

# Monthly Portfolio Update

Pioneer Funds – Strategic Income

26 February 2010

Bond

## Review

Domestic US fixed income markets, on balance, reflected somewhat higher risk aversion in February, as investors became more concerned about the pace of the economic recovery. Continuing concerns about unemployment weighed on consumer confidence, which declined over the month. In addition, fears about highly-leveraged European sovereigns contributed to a sell-off in those sovereign and credit markets.

10-year yields rallied modestly, from 3.61% to 3.59%, while 30-year yields rose from 4.51% to 4.53%. Agency mortgages underperformed Treasuries and swaps by 7 bps and 21 bps, respectively, despite lower implied volatility. Spreads widened from 16 bps to 28 bps, possibly reflecting adjustment to the end of the Federal Reserve's (Fed) agency MBS buying programme at the end of March. The non-agency MBS/ABS market continued to enjoy strong performance, with the floating rate index returning 1.17%. Investment-grade corporates underperformed, with negative excess returns of -0.16%, as spreads widened slightly from 169 bps to 173 bps. Financials underperformed at -0.25% excess returns, reflecting uncertainty regarding exposure to the PIGS. High yield returned 0.09%. The US dollar had mixed performance, rallying against the euro by 2.2% but depreciating against the yen by 2.1%.

## Performance Analysis

Pioneer Funds – Strategic Income (Class A, non-distributing, USD units in USD) returned 0.24% in February, compared to its benchmark, the BarCap US Universal Index, return of 0.38%. Performance primarily reflected the benefit of security selection within certain mortgage sectors as well as within corporates, offset somewhat by the negative impact of the high-yield overweight. Security selection within ABS and agency MBS helped performance but this benefit was partly offset by the underperformance from CMBS issues. Among corporates, financial and utilities issues contributed to performance, while industrials reduced performance. Non-US dollar currency added to performance, particularly the Brazilian real position. The high-yield overweight hurt performance, as risky assets underperformed. In addition, the

underweight to agency mortgages helped performance but this benefit was offset by the negative impact of the corporate overweight and the government underweight. Securities contributing to performance included a real-denominated Brazilian government bond; Oceanografia; Coso Geothermal; a Domino's Pizza structured security; and Goldman Sachs perpetual preferred. Underperforming issues included Sovereign Bank; Mashantucket Pequot; Petroplus Finance; Petroproducts; and Appleton Papers.

## Outlook and Positioning

We continue to believe that the US will achieve GDP growth of 3% to 4% in 2010, led by increased fixed investment, the rebuilding of inventories and exports. While economic growth may achieve sub-par levels relative to past recoveries as the consumer faces the twin challenges of slow re-hiring and high debt levels, we believe that the US economy may deliver upside surprises over the next year due to strong global growth and high corporate profit margins. Robust emerging markets, as well as the weakened US dollar, should help exports. The US dollar may strengthen versus the euro and yen, reflecting stronger relative growth. Inflation is not an immediate concern, but could pose a significant intermediate threat, if monetary and fiscal stimulus and the deteriorating US debt situation are not managed effectively.

We are likely to see continued easy monetary policy through 2010, in light of continued high levels of unemployment. The Fed's injection of money into the system represents a serious inflation risk over the medium term; we have positioned our portfolios with slightly short duration but have removed the yield curve steepener, because the all-time steep levels embedded in the yield curve carry significant risk as concerns rise with respect to a Fed rate increase.

We are focusing on increasing exposure to floating rate instruments, such as certain non-agency MBS, as well as investing in lower-quality investment-grade corporates and BB-B quality high yield. Credit spreads are near long-term averages, but should continue tightening, albeit not at the pace of 2009. Security selection will be more important in the upcoming year.

## Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 26 February 2010.

Pioneer Funds – Strategic Income is a sub-fund (the “Sub-Fund”) of Pioneer Funds (the “Fund”), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg.

The Sub-Fund is actively managed, and current holdings may be different.

References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock.

Performance figures are in USD and have been converted from the Sub-Fund's base currency, the euro. Performance data provided refers to Class A units only, and is based upon NAV net of fees. For details of other unit Classes available, please refer to the prospectus.

**Past performance does not guarantee and is not indicative of future results.**

Unless otherwise stated, all views expressed are those of Pioneer Investments. These views are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. More recent returns may be different than those shown. Please contact your local sales representative for more current performance results.

This material is not a prospectus and does not constitute an offer to buy or a solicitation to sell any units of the Fund or any services, by or to anyone in any jurisdiction in which such offer or solicitation would be unlawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. For additional information on the Fund, a free prospectus should be requested from Pioneer Global Investments Limited (“PGIL”), 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland. Call +353 1 480 2000 Fax +353 1 449 5000.

This information is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities or services in the United States or in any of its territories or possessions subject to its jurisdiction to or for the benefit of any United States person (being residents and citizens of the United States or partnerships or corporations organized under United States laws). The Fund has not been registered in the United States under the Investment Company Act of 1940 and units of the Fund are not registered in the United States under the Securities Act of 1933. This document is not intended for and no reliance can be placed on this document by retail clients, to whom the document should not be provided.

This content of this document is approved by PGIL. In the UK, it is directed at professional clients and not at retail clients and it is approved for distribution by Pioneer Global Investments Limited (London Branch), 123 Buckingham Palace Road, London SW1W 9SL, authorised by the Financial Regulator in Ireland and regulated by the Financial Services Authority for the conduct of UK business. The Fund is an unregulated collective investment scheme under the UK Financial Services and Markets Act 2000 and therefore does not carry the protection provided by the UK regulatory system.

Pioneer Funds Distributor, Inc., 60 State Street, Boston, MA 02109 (“PFD”), a U.S.-registered broker-dealer, provides marketing services in connection with the distribution of Pioneer Investments' products. PFD markets these products to financial intermediaries, both within and outside of the U.S. (in jurisdictions where permitted to do so) for sale to clients who are not United States persons.

For Broker/Dealer Use Only and Not to be Distributed to the Public.

**Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.**

Date of First Use 12 March 2010.