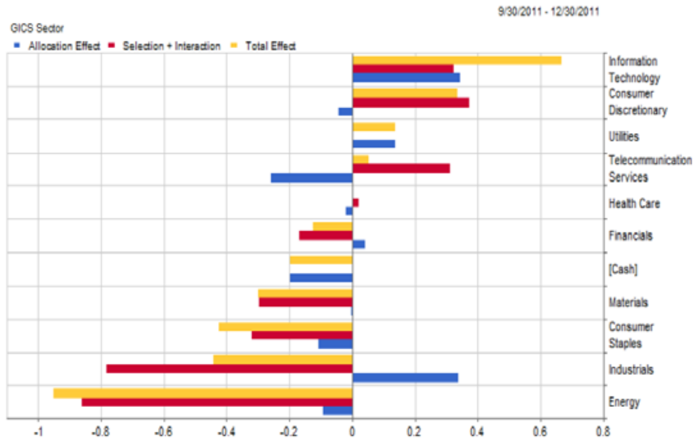
Stock selection in Energy was the largest detractor from relative performance over the quarter. While the bulk of investments in Energy have been flowing into oil production, our 11.0% allocation to oil and gas consumable stocks saw a decline in share prices. Despite positive performance, major oil and gas companies have remained dampened by negative economic sentiment emanating from the fallout from the European debt crisis and meddling surrounding another global recession.

Consumer Staples also detracted from relative returns due to stock selection, and to a lesser extent allocation decisions. Kimberly-Clark and ADR's Nestle and Unilever all had less than benchmark returns. Kraft and Archer Daniels were notable exceptions, each returning more than the benchmark 10% returned. We continue to favour dividend paying Consumer Staples stocks that have a global presence with sustainable dividend growth.

Our underweight position and stock selection in Materials were a drag on relative returns. Our one stock in this sector, fertiliser giant Mosaic, declined due to lower global industry demand.

Finally, stock selection in Industrials was a detractor, though our overweight allocation (18.1% versus 10.7%) was able to partially offset that effect. Solid performance came from MMM, Canadian Pacific and Boeing, offset by weakness in Alstom and the recently spun off stubs from our ITT position, Exelis (XLS) and Xylem (XYL).

Attribution Effects
Pioneer Funds - North American Basic Value Fund vs. S&P 500



Source: CCM, FactSet, data as of 10 January 2012

Sector Positioning - December 2011

	Portfolio (%)	S&P 500 (%)	Difference (% Points)
Health Care	18.3	11.9	6.5
Industrials	18.1	10.7	7.4
Consumer Staples	16.1	11.5	4.6
Energy	11.0	12.3	-1.3
Information Technology	10.0	19.5	-9.5
Financials	9.5	13.4	-3.9
Telecom Services	9.1	3.2	5.9
Consumer Discretionary	4.6	10.7	-6.1
Cash & Cash Equivalents	1.9	0.0	1.9
Materials	1.4	3.5	-2.1
Utilities	0.0	3.9	-3.9

Source: Cullen Capital Management LLC as at 30 December 2011

December 2011 (basis points)

	Allocation Effect	Selection Effect	Total Effect
Information Technology	35.0	33.0	68.0
Consumer Discretionary	-4.0	38.0	34.0
Utilities	14.0	0.0	14.0
Health Care	-2.0	8.0	6.0
Telecomm Services	-26.0	25.0	-1.0
Financials	4.0	-17.0	-13.0
Cash & Equivalents	-20.0	0.0	-20.0
Materials	0.0	-30.0	-30.0
Consumer Staples	-11.0	-33.0	-44.0
Industrials	34.0	-80.0	-46.0
Energy	-9.0	-93.0	-102.0

Source: Cullen Capital Management LLC as at 30 December 2011

Sector Analysis

Several changes were made to the Portfolio over the quarter including six sales and two new purchases. Notably, the overriding theme across all of our investment decisions has been to adhere to our price disciplines of low P/E, P/B and dividend yield and to invest over a long-term horizon (5 years). We have positioned our Portfolio accordingly, heading in to 2012.

In October, we sold Anglo American, a global mining company, due to the slowdown in the company's base metal businesses as potential volumes and pricing declines resulted in lower earnings. The company's asset base is concentrated in politically unstable parts of Africa and South America where there are higher risks of repatriation, labour issues and increased taxes.

