

Monthly Portfolio Update

Pioneer Funds – North American Basic Value

26 February 2010

Equity

Review

February turned out to be a solid month for investors despite volatility sparked by rising concerns about Greece's pressing financing needs and the pace of the global economic recovery. Throughout the month, those fears often alternated with a focus on corporate earnings and reassurances from Federal Reserve officials that interest rates would remain low, producing eight triple-digit daily point swings in the Dow Jones Industrial Average. In the end, stocks took heart from an improved reading of US economic growth, edging slightly higher to cap the best month for blue chips since November 2009.

The Dow Jones Industrial Average rose 257 points to 10,325.26, leaving it up 2.6% for February, its strongest showing since a 6.5% gain in November. The Standard & Poor's 500 Index settled at 1,104.48, up 2.9% for the month. All of its sectors rose modestly, except Utilities and Telecom Services.

Investors welcomed a report from the US Commerce Department saying that gross domestic product grew at a 5.9% annual rate in 2009's fourth quarter, the fastest rate since the third quarter of 2003. A month ago, the department estimated that GDP rose at a 5.7% rate in the fourth quarter.

Concerns over policy in the eurozone continued to simmer, keeping market gains in check, with the European Union pushing Greece to adopt new austerity measures to reduce its budget deficit, according to a senior government official.

New-home sales dropped an eye-popping 11.2% in January to 309,000 units, the lowest ever since records began. That was sharply below the anticipated rise to around 350,000 units by Wall Street's fearless forecasters and, just to give you a glimpse of how the mighty have fallen, it is about a million and a quarter fewer sales than at the peak in the heady days of midsummer 2005.

To make matters worse, the median home sold for US\$203,500, almost a seven-year low, and inventories rose to 9.1 months, which, given the so-called shadow inventory of unsold houses the banks are sitting on, does not, to put

it mildly, bode well for housing in general and the home builders in particular. The sharp decline in mortgage applications and the uptick on 30-year mortgage rates to over 5% are not positive for the housing market either.

Hard, in every sense of the word, on the heels of the nose dive in new-home sales came the disclosure that existing-home sales also declined in January, to an annual rate of 5.05 million, a 7% drop and quite a cut below Wall Street expectations of 5.5 million. That was the second-biggest decline (after December's significant 16.2% skid) in the 11 years such data have been collected. The median price held level with a year ago at US\$164,700, but necessitous sales accounted for a formidable 38% of the total.

Performance Analysis

Pioneer Funds – North American Basic Value (Class A, non-distributing, USD units in USD) underperformed its benchmark, the S&P 500 Index during the month, returning +1.7% and +3.1% respectively. Returns benefited most from an overweight in Industrials, stock selection in Financials and Energy, and a continued zero weight in Utilities. Returns were held back by stock selection in Consumer Staples and Healthcare, as well as by an overweight in Telecom Services and an underweight in Materials.

Sector Positioning - 26 February 2010

	Portfolio (%)	S&P 500 (%)	Difference (% Points)
Industrials	22.90	10.51	12.39
Consumer Staples	15.70	11.82	7.70
Information Technology	12.10	19.18	-7.08
Healthcare	11.90	12.52	-0.62
Financials	11.70	14.61	-2.91
Energy	8.40	11.35	-2.95
Telecom Services	6.90	2.89	4.01
Consumer Discretionary	5.60	10.15	-4.55
Cash & Cash Equivalents	2.80	0.00	2.80
Materials	2.00	3.45	-1.45
Utilities	0.00	3.53	-3.53

Source: Cullen Capital Management LLC

Industrials continued to perform strongly in February and the Portfolio benefited from its overweight position to the sector. The Portfolio's Aerospace and Defense holdings

performed in line with the Index, while Fedex in Air Freight & Logistics and ABB in Electrical Equipment both outperformed the Index average.

