

# Monthly Portfolio Update

## Pioneer Funds – Pacific (Ex. Japan) Equity

26 February 2010

Equity

Pioneer Funds – Pacific (Ex. Japan) Equity was up by 3.01% (Class A, non-distributing, EUR units) over the month, slightly behind its benchmark, the MSCI AC Asia Pacific ex. Japan Index, which returned 3.17%.

Performance was positively impacted by our overweights in India and Hong Kong/China, while the Indonesian overweight was a drag on performance. 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.

Following a steep fall in January, Asian equities bounced back in February, although they are still down year-to-date. The first half of the month was weak across the board because of sovereign-debt worries emanating from Greece; the dovish stance reiterated by the Federal Reserve, however, resulted in some US dollar weakness in the second half, which was a positive for risk assets.

Overall, the US dollar was a key mover in the month, driving risk aversion as the broad US dollar index rose 1.1%. Asian currencies also gave up about 0.8% in sympathy, having largely held their own in January. Commodity-sensitive markets, such as Australia, benefited from a 3.5% rise in commodities index and a 9% rise in crude oil. However, performance was firmly in favour of defensives, with the Consumer and Healthcare sectors doing well, while Financials and IT were sold off.

In an interesting change from the recent past, the best performers in February were the smaller markets of Thailand and the Philippines, rising 6.2% and 7.3% respectively (in euro terms). The relative valuation merit of Thailand found some support from investors, who were also anticipating more clarity on the political scene post the much-anticipated verdict on the Thaksin assets trial (which was finally delivered after trading ended for the month, on the evening of 26 February). We agree with the valuation agreement; the verdict, however, has not done anything to bridge the divide in Thai society over what to do with Thaksin. Things could yet take a turn for the worse as a series of rallies are being planned in support of the former prime minister. We remain minimally exposed to

Thailand, although a sell off in the future may provide an opportunity to take advantage of the valuations.

Among the larger markets, Australia performed well as the economy continues its remarkable recovery from the effects of the credit crisis. Unemployment edged further down to 5.3% in January and, although the central bank refrained from raising rates during the month, all indicators are that a normalisation of monetary policy is happening faster in Australia than in most other developed economies. China and India treaded water. The outlook for both economies remains positive. Investors' main concerns are related to policymakers attempting to rein in growth and prevent overheating, as opposed to worrying about recessions and a lack of growth. The former scenario can spook investors, although they like low growth even less.

The two decliners for the month were Indonesia and Taiwan. Investors, decided to book some profits in Indonesia after its 120% rise in 2009. Political shenanigans, well covered by the press, primarily arising out of a power struggle between different factions of the government added to the investor uncertainty. Despite taking some profits, we remain positive on the economic prospects for the country and expect the political noise related to the Bank Century bailout case to blow over in due course, especially since the reforming economic ministers seem to have the full support of the President. The benchmark index in Indonesia ended February down 1.9% in euro terms. Returns were the same in Taiwan, with technology shares leading the index lower.

Over the past month, we took advantage of the weakness in technology stocks 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.

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