Bunge, an international agribusiness and food company, was also sold out of the Portfolio in October. Despite attractive fundamentals for agriculture markets, Bunge's business remains challenged by low margins in the processing and distribution business. The company's sale of its Fertilizer business helped to improve its balance sheet position but has weakened its ties to Brazilian farmers, a major source of product for its processing business. As a buyer of commodities, the company's earnings growth and cash flow move in different directions resulting in worrisome earnings decline in downturns and financing difficulties in upturns.

In October, we also sold Teva Pharmaceuticals, the largest generic pharmaceuticals company. Copaxone, the company's largest branded drug treating multiple sclerosis, is ~30% of earnings and remains a major risk as the patent expires in 2014 and multiple competing drugs are coming to market in 2012 and beyond. In addition, as governments face implementing austerity measures, they have looked to cut pricing and reimbursements in the healthcare industry.

In early December the entire position in Canadian National Railway (CNI) was eliminated based on valuation. Although the secular growth fundamentals for the company remain solid, the company is trading at a significant premium to the market: 15.7x 2011 earnings.

We also sold our entire position in Computer Sciences Corp (CSC), due to uncertainty around a growing number of issues. The initial accounting issues first discovered in the Nordic region have now appeared to spread to the Australia and US Outsourcing unit. These accounting irregularities have resulted in increased costs and delayed financial filings. The company's position in IT Outsourcing and exposure to government contracts (including its UK National Health System contract) are at risk due to austerity measures and budget cuts. We do not have confidence that management has the ability to turn the company around for some time.

Due to its acquisitions of Merrill Lynch and Countrywide Financial, Bank of America (BAC) has the largest exposure to mortgage repurchase risks from the GSEs, monolines and private label investors that will likely weigh on the stock for several years. Because of this we exited our full position in BAC, mid-December. Misrepresentations of these mortgage-backed securities during the origination and securitisation process will further result in billions of dollars of losses for the firm. In addition, increased regulations will permanently lower returns in many of its business: capital markets, credit cards and retail banking. Despite the fact that the stock appears cheap on price/earnings and price/book valuations, we find better value elsewhere.

Lastly, we sold our remaining half weight position in Goldman Sachs in December. Goldman has historically generated an ROE in the mid to high teens. We believe that increased regulation on proprietary trading and capital markets along with lower leverage limits will prevent the company from delivering returns much higher than its cost of capital. The company has reduced risk due to heightened volatility and continues to face pricing pressure in its trading businesses. Despite the fact that the stock appears cheap on price/earnings and price/book valuations, we find better value elsewhere.

Two positions were added to the Portfolio over the quarter. Merck, a leading healthcare company which has a portfolio of innovative drugs was added to the Portfolio. The 2009 acquisition of Schering Plough bolstered its R&D platform and has given it increased scale. Leading treatments in arthritis, diabetes, and infectious diseases are set to fuel growth for the company, while pipeline drugs treating osteoporosis and cardiovascular disease could be large commercial successes. Emerging markets comprise 15% of revenues and can continue to grow, driven by the company's strong vaccine portfolio. Lastly, Merck is implementing a large restructuring programme to reduce US$1.5B in costs annually (6% of total costs) over the next few years. Merck trades at 8.5x 2011 earnings, 1.8x book value and has a 4.7% dividend yield.

Secondly, Novartis AG (ADR), a Swiss-based pharmaceuticals and health care firm was added. The company's pharmaceutical business is a leading biologic innovator with a solid pipeline of drugs in the areas of oncology, meningitis and gastroenterology. The company has one of the leading generic companies in Sandoz; generics remain a growth area as billions of dollars of drugs come off patent and governments look to increase generic utilisation to lower healthcare costs. Novartis' acquisition of Alcon, a leading consumer eye care company, gives it exposure to a growing business with attractive free cash flow. The stock trades at 10.3x 2011 earnings and 2.1x book value.

We continue to seek investments in attractively valued companies within fiscally strong countries. We continue to favour businesses that can generate strong earnings and managements that are committed to dividend growth.

Outlook

In brief, markets have discounted the downside economic risks, and there is the potential, in fact, for stock performance to pick up in the year ahead. The attractiveness of equities rests on three legs: ongoing negative sentiment, the strong financial position of corporations, and attractive valuations. The situation in Europe remains the biggest concern, and a resolution or stabilisation there thus has the most potential for upside equity market performance. Over the next year, we expect high levels of volatility will continue until greater clarity emerges. Over the long-term, however, we believe the current uncertainty creates a window of opportunity - particularly for those who are able to bear the short-term volatility.

