

Quarterly Portfolio Update

Pioneer Funds – Pacific (Ex. Japan) Equity

31 March 2010

Equity

Review

Pioneer Funds – Pacific (Ex. Japan) Equity was up by 6.63% (Class A, non-distributing, EUR units) over the quarter, behind its benchmark, the MSCI AC Asia Pacific ex. Japan Index, which returned 8.21%.

After initially rising, stocks fell quite heavily from early January until 8 February, before rallying strongly through the rest of the quarter. Over the first quarter Indonesia, Thailand and Malaysia led the gains as investors rotated into these markets on grounds of relative valuations; China and Taiwan were negatively affected by expectations of monetary tightening in China.

There was clearly a mood of renewed optimism among investors towards the end of the quarter. While worries about the sovereign-debt status of Greece and other fiscally challenged countries remained an overhang, improving risk appetite and signs of gradual recovery in US consumption helped move markets higher.

Performance Analysis

We underperformed in January primarily due to weak performances from our Chinese Real Estate stocks and an underweight in Utilities at a time when risk-aversion levels increased through the latter part of the month. An underweight in Malaysia and overweight in China, which underperformed, also detracted from performance. Conversely, we benefited from being overweight Indonesia and underweight Australia, and from our holdings in the Consumer Discretionary, Telecoms and Transportation sectors.

Performance was slightly behind the benchmark in February. An overweight in Indonesia was a drag on performance, but we benefited from overweights in India and China. In terms of sectors, overweight positions in Banks and Consumer Durables were the main positives, while an overweight in Telecoms was a drag, particularly the performance of Telkom Indonesia. Axis Bank, Westpac and Titan Industries were the best contributors at the stock level.

March saw a continuation of the upward momentum that was evident through the latter part of February. The Portfolio's performance in March was negatively impacted by its underweight in Energy and stock selection in the IT sector, while the overweight and stock selection in Industrials and the Consumer sectors positively affected performance. On a country level, Taiwan (overweight and stock selection) was a negative, while our holdings in Korea contributed positively.

Strategy and Outlook

We took advantage of the weakness in technology stocks in February to increase our position in Acer. We also added to our holding in Henderson Land, while taking some profits in Bank Mandiri and Indocement. In Australia, we sold out of Rio Tinto and increased our position in BHP Billiton, which we find relatively more attractively valued. In March, we added to our existing holdings in the Banking sector through Axis Bank and CIMB, and initiated positions in Infosys Technologies in India and Sun Hung Kai Properties in Hong Kong, while exiting our positions in Chunghwa Telecom and Telkom Indonesia.

Within Asean (Association of Southeast Asian Nations), we remain most favourably disposed towards Indonesia and maintain our longstanding overweight, although with the market more than doubling over the past 12 months, we took some profits in March. The news flow from Indonesia continues to surprise on the upside and provide support to the market. S&P upgraded Indonesia to BB in March, two notches below investment grade, while the Bank Century issue wound down with a parliamentary censure motion passed, but the government staving off pressure on key figures. Inflation remains benign, with CPI falling back to 3.4% (y-o-y) in March, from 3.8% the previous month.

We are less enthusiastic about participating in the rally in Thailand, as we do not think that the political developments have been satisfactorily resolved and there is scope for a rise in the political risk premium for Thai equities. While our underweight negatively impacted performance in March, recent political developments in early April lead us to believe that our caution is justified and warranted.

We remain positive on India, where the economy continues its strong performance: industrial production rose 16.7% (y-o-y) in January (15.1% in February), while exports as well as imports saw accelerating year-on-year growth compared to the previous month. Inflation remains the bugbear to watch out for, as ever, in India. Wholesale prices are continuing their recent rise with prices hitting a 16-month high in February (9.9% y-o-y); a large spill over into consumer prices will have negative bearing on the markets. With this in mind, it is encouraging that the central bank appears to fully understand the situation and has clearly signalled its intent by pre-emptively raising rates by 25 bps between regular meetings.

Sentiment towards China was poor in the first quarter: Chinese equities were the weakest in the world in the first quarter after Spain and Greece, although there are signs that the worst may be over. It is generally understood by most market participants that some form of appreciation of the Chinese currency would have to be an ingredient in the much talked about rebalancing of the Chinese economy. The same would also be useful in combating inflationary pressures when they appear, either because of “natural causes” such as food inflation or through the insidious after effects of the credit binge of 2009. In light of this understanding, the steadfast refusal of Chinese authorities to move on the currency had become a negative for markets, as this meant that the risk of direct policy action to cool the economy was that much higher.

Tensions rose between the US and China on the fixed exchange rate, an issue not helped by the slow rate of improvement in the US employment numbers. It does, however, now appear that some sort of a “deal” has been done between the Chinese and American officials that will most likely involve a gradual appreciation of the yuan, thus hopefully taking the political heat off the issue in the US. This should also enable the Chinese authorities to slow the economy with less draconian action than might otherwise have been required. This, plus the underperformance of Chinese equities in 2010 and on a 12-month basis, makes it more likely that a period of outperformance will follow. We are, therefore, happy to retain our overweight.

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