Stock selection in Financials contributed to returns. In Capital Markets, Goldman Sachs and Morgan Stanley both outperformed the industry average. Selection in Diversified Financial Services was also a positive, helped by strong performances from Bank of America and JP Morgan. Finally, having no exposure to Commercial Banks helped relative returns, as the group declined during the month.

Stock selection in Energy was also a positive, led by Energy Equipment company, Enco International. In December, Enco moved its operations from Dallas to the UK, causing a temporary dip in the stock price. The stock returned 13% in February, as increased demand caused forecasters to project higher rig utilisation for offshore oil drillers.

Stock selection in Consumer Staples was the largest detractor from relative returns over the month. In Food Products, Unilever and Archer Daniels Midland underperformed on lower reported earnings; Unilever is also awaiting regulatory approval for its acquisition of the body-care division of Sara Lee. In Beverages, Diageo declined due to a drop in profit, but says it expects both sales and earnings to improve in the second half of 2010. Relative returns were also impacted by not holding Tyson Foods, Sara Lee and Hershey, which were all up double digits.

Relative returns were also impacted by the Portfolio's overweight to Telecom Services, which was the weakest sector in the Index over the month.

In Materials, stock selection was a slight positive but an underweight allocation caused underperformance. However, our holding in Anglo American negatively impacted returns as it suffered a drop in year-over-year profits and declared that it is not paying a dividend. The company has also experienced some difficulties relating to the development and production of its 2008 acquisition of Minas Rio, a Brazilian iron ore project.

Finally, stock selection in Healthcare also impacted relative returns, with underperformance from Healthcare Equipment company, Covidien, and Pharmaceuticals Bayer and Lilly Eli & Co.

Attribution - February 2010 (basis points)

	Allocation Effect	Selection Effect	Total Effect
Industrials	0.24	-0.03	0.21
Financials	-0.04	0.22	0.18
Utilities	0.15	0.00	0.15
Energy	0.01	0.08	0.09
Information Technology	-0.08	0.05	-0.03
Consumer Discretionary	-0.10	0.04	-0.06
Cash & Equivalents	-0.10	0.00	-0.10
Healthcare	0.02	-0.17	-0.15
Materials	-0.18	0.02	-0.16
Telecomm Service	-0.18	0.02	-0.16
Consumer Staples	-0.01	-0.25	-0.26

Source: Cullen Capital Management LLC

Portfolio Strategy

There were no new purchases or sales in the Portfolio during the month. We added to newly established positions in Flour Corp. and Petro China.

Outlook

Believers and doubters among investors continue to arm wrestle over the strength and durability of the US economic recovery. The sceptics enjoyed the macro backdrop during the month, with the bulk of the economic data disappointing, from weaker-than-expected housing figures to a surprise rise in weekly jobless benefit claims. Consumer confidence declined in February, and the revised fourth quarter GDP numbers that were out at the end of the month, were mixed. Given the mostly bearish tone, however, bulls almost have to chalk up the gains for the month as some kind of victory. In the face of a string of poor data, the market's resilience suggests that it is still willing to give the recovery the benefit of the doubt.

With the first-quarter earnings season soon upon us and likely to be strong, the answer might lie further on in the late spring or summer. By that point, the benefit of the doubt might be withdrawn. The key will be housing and jobs data. If they do not come back in a convincing way, that's when the market could see a more lasting and harder correction than the 8% 19 January to 8 February decline. Due out in early March, the February employment figures could provide some early fireworks.

Markets experienced lighter than normal volume in February but the S&P 500 Index moved above key support levels. The Index pushed above the 50-day moving average, the 1,110 level in the last week of the month. Even though

it is ever so slight, the 1 March S&P 500 Index close of 1,115 is the first time that the Index is in green year-to-date territory in over a month. The set of higher highs and higher lows that we have witnessed since the January correction signals a new uptrend, but the lacklustre volume remains a challenge. Either further advancement or the ability to stay above 1,110 over the next while will be important in proving whether the market will sustain the move. It would be better to see upside surprises in the next round rather than be set up for disappointment.

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