To elaborate, for the past three years, we have written about how we expect the exit from the US financial crisis to be a grinding global economic recovery with interludes of volatility. Policy makers and economic actors continue to work through the difficult task of rectifying the major imbalance that has been the root cause of a series of financial crises - namely, the imbalance built over twenty-plus years whereby over-consumption in the developed West has been financed by abundant savings in emerging countries, especially China, due to export-led development models adopted there. In mid-December 2011, Mark Carney, Canada's central banker, delivered a speech that we believe is an excellent diagnosis of the ailments through which the global economy has been working since 2007. In Governor Carney's words: "Most fundamentally, current events mark a rupture. Advanced economies have steadily increased leverage for decades. That era is now decisively over." We refer interested readers to the full text of the speech; to be sure it is in the language of an economist, but it is clear-sighted.
(http://www.bankofcanada.ca/2011/12/speeches/growth-in-the-age-of-deleveraging)

We also agree with Governor Carney's prescription for what needs to be done to restore the global economy to balance and vitality. There needs to be fundamental restructuring in these developed economies. As we wrote last quarter, in the US, this means significant tax reform, overhauling unfunded healthcare and social security entitlements to put them on a sound footing, and reining in and making government spending more effective. In Europe, it means fiscal union (in effect, if not in name) to match monetary union or a dissolution of the monetary union. In the meantime, central bankers around the world are doing what they can to *buy time* by keeping money flowing with unconventional bond-buying and extremely low interest rates, in fact negative real rates which also directly help debtors in their deleveraging efforts ("financial repression" has been the popular term adopted for this low-rate policy).

Making such fundamental changes will indeed *take time*, as behind the policy lies politics, for there is bitter medicine to be swallowed by most. You can see clearly in the news that the fiscal policy direction in Europe and the US is toward this necessary, inevitable structural reform. The dialogue has completely turned this way, and the first baby steps have been taken, as we have pointed out in the past. There have been many EU summits, and there will be many more. Market responses to the communiqués coming out these gatherings are typically positive to what seem like solutions at one-stroke, but in reality a lasting fix will take time, as it truly is a constitutional issue for Europe, and thus requires the proper mix of technocracy/expediency and democracy. The 2012 elections in the US will be critical, and it goes without saying that very few significant policy steps will be taken over the next year. Thus, in sum, the economic and market environment over the next year may be very similar to that which has prevailed over the last couple of years. By this time next year, however, a clear path forward may set the stage for strong secular growth, both in the real economy and equity markets.

While symptoms can be eased, deleveraging absolutely requires austerity on the part of debtors. So, demand coming from consumption in the West will continue to be soft (with few exceptions, for example Canadian households who were in good shape have increased their spending and borrowing since 2007, but they are quickly running out of capacity to do so). Demand needs to come from those with strong balance sheets, i.e. developing markets, in particular from China. We likewise see baby steps in this direction, but this too will take time. It's important to note that if one side - either the developed western or emerging economies - in this co-dependent relationship moves, the other must as well.

Finally, we believe one of the most important elements of Governor Carney's speech was his emphasis on the fact that corporations, especially those in North America, have been the one group in the developed economies where balance sheets have grown healthier over the past twenty years, and are in fact in historically strong shape. So, they too are in a position to spend via investment. They can do so by investing to improve their productivity and to take their competitive advantages to the emerging markets from which demand growth will most likely continue to come.

This unusual financial strength of companies, in general, is itself an important good the market often seems to lose sight of in recent times. As a "risk asset," stocks will continue to be susceptible to the interludes of financial market volatility that we have seen and written about extensively over the past few years. But, this is noise, and the strong fundamentals of companies, especially relative to sovereign and other issuers of financial instruments, make them compelling investments to preserve and build wealth over the longer-term. This is particularly true as valuations remain compelling, with the S&P at 12x consensus 2012 earnings and 13x our long-term earnings model.

While we are always bottom-up stock pickers - weighing each company's unique competitive strengths, market opportunity and financial condition - the outlook we have held and continue to hold on the general global economy enters into the lens through which we assess investments. In general, favourable conditions will likely prevail for companies that serve non-discretionary consumer spending in constrained developed markets and discretionary spending in growing developing markets. Companies that support both productivity gains in developed countries and economic growth in developing countries should also enjoy tailwinds, namely information technology and capital goods companies.

Important Information

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